

FOR ACTION

I. REQUEST

Consider Authorizing the Executive Director to: (i) Expend Funds from the Agency's Reserved Housing Sub-account for the Purpose of the Agency Using Such Funds to Buyback Reserved Housing Units in the Ulana Ward Village, Located at 828 Auahi Street, Honolulu, Hawaii 96813, and Further Described by Oahu Tax Map Key No. (1) 2-1-053:001 ("Ulana") When the Agency's Buyback Right Arises During the Regulated Term of the Reserved Housing Units, (ii) Explore Only Other Means of Financing, for the Purpose of the Agency Using Such Funds to Buyback Reserved Housing Units in Ulana When the Agency's Buyback Right Arises During the Regulated Term of the Reserved Housing Units, and (iii) Explore Only Various Pre- and Post-Buyback Options for the Ulana Units that Arise for Buyback, including but not limited to, Accepting Equity Sharing, Buying Back and Selling, Buying Back and Renting, and/or Rent-to-Own Programs.

II. BACKGROUND

The Ulana project consists of 697 studios, 1-, 2-, and 3-bedroom reserved housing units that are reserved for persons with incomes not exceeding 140% of the area median income. There are 123 studio, 205 1-bedroom, 246 2-bedroom, and 123 3-bedroom units.

Ulana is expected to be ready for occupancy around December 2025.

The regulated terms for the Ulana units are either 2, 5, or 10 years depending upon the sales price of the unit. During the regulated term, if a reserved housing unit owner wishes to sell their unit, HCDA has a one-time right to buy back the unit at a prescribed buy back price.

The buyback price is determined under the June 2005 vested Mauka Area Rules ("2005 Mauka Area Rules") as follows:

Per Hawaii Administrative Rules §15-22-186, the sales price is based on the lower of:

- A. The current fair market value of the reserved housing unit less the authority's share of the equity in the unit as determined by section 15-22-187 of this chapter; or
- B. The original sales price of the reserved housing unit adjusted proportionately to the change in median income computed from the date of the purchase to the date of the sale.

For Ulana, the change in median income from 2021 to 2024 is 121.981%.

Upon the acquisition of the reserved housing unit, the bought back unit is subject to the terms of the 2005 Mauka Area Rules. This means that the bought back units will, among other things, have regulated terms of 2-, 5-, or 10-years, and have income and asset eligibility requirements.

With 697 reserved housing units, Ulana contains the most reserved housing units in one project among all projects built in the Kakaako Community Development District. This is almost double the amount of reserved housing units in Ke Kilohana (375 reserved housing units), which is currently the largest reserved housing unit project in Kakaako.

The Agency's capacity to buy back, either directly or indirectly, reserved housing units is limited. The Hawaii Housing Finance and Development Corporation ("HHFDC") is willing to consider buying back some units, but HHFDC will be selective about the units it chooses to buy back. The Agency entered into an arrangement with an affiliate of the Hawaii HomeOwnership Center ("HHOC") whereby the affiliate acts as the Agency's buy back agent; the affiliate is selective about the type of units and the amount of units they offer to buy back on the Agency's behalf. The Agency has never exercised its right to buy back reserved housing units in recent years.

The other means that the Agency has to retain the affordability of housing units is the right for the Agency to receive shared equity. The Agency's share of the equity in the unit is essentially the amount equivalent to the difference between the original fair market value of the unit and the original sales contract price. Unlike the right to buyback a unit, the Agency's right to receive shared equity exists in perpetuity until the reserved housing unit is sold or transferred to another owner.

III. DISCUSSION AND ANALYSIS

The Agency's Strategic Plan, dated June 2024, includes a goal to "implement innovative methods to develop more affordable housing in HCDA's districts". "Developing", in this context, includes preserving or retaining the affordability of reserved housing units.

The number of reserved units in Ulana raises concerns about the capacity of the Agency to buy back, directly or indirectly, reserved housing units for several reasons: (i) the estimated number of reserved housing units that may be offered for buy back, based on historical information for previous reserved housing projects with 5- and 10-year regulated terms, could be as high as 10 to 14% of the units or approximately 69 to 97 units; (ii) the Agency's reserved housing funds are limited and insufficient to buy back all of the units that are expected to be sold during the regulated term; (iii) the Agency's agent (HHOC's affiliate) is selective about the type and number of units that they buy back; and (iv) the Agency's right to buy back a reserved housing unit is a one-time right that, if waived by the Agency, essentially allows the reserved housing unit owner

to sell the unit at market prices and pay the Agency the shared equity in the unit upon the sale.

The amount of funds (from the reserved housing sub-account) and other funds) needed to buy back units varies widely depending on the type of unit offered for buyback (see table below for range). On the low end, assuming 69 studios were offered with an average buyback price of \$313,200 each, the HCDA would need approximately \$21.6 million for buybacks. If more than ten percent of the Ulana units are offered for buyback, or the larger and more expensive 1- to 3- bedroom units are offered for buyback, more funds will be needed.

Unit Type	Buyback Price Range	If Buyback Waived, Shared Equity Paid to HCDA Range
Studio (123 units)	\$271,000 - \$355,400	\$99,200 - \$164,000
1-bed (205 units)	\$400,500 - \$556,300	\$121,900 - \$179,600
2-bed (246 units)	\$504,100- \$650,300	\$91,500 - \$184,900
3-bed (123 units)	\$550,000 - \$717,400	\$93,200 - \$181,200

In order to address the concerns stated above, staff is recommending the following plan to preserve and retain (vs. develop) the affordability of as many, as practicable, of the Ulana reserved housing units.

Authorize the staff to: (i) expend Funds from the Agency’s reserved housing sub-account for the Purpose of the Agency Using Such Funds to Buyback Reserved Housing Units in the Ulana Ward Village, Located at 828 Auahi Street, Honolulu, Hawaii 96813, and Further Described by Oahu Tax Map Key No. (1) 2-1-053:001 (“Ulana”) When the Agency’s Buyback Right Arises During the Regulated Term of the Reserved Housing Units, (ii) explore only other means of financing¹, such as dwelling unit revolving funds (“DURF”), with the funds from such other means of financing supplementing the Agency’s reserved housing funds, to be used for the purpose of buying back Ulana reserved housing units that come up for sale during the regulated term, and (iii) explore various pre- and post-buy back options, including but not limited to, buying back and selling, accepting equity sharing, buying back and renting, or rent-to-own programs. Provided, however, the limit that the Agency may expend on buying back Ulana units is the amount in the Agency’s reserved housing sub-account plus funds derived from other means of financing, such as DURF.

Under Section 206E-4, Hawaii Revised Statutes (“HRS”), the Agency has the power to acquire, lease, and/or sell real property:

“§206E-4 Powers; generally. Except as otherwise limited by this chapter, the authority may:
. . . .

¹ Other mean of financing does not include commercial financing.

(3) Make and execute contracts and all other instruments necessary or convenient for the exercise of its powers and functions under this chapter;

....

(8) Acquire, reacquire, or contract to acquire or reacquire by grant or purchase real, personal, or mixed property or any interest therein; to own, hold, clear, improve, and rehabilitate, and to sell, assign, exchange, transfer, convey, lease, or otherwise dispose of or encumber the same;

...

(17) Do any and all things necessary to carry out its purposes and exercise the powers given and granted in this chapter; and

....

Section 206E-4(8), HRS, explicitly permits the buying, selling, and leasing of real property. The reserved housing units are real property. Section 206E-4(17), HRS, allows the Agency to broadly do any and all things necessary to carry out its purposes and exercise the powers given and granted; the right to buy back a reserved housing unit is a power given to the Agency.

Nothing in Chapter 206E, HRS, appears to limit the above powers.

Nothing in this “For Action” authorizes the Executive Director to: (i) execute any financing instruments or commit to other means of financing, or (ii) implement pre- or post-buyback options, such matters being subject to further board consideration and action.

IV. RECOMMENDATION

Authorize the Executive Director to: (i) Expend Funds from the Agency’s Reserved Housing Sub-account Funds for the Purpose of the Agency Using Such Funds to Buyback Reserved Housing Units in the Ulana Ward Village, Located at 828 Auahi Street, Honolulu, Hawaii 96813, and Further Described by Oahu Tax Map Key No. (1) 2-1-053:001 (“Ulana”) When the Agency’s Buyback Right Arises During the Regulated Term of the Reserved Housing Units, Provided, However, the limit the Agency may expend on buying back Ulana units is the amount in the Agency’s reserved housing sub-account plus funds derived from other means of financing, such as DURF, (ii) Explore Only Other Means of Financing, for the Purpose of the Agency Using Such Funds to Buyback Reserved Housing Units in Ulana When the Agency’s Buyback Right Arises During the Regulated Term of the Reserved Housing Units, and (iii) Explore Only Various Pre- and Post-Buyback Options for the Ulana Units that Arise for Buyback, including but not limited to, Accepting Equity Sharing, Buying Back and Selling, Buying Back and Renting, and/or Rent-to-Own Programs.

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