



HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

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STATE APPROVES FINAL TERMS FOR LEASEHOLD SALE OF RENTAL HOUSING PORTFOLIO

HONOLULU – The Hawaii Housing Finance and Development Corporation (HHFDC) Board of Directors has approved modifications to the Award of Request for Proposals (RFP) for the Affordable Rental Housing Portfolio Restructuring and Preservation to Komohale LP, a partnership between local developer Stanford Carr Development, LLC and Los Angeles-based Standard Property Company, Inc. (Komohale), clearing the way for the sale to proceed. The transaction is expected to close in early 2019.

The leasehold sale achieves the dual goals of rehabilitating the properties for long-term preservation and fulfilling the State's promise to minimize displacement of existing tenants. The terms of the leasehold sale ensure the properties' long term-affordability while enabling substantial renovations to be completed faster than possible under the State's ownership. Divesting itself of the rental housing portfolio also frees up HHFDC resources to focus on its primary goal of increasing the supply of new affordable housing.

The Portfolio consists of the following six affordable rental housing and mixed-use properties with 1,221 residential units and approximately 86,000 square feet of commercial space:

<u>Property</u>	<u>Location</u>	<u>Type</u>	<u>Units</u>
Pohulani Elderly	Kakaako, Oahu	Elderly	263
Kauhale Kakaako	Kakaako, Oahu	Family	268
Kamakee Vista	Kakaako, Oahu	Family	226
Kekuilani Courts	Kapolei, Oahu	Family	80
Honokowai Kauhale	Lahaina, Maui	Family	184
Lailani Apartments	Kailua-Kona, Hawaii	Family	200

Background

On December 14, 2017, HHFDC Board of Directors approved the leasehold sale of the Portfolio to Komohale for \$170 million, with the buyer committing to undertake a major renovation program at an estimated cost of \$53.9 million to be completed within three years. A Due Diligence and Confidentiality Agreement was executed on February 9, 2018 to allow Komohale to conduct due diligence in advance of signing the Purchase and Sale Agreement (PSA), which was under negotiation at the time. The PSA was executed on June 13, 2018, upon which day the formal due diligence period commenced.

On July 20, 2018, Komohale submitted to HHFDC an updated renovation plan and budget based on its due diligence findings, which indicated that an increased scope of work was required—in part due to deferred maintenance that was not disclosed in historical Property Condition Assessment reports—and that construction costs were higher than originally anticipated. The resulting renovation program budget was materially in excess of the original budget, and HHFDC and Komohale negotiated modifications to the RFP award over several months.

Key modifications to the RFP are: 1) a purchase price of \$130 million; and 2) a renovation program budget of \$85.1 million. All required renovation funds will be set aside at the transaction closing, and Komohale will reinvest any cost savings in additional property improvements.

“Even with the adjusted sales price, when combined with the increased renovation program budget the buyer’s total investment is still higher than any other offer that we received. We will

be able to provide more information after the transaction closes,” said Craig Hirai, executive director, HHFDC.

In addition to addressing base building systems deferred maintenance items, the terms of the RFP required the buyer to renovate all non-renovated apartment units. However, Komohale found that prior renovations were partial in nature and inconsistently completed. To maximize economies of scale and construction scheduling efficiencies, 100% of the Portfolio’s units will now be renovated – a significant variance from the RFP requirement. In addition to minimizing long-term replacement budgets, the 100% unit renovations will also provide a uniform standard throughout the properties.

Long-Term Rental Housing Affordability Preserved

Rents at the properties will remain affordable throughout the 75-yearⁱ ground lease terms, with maximum rents of no greater than either 80 or 100 percent of the U.S. Department of Housing and Urban Development Area Median Income (AMI) rent guidelines.

- For existing residents at Pohulani Elderly, annual rent increases will be restricted to no more than two percent (2%) for the duration of the tenants’ residencies (subject to the AMI rent limits.)
- For existing residents at the five family properties, annual rent increases will be restricted to no more than two percent (2%) for the next five years and five percent (5%) for the subsequent 30 years (subject to the AMI rent limits.)
- The residencies of existing tenants who earn in excess of the AMI limits will be grandfathered, allowing them to stay in their units.

Rent Subsidies Increased and Extended

In connection with the portfolio restructuring and preservation, the HHFDC board awarded \$24.25 million in project-based Rental Assistance Program (RAP) contracts to Komohale. The contracts increase and extend existing rent subsidies for households who currently participate in the program and earn less than 80 percent of the AMI.

- At Pohulani Elderly, HHFDC will provide an initial 20-year RAP contract that increases the maximum monthly subsidy from \$250 to \$300.
- At the four family properties where RAP subsidies are currently offered, HHFDC will provide 10-year RAP contracts that increase the maximum monthly subsidy from \$175 to \$225. In the sixth year of the contract, the maximum monthly subsidy will increase to \$500.
- At Kekuilani Courts, where RAP subsidies are not currently offered, HHFDC will provide a five (5)-year RAP contract through which a subsidy of up to \$500 per month will be available to qualified residents beginning in 2023.

Property Renovation Program

Komohale has committed to a \$85.1 million renovation program for common-area and unit renovations to be completed within the first three years. Improvements will include replacement of cabinets, countertops, plumbing, appliances, flooring, and painting in units. Common areas will be refreshed with new paint and carpets, and community rooms will be renovated. In addition, building systems such as elevators, facades, roofing, and windows are budgeted for repair/replacement. The defective building siding at Honokowai Kauhale will be replaced, as will the exterior stair systems.

Resident Education and Counseling Services Program

Komohale will offer residents a robust package of education and counseling services to enrich the lives of the properties' tenants and their families, with focus on the following areas:

- Education, including after-school tutoring and enrichment, computer learning opportunities and English as a Second Language as well as General Equivalency Diploma classes;
- Financial literacy, including budgeting, credit utilization and debt management, income planning, and homeownership preparation; and

- Health, including screenings, diabetes prevention, exercise classes, and food distributions.

“Leveraging private funds through partnerships like this is a more efficient use of State resources. It’s more cost effective to sell the leasehold interest and have the Buyer pay for renovations and other capital improvements through the sale,” said Governor David Y. Ige.

About Komohale LP

Komohale is a 50/50 partnership between Stanford Carr Development, LLC (SCD) and Standard Property Company, Inc. (SPC).

Honolulu-based SCD is wholly-owned by its founder Stanford Carr and has developed over 5,000 homes in Hawaii with a combined sales volume of \$2.0 billion. Examples of SCD’s affordable multifamily rental projects include Franciscan Vistas, Halekauwila Place, Keauhou Lane, and Hale Kewalo (the latter of which is expected to be completed in 2019.)

“We look forward to collaborating with the State to improve the quality of life for residents,” said Stanford Carr.

Founded in 2008, Los Angeles-based SPC is a full-service, multifamily real estate investment and management firm that specializes in the acquisition, rehabilitation, and preservation of at-risk affordable housing. The company is owned by its co-founders Jeffrey Jaeger and Scott Alter, and has completed more than \$1.1 billion of property and distressed-loan acquisitions totaling more than 6,000 units.

Komohale will retain current property management agent Hawaii Affordable Properties, Inc., which currently manages over 3,000 residential apartments in 41 projects throughout Hawaii.

About the Hawaii Housing Finance and Development Corporation

The mission of the Hawaii Housing Finance and Development Corporation is to increase and preserve the supply of workforce and affordable housing statewide by providing leadership,

tools, and resources to facilitate housing development. HHFDC is administratively attached to the State of Hawaii, Department of Business, Economic Development and Tourism and is governed by a nine-member Board of Directors which establishes policies and executive direction for the corporation.

The Honolulu office of CBRE, Inc., assisted by its Seattle-based affordable housing practice, is providing advisory and transaction services to HHFDC.

The Honolulu law firm of Goodsill Anderson Quinn & Stifel is providing legal services for the transaction through a contract with the Department of the Attorney General.

For more information, contact: Kent Miyasaki, Information Officer,
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www.dbedt.hawaii.gov/hhfdc/

ⁱ For Kamakee Vista, the term will be equal to the remaining term of the existing ground lease with Atherton Family Foundation which expires on December 31, 2056.