



JOSH GREEN, M.D.
GOVERNOR
KE KIA'ĀINA

HAWAI'I HOUSING FINANCE AND DEVELOPMENT CORPORATION



DEAN MINAKAMI
INTERIM EXECUTIVE DIRECTOR

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Media Contact: Gordon Pang, HHFDC Housing Information Officer, 808-587-0597

STATE ANNOUNCES NEXT STEPS REGARDING WAIĀHOLE VALLEY RENT RENEGOTIATIONS

HONOLULU -- The Hawai'i Housing Finance and Development Corporation (HHFDC) announced today that it will reduce rent offers made to many of its Waiāhole Valley ground lessees and in some cases reduce rents where agreements have already been reached.

The agency's decision followed a discussion between staff and the Board of Directors at its April 13, 2023, regular meeting.

The Waiāhole Valley leases require that annual rent be renegotiated for the 15-year period beginning June 30, 2023, and negotiations started in July 2022 as stipulated in the leases. HHFDC, the primary landowner in Waiāhole Valley, is seeking to increase rents to satisfy its responsibility to help to balance the State budget as required by the laws and Constitution of the State of Hawai'i. Currently, HHFDC incurs an annual net operating loss of approximately \$1.1 million to maintain the valley's potable water system, roads, and other public infrastructure.

The ongoing financial loss is, in part, due to substantially below-market rental rates that were established approximately 25 years ago, when 91 separate ground leases were signed. Rents were set according to formulas based on lot size, which varies widely across the valley. For example, based on median lot sizes, the current rent for an approximately half-acre residential lot is \$65 per month, while the rent for an approximately four-acre agricultural lot with active residential use is approximately \$74 per month.

HHFDC has not sought to fully cover its Waiāhole Valley operating costs through increased rents, and initial offers to lessees were made at below estimated market rates. To date, HHFDC has reached agreement on the new 15-year period rents with 28 of 91 total lessees. Most agreements were achieved through direct negotiations with individual lessees, while some resulted from negotiating with a hui of lessees.

The rent agreements reached for the 28 lessees established a framework for setting the rents for all lessees. Accordingly, HHFDC decided to reduce many of its open rent offers and reduce rents for some lessees who had previously reached agreements with the agency.

“It has always been our goal that no lessee is displaced as a result of the rent renegotiation process,” HHFDC Interim Executive Director Dean Minakami said. “We are confident that this new approach will help to ensure that there is no lessee displacement, and that the rural, agricultural nature of the valley will be preserved as originally envisioned.”

HHFDC and its Waiāhole lessees face upcoming deadlines to mutually agree on new rents and avoid the mediation and arbitration processes required under the leases. Residential rents need to be settled before July 1, 2023, or the parties shall submit to arbitration.

Agricultural rents need to be settled before August 1, 2023, or the parties must go to mediation. If mediation is unsuccessful, then the rent shall be settled by arbitration. The deadlines reflect three-month extensions of time already granted by HHFDC to allow all parties to mutually agree on new rents.

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About the Waiāhole Valley Agricultural Park and Residential Lots Subdivision

Under 55-year contracts that took effect in 1998, the ground leases for the Waiāhole Valley lessees provide for a re-opening of the contracts this year for changes that would take effect on June 30, 2023.

In 1977, in order to “preserve the rural, agricultural nature of the valley,” the State stepped in to block developer Joe Pao from purchasing Waiāhole Valley for development of a high-density subdivision. HHFDC, as the State entity tasked with managing the valley and administering the ground leases, is not wavering from that 45-year-old commitment, which is stipulated in the original lease contracts.

About the Hawai‘i Housing Finance and Development Corporation

The mission of the Hawai‘i Housing Finance and Development Corporation is to increase and preserve the supply of affordable housing statewide by providing financing and development resources. The agency is governed by a Board of Directors which establishes policies and executive direction, and is administratively attached to the State of Hawai‘i Department of Business, Economic Development and Tourism.