

FOR ACTION

I. REQUEST

Update on the Status of the Former Front Street Apartments Affordable Rental Housing Project Site Located in Lahaina, Maui, TMK No.: (2) 4-5-003: 013 (the Front Street Site); Approve: (1) the Acquisition of 60 Kenui Street Located in Lahaina, Maui, TMK No.: (2) 4-5-003: 014; (2) the Establishment of a Dwelling Unit Revolving Fund Budget Relating to the Acquisition of Properties Abutting the Front Street Site (Abutting Properties); and (3) Authorization for the Executive Director to Enter into Exclusive Negotiations with Hale Mahaolu Regarding a Possible Ground Lease of the Combined Front Street Site and Abutting Properties for the Purposes of Constructing, Rehabilitating, Operating, and Maintaining an Affordable and Workforce Rental Housing Project

II. FACTS

Project:	Front Street Affordable and Workforce Rental Housing Development Project
Address:	1056 Front Street and 60 Kenui Street, Lahaina, HI 96761
Tax Map Key Nos.:	(2) 4-5-003: parcels 013 and 014
Land Area:	8.728 acres
Trust Land Status:	Section 5(b) lands of the Hawaii Admission Act (i.e., ceded lands)
Project Type:	Affordable and workforce multifamily rental housing
Owners:	1056 Front Street: Hawaii Housing Finance and Development Corporation (HHFDC) 60 Kenui Street: Front Street Affordable Housing Partners (the Owner)

- A. Located on the northern side of Lahaina about a half-mile south of the Cannery Mall, Front Street Apartments (the Project) was an affordable rental housing project with 142 studio, one-bedroom, and two-bedroom units developed by Front Street Affordable Housing Partners (the Owner). The Project land (the Front Street Site) was leased from an entity controlled by The Harry and Jeanette Weinberg Foundation (Weinberg). See **Exhibit A** for a project location map and **Exhibit B** for a tax plat map showing the Front Street Site and abutting parcels.
- B. Completed in 2000, the Project was financed in part with federal and state Low-Income Housing Tax Credits (LIHTC). Under the LIHTC program, the Project was required to have 70 units set aside for households earning up to 50% of the area median income (AMI) and 71 units set aside for households earning up to 60% of the AMI.
- C. In 2019, HHFDC acquired Weinberg’s leased-fee interest in the Front Street Site after the Project’s affordability restrictions ended following the end of the LIHTC program’s 15-year compliance period. The purchase price of \$14.93 million was funded by the Dwelling Unit Revolving Fund (DURF).
- D. On July 1, 2023, HHFDC and the Owner entered into an Amended and Restated Ground Lease that provided for a 31-year extension of the lease term and

substantially reduced the annual rent in return for the reinstatement of the Project's affordability restrictions.

- E. On August 8, 2023, the wildfire that devastated Lahaina destroyed the Project. Fortunately, all 260-plus residents and employees survived. In the aftermath of the disaster, April Housing, ~~the investment limited partner of the Owner~~which acquired the original limited partner's interest on December 15, 2021, provided \$3,000 assistance checks to every Project household, and HHFDC waived the annual ground rent of \$61,800.
- F. In February 2024, HHFDC and the Owner held discussions regarding a possible surrender of the ground lease to HHFDC to make way for the future development of affordable housing. The Owner subsequently notified staff that it intended to exercise its right to surrender the ground lease. The Project mortgage loan was subsequently repaid in full, and on March 11, 2024, HHFDC and the Owner entered into a Mutual Cancellation and Termination of Lease and a Release of Regulatory Agreements.
- G. HHFDC's fee-simple title to the Front Street Site is now free and clear of the ground lease and restrictive covenants, giving the corporation control over its redevelopment.

III. DISCUSSION

- A. Last year's wildfires caused more than 4,100 homes in West Maui to be destroyed or rendered uninhabitable. While construction of some temporary housing is underway or imminent, new permanent housing projects are needed to meet the West Maui community's long-term needs. A redevelopment project at the Front Street Site has the potential to be one of the first housing projects to be planned and developed post-fire.
- B. At a minimum, a new project developed on the Front Street Site should include 141 LIHTC units to replace the Front Street Apartments units that were destroyed. The site can reasonably support slightly denser development of approximately 200 units, and it is recommended that the incremental units be workforce rentals for households earning up to 140% of the AMI.
- C. Proposed Acquisition of 60 Kenui Street Parcel
 - 1. The owner of the former Project owns in fee simple the 0.19-acre parcel of land abutting the northern side of the Front Street Site commonly known as 60 Kenui Street and bearing Tax Map Key No. (2) 4-5-003: 014 (the Kenui Street Parcel). The county zoning is R-2 Residential.
 - 2. The Kenui Street Parcel is improved with an approximately 3,000 s.f. building that survived the fire and which was formerly leased to Kamaaina Kids (and, before that, Maui Community College). After the fire, Owner leased the building on a short-term basis to ECC Constructors LLC, a firm contracted by the U.S. Army Corps of Engineers to provide wildfire debris removal services.
 - 3. As shown in Exhibit B, the footprint of the Kenui Street Parcel cuts into the Front Street Site. Acquiring the parcel and combining it with the Front Street Site would allow for the design of a more efficient site plan for redevelopment.

4. On March 18, 2024, the Owner accepted and agreed to a nonbinding Letter of Intent (the LOI) outlining the terms and conditions upon which HHFDC would consider purchasing the fee-simple interest in the Kenui Street Parcel. A copy of the signed agreement is attached as **Exhibit C**, and the key business terms are summarized in the below table.

Purchase Price and Payment Terms:	\$1,379,400 paid in cash at closing.
Due Diligence Period	Sixty (60) days from the effective date of a Purchase and Sale Agreement (the PSA) executed by the parties. HHFDCs execution of the PSA is subject to the prior approval of its Board of Directors (the Board).
Closing Period:	Within thirty (30) days from the expiration of the Due Diligence Period.
Closing Costs:	Each party shall pay one-half (1/2) of any escrow fees and other customary charges of the title company, the cost of the title insurance premium for the owner’s policy, and the cost of recording fees. The seller shall pay the State of Hawaii conveyance tax.

5. The Kenui Street Parcel purchase price under the LOI is equal to the County of Maui assessed value of the property for the 2023 tax year, as it was agreed that, conceptually, it represents an objective, third-party valuation uninformed by the impacts of the wildfires.
- a. Section 3.48.180 of the Maui County Code states in part, “[e]xcept as exempted or otherwise taxed, all real property shall be subject to a tax upon one hundred percent of its fair market value.”
- b. Staff and the Owner agree that, in part due to the wildfire’s significant near-to-medium term impact on Lahaina’s public infrastructure, it would be difficult to agree on instructions to provide to an appraiser for the preparation of a market-value report.
- i. It is noted that the contemplated acquisition is not subject to the appraisal requirement contained in Hawaii Revised Statutes (HRS) Section 201H-33(d), as there are no dwelling units on the Kenui Street Parcel.¹

¹ Hawaii Revised Statutes Section 201H-33(d) states in part,

The corporation may acquire, by eminent domain, exchange, or negotiation, land or property required within the foreseeable future for the purposes of this chapter. Whenever land with a completed or substantially complete and habitable dwelling or dwellings thereon is acquired by

6. Staff recommends that the Board approve proceeding with the acquisition of the Kenui Street Parcel on the above key terms, with the purchase price to be funded by the Dwelling Unit Revolving Fund (DURF)

D. Possible Acquisition of 1050 Front Street Parcel

1. An entity controlled by Weinberg owns the 0.28-acre parcel (the 1050 Front Street Parcel) abutting the makai side of the Front Street Site, as identified in Exhibit B. The county zoning is A-1 Apartment. Unimproved and listed for sale at the time of the wildfire, the owner has communicated that, while Weinberg currently is not considering the sale of West Maui properties to private parties, it is open to selling the 1050 Front Street Parcel to HHFDC on reasonable terms.
2. As with the Kenui Street Parcel, an acquisition of the 1050 Front Street Parcel would benefit site planning for the Front Street Site redevelopment. The County of Maui assessed value of the property for the 2023 tax year is \$856,200, but Weinberg has indicated that it has an appraisal report supporting a somewhat higher value. Staff plans to research comparable property sales and submit to Weinberg a nonbinding Letter of Intent for a purchase of the property subject to the Board's approval, which would be sought at a later date.

E. DURF Budget for the Acquisition of Abutting Properties

1. HHFDC administers DURF pursuant to HRS Chapter 201H, Part III, Subpart I. HRS Section 201H-191(a) states in part,

The proceeds in the revolving fund shall be used... for the necessary expenses in administering housing development programs and regional state infrastructure programs, and for carrying out the purposes of housing development programs and regional state infrastructure programs...
2. Staff finds that the acquisition of properties abutting the Front Street Site for the purpose of redevelopment is an authorized use of DURF and recommends the establishment of a ~~\$3 million~~ \$3,750,000 budget for property acquisition costs, including but not limited to outside legal services and third-party due diligence costs.
3. There are sufficient DURF funds available for the above property acquisitions. As of February 29, 2024, the uncommitted DURF funds balance was approximately \$34 million (inclusive of a \$10 million loan reserve). An additional \$50 million appropriated by the Legislature in 2023 for Fiscal Year 2025 is not included in the uncommitted funds balance. Also, approximately \$26 million in DURF permanent loans secured by properties that HHFDC sold in leasehold in 2019 and 2020 is expected to be repaid in May 2024.

exchange or negotiation, the exchange value or purchase price for each dwelling, including land, shall not exceed its appraised value.

F. Possible Ground Lease to Hale Mahaolu

1. Founded in 1967 and based in Kahului, Hale Mahaolu is a Hawaii nonprofit corporation whose purpose is to plan, construct, operate, maintain, and improve rental housing and related facilities and services for low-income, middle-income, and elderly families and individuals. It has been a sponsor, developer, owner, and manager of 17 properties with approximately 1,300 units in Maui County.
2. Hale Mahaolu's Lahaina Surf affordable rental housing project with 112 one-, two, and three-bedroom units abuts the southern boundary of the Front Street Site as shown in Exhibit B and was also destroyed.
3. Staff has held informal discussions with Hale Mahaolu concerning its interest in acquiring a long-term ground lease of the Front Street Site for affordable and workforce housing purposes. Real property transactions are not subject to HRS Chapter 103D (Hawaii Public Procurement Code), and although HHFDC typically issues ground leases to developers through a Request for Proposals process as a best practice, that process would take approximately nine months, and the housing situation in West Maui requires immediate action.
4. Hale Mahaolu is an experienced Maui nonprofit developer with capacity to undertake the Front Street Site redevelopment and make it aesthetically complementary to the project to be developed on its adjacent land. Staff recommends that the Executive Director be authorized to conduct negotiations with Hale Mahaolu concerning the Front Street Site. Should the parties agree on key terms, approvals will be sought from the Board to enter into a ground lease and take other next steps.

IV. RECOMMENDATION

Staff's recommendation is that the HHFDC Board of Directors:

A. Approve the following:

1. The acquisition of 60 Kenui Street located in Lahaina, Maui, TMK No.: (2) 4-5-003: 014 substantially on the terms and conditions described herein but allowing for modifications as may be deemed reasonable in the Executive Director's sole and absolute discretion;
2. The establishment of a Dwelling Unit Revolving Fund budget relating to the acquisition of properties abutting the Front Street Site located in Lahaina, Maui, TMK No.: (2) 4-5-003: 013, subject to availability of funds and the release of funds by the Governor; and
3. Authorization for the Executive Director to enter into exclusive negotiations with Hale Mahaolu regarding a possible ground lease of the combined Front Street Site and abutting properties for the purposes of constructing, rehabilitating, operating, and maintaining an affordable and workforce rental housing project; and

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the purposes of this For Action.

Attachments:

Exhibit B – Tax Plat Map

Prepared by:

Chris Woodard, Chief Planner

HM
CW

☐ Circulated ☒ Amended

Planning Evaluation & Compliance Branch

Please take necessary action.

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Front Street Project Location Map



EXHIBIT A

Front Street Site and Abutting Parcels

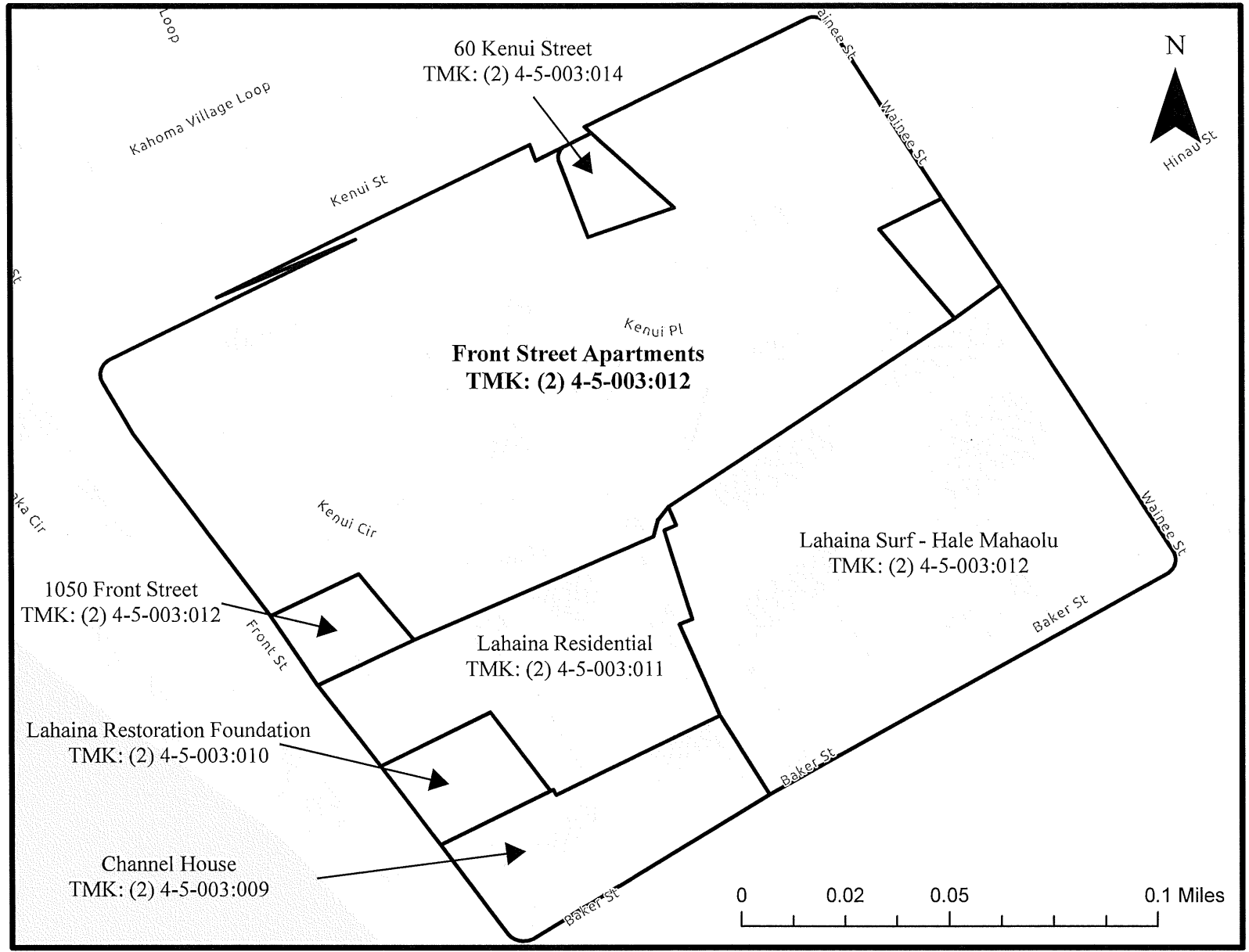


EXHIBIT B

JOSH GREEN, M.D.
GOVERNOR

SYLVIA LUKE
LT. GOVERNOR



DEAN MINAKAMI
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
HONOLULU, HAWAII 96813
PHONE: (808) 587-0620
FAX: (808) 587-0600

IN REPLY REFER TO:

24:REC/036

February 28, 2024

Mr. W. Adam Dornbush
220 South King Street, Suite 955
Honolulu, Hawaii 96813

Dear Mr. Dornbush:

Re: Letter of Intent
60 Kenui Street, Lahaina, Hawaii 96761
Tax Map Key No.: (2) 4-5-003:014

This nonbinding Letter of Intent (this “**LOI**”) outlines the terms and conditions upon which the Hawaii Housing Finance and Development Corporation (“**HHFDC**”) would consider purchasing the fee-simple interest in the property located at 60 Kenui Street in Lahaina, which is adjacent to the site of the former Front Street Apartments affordable rental housing project that was destroyed in the August 2023 wildfires. HHFDC’s plan is to acquire the Kenui Street parcel and combine it with the redevelopment of the former Front Street Apartments site. This would enable the State to maximize the number of units that can be built in a location that desperately needs permanent housing.

Buyer:	HHFDC, a public body and a body corporate and politic of the State of Hawaii (“ Buyer ”)
Seller:	Front Street Affordable Housing Partners, a Hawaii limited partnership (“ Seller ”)
Property:	The fee-simple interest in the parcel located at 60 Kenui Street, Lahaina, HI 96761, TMK No.: (2) 4-5-003:014 (the “ Property ”)
Purchase Price:	ONE MILLION THREE HUNDRED SEVENTY-NINE THOUSAND FOUR HUNDRED AND NO/100 U.S. DOLLARS (US\$1,379,400.00) (the “ Purchase Price ”), which is the County of Maui assessed value of the Property for the 2023 tax year.

EXHIBIT C

Payment Terms:	The Purchase Price shall be payable in cash at closing.
Purchase and Sale Agreement:	Within 14 days of Seller’s acceptance of this LOI, Seller shall provide a draft Purchase and Sale Agreement (the “ PSA ”), the terms of which Buyer and Seller (individually a “ Party ” and collectively the “ Parties ”) hereby agree to negotiate in good faith by April 15, 2024. The PSA shall contain customary terms for the purchase and sale of similar properties in the state of Hawaii that include and are consistent with the terms contained herein.
Due Diligence Period:	Buyer shall have 60 days from the effective date of the PSA to complete a due diligence investigation of the Property (the “ Due Diligence Period ”), and Seller shall fully cooperate with such investigation. In the event that Buyer, in its sole discretion, decides not to proceed with the purchase of the Property during the Due Diligence Period, or fails to give a notice to proceed as outlined in the PSA, the Parties shall have no further obligation to each other.
Due Diligence Materials:	Within ten (10) days following execution of the PSA, Seller shall provide to Buyer all reasonably available due diligence items and documents relating to the Property that may be requested by Buyer
Closing Period:	The PSA shall provide that escrow will close and recording will occur within thirty (30) days from the expiration of the Due Diligence Period.
Closing Costs:	Each Party shall pay one-half (1/2) of any escrow fees and other customary charges of the title company, the cost of the title insurance premium for the owner’s policy, and the cost of recording fees. Seller shall pay the State of Hawaii conveyance tax.
Brokerage Commissions:	The PSA shall include representations by each Party that it has not retained any brokers in connection with the marketing or sale of the Property.

Mr. W. Adam Dornbush
February 28, 2024
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HHFDC Board Prior Approval Required	Buyer's execution of the PSA is subject to the prior approval of the HHFDC Board of Directors, which staff plans to seek at the board's April 11, 2024 meeting.
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The Parties acknowledge that this nonbinding LOI is not a Purchase and Sale Agreement, but rather is intended to be the basis for a possible PSA between the Parties. It is expressly understood that the terms and conditions herein are not all-inclusive but merely represent an outline of some of the basic business terms to be incorporated into a draft PSA Neither Party will be under a legally binding obligation to the other until a PSA, acceptable to both Parties, has been fully executed.

If the foregoing outline of business terms is acceptable, please execute a copy of this LOI and return it by email to christopher.j.woodard@hawaii.gov.

This LOI shall automatically be null and void and of no force and effect at 4:30 p.m. Hawaii-Aleutian Standard Time on March 28, 2024, unless we receive Seller's written acceptance prior thereto.

Should you have any questions regarding this LOI, please call Chris Woodard at (808) 587-0588.

Very truly yours,

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION,
a public body and a body corporate and politic of the State of Hawaii

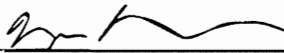
Dean Minakami

By: _____
Its: Dean Minakami
Executive Director

ACCEPTED AND AGREED:

FRONT STREET AFFORDABLE HOUSING PARTNERS,
a Hawaii limited partnership

By: LAHAINA HOMES LLC,
a Hawaii limited liability company
Its: General Partner


By: _____
Its: W. Adam Dornbush
Member