Unique affordable-housing plan allows tenants to buy rentals

By Andrew Gomes

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A state agency is duplicating a successful pilot program in which low-income Native Hawaiians became homeowners 15 years after their affordable rental housing became available for purchase.

The Department of Hawaiian Home Lands selected 60 beneficiaries April 17 to rent homes being built on Hawaii island, with a purchase option for tenants in 2036.

The neighborhood within DHHL's master-planned Villages of La'i 'Opua community in Kealakehe represents a follow-up to a pilot project on Oahu that began in 2001 as rental housing and provided home ownership to tenants four years ago.

The Oahu project, Ho'olimalima, within the state's master-planned Villages of Kapolei community, produced 70 single-family homes for DHHL beneficiaries who were earning less than 60% of the island's median income and ended up buying their three- or four-bedroom homes in 2017 for $62,871 to $76,842.

Maile Holt, a Ho'olimalima homeowner, considers her family extremely fortunate to have been part of what she called an "awesome" program.

"Fairy tale come true," she said.

On Hawaii island, construction began on the 60 single-family rental homes at La'i 'Opua in November. Initial homes are expected to be finished in October at the $38 million project.

DHHL selected tenants from a list of roughly 23,000 beneficiaries who seek, or previously received a commitment for, homestead lots the agency provides under 99-year land leases that cost $1 a year.

Typically, DHHL contracts homebuilders to construct and sell homes to lessees, or sometimes lessees can build their own homes.

The program giving beneficiaries an option to buy a homestead residence after renting for 15 years was designed to provide homeownership to beneficiaries was challenged by issues that included loan conditions and a private developer restricting federally financed affordable rental housing for DHHL beneficiaries who must be at least half Hawaiian.

The issues got worked out as a new development firm led by Hawaii Assisted Housing Inc. took over from Mark while Mark retained a consulting and rental management role.

Construction began on Ho'olimalima in 2001 with initial homes delivered later that year.

New issues, however, cropped up a few years later with some tenants facing eviction over alleged rental agreement violations.

Mark contended that some tenants were violating rules and putting the tax credits, which last 10 years, at risk of being canceled.

For example, tenants aren't allowed to let people outside their household live in the subsidized housing. Mark claimed that federal authorities twice threatened to revoke the credits over lax enforcement, which the company addressed in ways that included keeping photographs of tenants on file and registering their vehicles.

DHHL reported in 2004 that seven noncompliant tenants had left and were replaced by other beneficiaries. In some cases, the death of a tenant whose successor didn't meet the 50% Hawaiian quantum couldn't continue living at Ho'olimalima.

At the end of the 15-year term, tenants received the first right to purchase their rental home with a 99-year land lease for $62,871 to $76,842. The sale price was largely based the project's remaining mortgage debt.

Holt, who applied for a homestead in 1987, said there were a lot of tenancy conditions, including inspections, but that they were well worth following.

"We were very, very, very fortunate to be selected for this project," she said.

At the time Holt applied, she was a Hawaii District Court clerk who was married and pregnant with her third child. Monthly rent for her three-bedroom house was about $700, and later she moved to a fourbedroom who can’t afford a typical home on a DHHL homestead, perhaps because of credit or debt issues.

Tyler Iokepa Gomes, DHHL deputy director, said the unconventional rental housing project with a future purchase option serves a critical need.

“It breaks down the barriers to homeownership for those who are in lower income brackets,” he said at the tenant selection event.

Unlike a rent-to-own concept where rental payments get credited or partially credited toward a purchase, DHHL’s program is structured so that beneficiaries pay far below market-rate rent while also receiving homeownership preparation counseling, so that tenants are positioned to buy their rental residence at the end of the 15-year term.

Monthly rent for most homes in the La‘i ‘Opua project is expected to be $921 for two-bedroom homes, $1,034 for three-bedroom homes and $1,132 for four-bedroom homes, reserved for households earning no more than 60% of the median income on Hawaii island.

About a dozen homes also will be available for households earning less, including several with monthly rent between $338 and $387 reserved for tenants earning no more than 30% of the median income.

On Hawaii island, 30% of the median income equates to $24,990 for a family of four.

Cedric Duarte, a DHHL spokesman, said the agency would like to do more such projects, though they are difficult because they rely on development partners willing to pursue a complicated mix of special financing that includes obtaining and selling state and federal low-income housing tax credits.

Managing a rental project that uses these credits also was challenging in the case of the pilot project that began over two decades ago.

For Ho‘olimalima on Oahu, DHHL sought developer proposals in 1997 and selected local affordablehousing producer Mark Development Inc. in 1998 to carry out the project.

Mark applied for and was awarded the key tax credits in 1999 from a state agency now known as the Hawaii Housing Finance and Development Corp. These credits were sold to investors for $6.7 million to cover a little home that she eventually bought with her husband, who now works as an information technology specialist with the federal government.

In all, 69 of 70 Ho‘olimalima tenants bought, according to DHHL.

“The path for these families was neither short nor easy, but their perseverance to become homeowners makes them model Hawaiian homesteaders,” Jobie Masagatani, DHHL’s then-director, said in a 2017 statement.

To replicate the pilot program on Hawaii island, DHHL selected Californiabased UHC Communities and its nonprofit affiliate Ikaika Ohana.

Of the $38 million project cost, $23 million is from tax credit proceeds. HHFDC, the state affordable-housing facilitator, provided an $8 million loan. DHHL contributed $5 million, and $2 million is from a bank loan.

“As we close in on the 100th centennial of the signing of the Hawaiian Homes Commission Act, our kuleana (responsibility) to provide an affordable entry point for Native Hawaiians to return to their ancestral lands has never been more critical,” Gomes said in a statement.

A rendering for the master-planned Villages of La‘i ‘Opua community in Kealakehe on the Big Island showcases the houses currently under construction.

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over half the project's $12 million total cost that excluded site improvement work paid for by DHHL.

Other financing included a $4.5 million bank mortgage and a $490,000 bank grant.

Yet because of the program's unique concept, Mark

