



## Affordable Housing Developer Breaks Ground on Maui LIHTC Property

**TERESA GARCIA, MARKETING MANAGER, NOVOGRADAC & COMPANY LLP**

**A** traditional Hawaiian blessing in early October marked the official start of construction for Kaiwahine Village.

The low-income housing tax credit (LIHTC) property in Maui is on track to provide 120 much-needed affordable apartments by early 2020, despite Hawaii's high construction costs and not one, but two hurricanes that twice threatened to delay the development's groundbreaking.

Located in Kihei, a census-designated place on Maui's west coast, Kaiwahine Village sits on property with a land deed restriction for housing at 80 percent area median income (AMI). The land's previous owners intended to build for-sale housing on the site, but after the income restriction stalled construction for years, it approached Urban Housing Communities (UHC) to gauge its interest in buying the land.

"When you're below 80 percent AMI, it's tough to do for-sale," said Doug Bigley, CEO of UHC, Kaiwahine Village's developer. "The other thing is that with a for-sale product, it's harder to tap into available subsidies."

UHC agreed to buy the land and build LIHTC rental apartments in response to neighborhood demand. Kaiwahine Village will remain 100 percent affordable for at least 65 years.

### **Market Needs**

Novogradac & Company LLP performed a market study for Kaiwahine Village and found a severe affordable housing shortage in the area.

"The development will offer much-needed affordable housing in an area in which high construction costs continue to limit multifamily development," said Rebecca Arthur, MAI and partner at Novogradac & Company. "The overall vacancy rate of rental developments in the market is less than 3 percent."

Arthur said that median home values are more than \$600,000, while the median household income level in the area is less than \$70,000. Kaiwahine Village will offer rental units at 30, 40 and 60 percent of



continued from page 1

the AMI. These rents will provide a 48-82 percent rent advantage over market-rate rentals on the island.

The affordable housing shortage has been especially difficult for the city's service workers.

"Hawaii is a huge service market," said Bigley. "We met with people from ABC Stores and hotels and they've had a lot of difficulty retaining key employees because they can't afford housing there. It's a good market for us because our model is strictly workforce affordable housing."

### Property Details

Bigley said UHC and its internal design team take a resident- and community-centered approach to development. "When I provide workforce housing, I'm not just providing shelter; I'm providing a home," said Bigley.

*Image: Courtesy of Ernie Marjoram*

**Kaiwahine Village will provide 120 units of affordable housing in Kihei, Hawaii.**

Once completed, the LEED for Homes-rated Kaiwahine Village will have two-

bedroom and three-bedroom apartments, as well as two residences for staff. Apartments will have Energy Star appliances, hard-surface flooring, solar water heating and water-efficient plumbing. Amenities include on-site community services, a clubhouse, centralized laundry facilities, hiking trails, a children's play area and fruit trees to grow food for residents year-round. Kaiwahine Village will also incorporate into its design community art by a local artist and schoolchildren.

### Financing

A mix of public and private funding sources helped fund Kaiwahine Village, including a rental housing revolving fund loan of \$19.7 million from the Hawaii Housing Finance and Development Corporation, a \$2.3 million HOME loan from the county of Maui and \$1.4 million from the rental housing trust fund.

Initial acquisition issues and water-meter requirements meant UHC needed to submit two different LIHTC applications for Kaiwahine Village. However, both phases of construction will happen simultaneously to minimize the impact of construction for neighboring

continued on page 3

continued from page 2

residents. Another challenge was the timing of federal tax reform, which caused tax credit pricing to change.

For federal and state LIHTC investments, UHC turned to Hunt Capital Partners. Kaiwahine Village is the fourth affordable housing collaboration between UHC and Hunt in Hawaii. For Kaiwahine, Hunt provided \$23 million in federal 4 percent LIHTC equity and \$8 million in state LIHTC equity.

“The state made a special appropriation of soft money and rental housing trust funds, which allowed a number of large 4 percent deals to be funded,” said Dana Mayo, Hunt Capital Partners’ executive managing director. “We were one of the first that’s gotten closed.”

Without the tax credits, partners say Kaiwahine Village could not be built.

“Hawaii is one of these high-cost areas in the country and there’s really no way to efficiently build affordable housing out there,” said Mayo. “Land is way too expensive, construction costs are really high and you have to import most of the stuff. Without the tax credit subsidy, it’s really impossible.”

James Crowder, director of project management at Hunt, agrees. “In my opinion, this is exactly what the tax credit is for,” said Crowder. “In Maui, you can’t really build new construction, so the LIHTC fits perfectly.”

On the debt side, UHC brought in Citi Community Capital. Citi and UHC have worked together on numerous affordable housing properties all over California, but Kaiwahine is their first partnership in Hawaii.

Citi Community Capital provided a total \$33.2 million in construction financing and about \$7 million in permanent financing for Kaiwahine.

“Hawaii is super expensive and affordable housing is in high demand, so we’re grateful that we’re able to partner with UHC to finance this much needed affordable housing initiative,” said Sonia Rahm, director of Citi Community Capital. “We’re very excited this project is off and running.” ❖

### Kaiwahine Village

#### FINANCING

- ◆ \$33.2 million in construction debt from Citi Community Capital
- ◆ \$23 million in federal low-income housing tax credit (LIHTC) equity from Hunt Capital Partners
- ◆ \$19.7 million rental housing revolving fund loan from the Hawaii Housing Finance and Development Corporation
- ◆ \$8 million in state LIHTC equity from Hunt Capital Partners
- ◆ \$7 million in permanent debt from Citi Community Capital
- ◆ \$2.3 million HOME loan from the county of Maui
- ◆ \$1.4 million from the rental housing trust fund

*This article first appeared in the December 2018 issue of the Novogradac Journal of Tax Credits.*

© Novogradac & Company LLP 2018 - All Rights Reserved

*Notice pursuant to IRS regulations: Any U.S. federal tax advice contained in this article is not intended to be used, and cannot be used, by any taxpayer for the purpose of avoiding penalties under the Internal Revenue Code; nor is any such advice*

continued on page 4

continued from page 3

*intended to be used to support the promotion or marketing of a transaction. Any advice expressed in this article is limited to the federal tax issues addressed in it. Additional issues may exist outside the limited scope of any advice provided – any such advice does not consider or provide a conclusion with respect to any additional issues. Taxpayers contemplating undertaking a transaction should seek advice based on their particular circumstances.*

*This editorial material is for informational purposes only and should not be construed otherwise. Advice and interpretation regarding property compliance or any other material covered in this article can only be obtained from your tax advisor. For further information visit [www.novoco.com](http://www.novoco.com).*

## EDITORIAL BOARD

PUBLISHER

**Michael J. Novogradac, CPA**

EDITORIAL DIRECTOR

**Alex Ruiz**

TECHNICAL EDITORS

**Thomas Boccia, CPA**

**Owen P. Gray, CPA**

**James R. Kroger, CPA**

**John Sciarretti, CPA**

**Mike Morrison, CPA**

**Daniel J. Smith, CPA**

## COPY

SENIOR EDITOR

**Brad Stanhope**

MARKETING MANAGER

**Teresa Garcia**

SENIOR WRITER

**Mark O'Meara**

CONTENT MANAGEMENT SPECIALIST

**Elizabeth Orfin**

CONTRIBUTING WRITERS

**Justin Cree**

**David Graff**

**Flyann Janisse**

**Carolyn Magill**

**Stephanie Naquin**

**John Sciarretti**

**Richard Sidebottom**

**John Tess**

**Stephen Tracy**

**Steven Varaday**

**Jason Watkins**

## ART

CARTOGRAPHER

**David R. Grubman**

CREATIVE DIRECTOR

**Alexandra Louie**

PRODUCTION

**James Matuszak**

**Laura Fischer**

## CONTACT

CORRESPONDENCE AND EDITORIAL SUBMISSIONS

**Alex Ruiz**

**alex.ruiz@novoco.com**

**415.356.8088**

ADVERTISING INQUIRIES

**Christianna Cohen**

**christianna.cohen@novoco.com**

**925.949.4216**

EDITORIAL MATERIAL IN THIS PUBLICATION IS FOR INFORMATIONAL PURPOSES ONLY AND SHOULD NOT BE CONSTRUED OTHERWISE.

ADVICE AND INTERPRETATION REGARDING THE LOW-INCOME HOUSING TAX CREDIT OR ANY OTHER MATERIAL COVERED IN THIS PUBLICATION CAN ONLY BE OBTAINED FROM YOUR TAX ADVISOR.

## ADVISORY BOARD

### LOW-INCOME HOUSING TAX CREDITS

**Bud Clarke**

BOSTON FINANCIAL INVESTMENT MANAGEMENT

**Tom Dixon**

BOSTON CAPITAL

**Rick Edson**

HOUSING CAPITAL ADVISORS INC.

**Richard Gerwitz**

CITI COMMUNITY CAPITAL

**Rochelle Lento**

DYKEMA GOSSETT PLLC

**John Lisella**

U.S. BANCORP COMMUNITY DEV. CORP.

**Philip Melton**

BELLWETHER ENTERPRISE

**Thomas Morton**

PILLSBURY WINTHROP SHAW PITTMAN LLP

**Mary Tingerthal**

MINNESOTA HOUSING FINANCE AGENCY

**Rob Wasserman**

U.S. BANCORP COMMUNITY DEV. CORP.

### PROPERTY COMPLIANCE

**Michael Kotin**

KAY KAY REALTY

**Kerry Menchin**

CONAM MANAGEMENT CORPORATION

**Michael Snowden**

HIGHRIDGE COSTA HOUSING PARTNERS

**Gianna Solari Richards**

SOLARI ENTERPRISES INC.

### HOUSING AND URBAN DEVELOPMENT

**Flynn Janisse**

RAINBOW HOUSING

**Ray Landry**

DAVIS-PENN MORTGAGE CO.

**Denise Muha**

NATIONAL LEASED HOUSING ASSOCIATION

**Monica Sussman**

NIXON PEABODY LLP

### NEW MARKETS TAX CREDITS

**Frank Altman**

COMMUNITY REINVESTMENT FUND

**Merrill Hoopengardner**

NATIONAL TRUST COMMUNITY INVESTMENT CORP.

**Scott Lindquist**

DENTONS

**Matthew Philpott**

U.S. BANCORP COMMUNITY DEV. CORP.

**Ruth Sparrow**

FUTURES UNLIMITED LAW PC

**Elaine DiPietro**

BLOOMING VENTURES LLC

### HISTORIC TAX CREDITS

**Jerry Breed**

MILES & STOCKBRIDGE

**John Leith-Tetrault**

NATIONAL TRUST COMM. INVESTMENT CORP.

**Bill MacRostie**

MACROSTIE HISTORIC ADVISORS LLC

**John Tess**

HERITAGE CONSULTING GROUP

### RENEWABLE ENERGY TAX CREDITS

**Bill Bush**

STEM INC.

**Benjamin Cook**

NEXTPOWER CAPITAL

**Jim Howard**

DUDLEY VENTURES

**Forrest Milder**

NIXON PEABODY LLP