Fannie Mae

Local Tools for Affordable Housing

It is not uncommon for an affordable housing project, whether new construction or preservation, to rely on private market financing from Fannie Mae and public support from a state or local jurisdiction, and in many cases, federal programs. When a project leverages each of these resources, the project becomes more complicated. Fannie Mae's Multifamily affordable program was designed with that complexity in mind and with flexible features such as Special Public Purpose that are able to support each community's specific priorities. "Local Tools for Affordable Housing" presents a handful of examples of how States and Localities are addressing affordable housing issues and incorporating economic diversity and workforce housing into those programs.

Case Study

Hawaii: Preservation Through Public Private Partnership

Hawaii is an expensive housing market. The state's housing wage, defined as the wage needed to afford a two-bedroom unit at fair market rent, is the highest in the country at $36.13 per hour. In contrast, the average renter in Hawaii earns just $16.16 per hour – falling far short of the state's housing wage.[1] Exacerbating this need for affordable housing is Hawaii's geography: with little land between the ocean and mountains, the possibilities for development are limited. Hawaii's lack of affordable rental housing is further exacerbated by the abundance of short-term/vacation rentals and nonresident home sales. In Maui, over 60% of condominiums and apartments on the island are owned by investors and second-home owners, while 52% of homes are sold to non-residents.[2] This dramatically shrinks the already small pool of affordable housing available to Maui's most vulnerable residents and makes preserving the existing stock of affordable housing all the more vital.

Case Study: HHFDC Portfolio

In 2017, the Hawaii Housing Finance Development Corporation (HHFDC) solicited requests for proposals from qualified owners and operators of affordable rental housing for the sale of long-term lease-hold interests in a six-property portfolio spread across the state. As the state government's affordable housing finance and development agency, HHFDC recognized that Hawaii's unique geography and high housing costs made preserving existing affordable housing critical. HHFDC's sale of the portfolio required that the new owner continue to operate all six properties as affordable.

One property included in the Hawaii Housing Finance Development Corp. portfolio. Source: Hawaii Affordable Properties, Inc.

After a highly competitive bidding process that reflects the desirability of the properties' locations and the demand for affordable housing in Hawaii's expensive residential market, HHFDC entered into a purchase and sale agreement with Komohale LP, a joint venture partnership between Standard Communities and Stanford Carr Development, who at closing acquired the lease on five of the six assets (the sixth property will be closed on separately in 2019). The HHFDC Portfolio, comprising 1,221 apartment homes, is subject to ground lease and regulatory agreements that guarantee affordability for 75 years in one of the nation's most expensive housing markets. Two of the

1 http://hiappleseed.org/wp-content/uploads/2018/03/Appleseed-Vacation-Rental-Report-rev.-3.29.18.pdf

2 Data compiled by Apartment List from the American Community Survey, as reported by Pacific Business News, https://www.bizjournals.com/pacific/news/2018/09/25/honolulu-has-third-highest-rate-of-cost-burdened.html

properties included in the HHFDC portfolio, Kekuilani Courts and Honokowai Kauhale, qualify as being in High Opportunity Areas under FHFA's Duty to Serve[3] rule and support Fannie Mae's Residential Economic Diversity (RED) Objectives. HHFDC continues to own the fee interest in the land and improvements across the portfolio, with Komohale LP acquiring a leasehold interest for the property.

Fannie Mae Financing

At the initial closing, the DUS lender partnered with Fannie Mae to provide five separate loans to Komohale LP via its Multifamily Affordable Special Public Purpose financing program. Thanks to a ground lease on all six properties, the portfolio continues to operate with asking rents at or below 80% area median income (AMI) with minimal rent increases at lease renewal. Additionally, HHFDC awarded state project-based Rental Assistance Program (RAP) contracts to each property, ensuring that existing tenants would be able to remain in their affordable homes for as long as they chose to stay. HHFDC's RAP, established in 1989, requires that 60% of a property's units meet the 80% AMI threshold. The remaining 40% of the units are available at a market rent determined by HHFDC. The contracts on the six properties forming the HHFDC portfolio provide rent subsidies for eligible households, defined as those living in one of the portfolio properties at the time of closing and who earns less than 80% AMI. The RAP subsidy on the unit is terminated once the current tenants move out. Each property also benefits from property tax exemptions administered by the counties in which they are located.

Special Public Purpose

Under Special Public Purpose, the property:

- Is subject to an Affordable Regulatory Agreement imposed by a government entity, containing other rent and /or income restrictions,
- Has rent or income restrictions that meet or exceed 20% @80%: at least 20% of all units have rent or income restrictions in place making them affordable to household earning no more than 80% of AMI as adjusted for family size, and
- Meets a noteworthy special public purpose.

Kekuilani Courts, located 15 miles west of downtown Honolulu in a suburban community on the island of Oahu, is comprised of 80 2-bedroom garden apartments across 10 low-rise residential buildings. The property is part of a master-planned community developed by HHFDC that features a mix of affordable and market-rate singlefamily homes, condominiums, and rental apartments. In addition to these residential options, the Village of Kapolei contains several schools, religious institutions, parks, recreation centers, retail centers and two golf courses spread over almost 900 acres. As a HUD-designated Difficult Development Area (DDA), the neighborhood surrounding Kekuilani qualifies as a high opportunity area.

Originally constructed in 1996, the property now benefits from the affordability restrictions of both the ground lease and HHFDC's RAP subsidy. Kekuilani is 95% occupied, with current asking rents a full 30% below the maximum allowable rents. At closing, the property received a commitment from HHFDC for a five-year RAP contract, providing rental assistance of up to $500 per month for qualified households beginning in 2023, when the annual rent increase is permitted to grow to 5%. Honolulu has the third-highest rate of cost-burdened renters in the nation, with 58.4% of renters spending 30% or more of their income on housing costs, making the preservation of affordability in a property like Kekuilani especially critical.

Comprised of 23 garden-style residential buildings totaling 184 apartment homes, Honokowai Kauhale is located in the Lahaina suburb of Maui. The property currently operates under a RAP contract from HHFDC, which provides subsidies of up to $175 per unit per month for qualified households. Upon acquisition, the contract was extended for 10 years with monthly subsidies increasing to $225 per month for qualified tenants for the first 5 years, and up to $500 per month after five years for the duration of the contract. As of February 2019, a total of 70 households (38% of the units) at the property received a RAP subsidy.

3 Hawai'i Appleseed Center for Law and Economic Justice, "Hawai'I Vacation Rentals: Impact on Housing and Hawai'I's Economy." http://hiappleseed.org/wp-content/uploads/2018/03/Appleseed-Vacation-Rental-Report-rev.-3.29.18.pdf

Located in a neighborhood with various multifamily, commercial, and public uses, as well as undeveloped land, Honokowai stretches north to south along a regional thoroughfare that provides access to the area's oceanfront resorts. Directly south of the property is a retail center anchored by Times Supermarket, a regional supermarket chain with 25 locations throughout Hawaii. As a HUD-designated Difficult Development Area (DDA), the neighborhood surrounding Honokowai qualifies as a high opportunity area.