
**BUILDING MORE**

**Low Income Rental Units**

**HAVING MORE**

**Moderate Income Units BUILT**

**PRESERVING EXISTING**

**Qualified Income Units**

**Supporting the Construction of Housing**
**FOR ALL RESIDENTS OF HAWAII**

**A Report of the**
**Hawaii Community Development Authority (HCDA)**
**March 1, 2015**

HAWAII COMMUNITY
DEVELOPMENT AUTHORITY

KAKAAKO
KALAELOA

David Y. Ige
Governor

Brian Lee
Chairperson

Anthony J. H. Ching
Executive Director

461 Cooke Street
Honolulu, Hawaii
96813

Telephone
(808) 594-0300

Facsimile
(808) 594-0299

E-Mail
contact@hcdaweb.org

Web site
www.hcdaweb.org

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**Chair's Statement**

In 1976, the State Legislature charged the Hawaii Community Development Authority with the task of building community and place in districts designated by the Legislature such as Kakaako, Kalaeloa and Heeia. Over the course of our history we have helped to construct housing for low and moderate-income families such as at Honuakaha, Kauhale Kakaako and Na Lei Hulu Kupuna.

With the recent construction of the 204 low-income rental units at Halekauwila Place, we have participated in the construction of nearly 1,300 subsidized low and moderate-income homes. As a function of our reserved housing requirements, market developers have also constructed over 700 units for moderate-income families.

Yet even with the construction of 2,000 qualified income units, it is clear that more housing units both market and qualified income are needed to meet the needs of our growing population. The state's statistician has estimated that each year over 3,000 new households are formed on Oahu alone. With new housing starts at historic lows and measured in the hundreds, not thousands, our community needs housing at all income levels to give our kids and parents shelter and hope for a better life.

In this report, we talk about the need for more housing, describe what we are doing to build homes and a community for all of us and how the HCDA is a "part of the solution". With the information in this report, it is our hope that you too, can help us to work towards solutions for our entire community.

Thank you for your attention to this very important topic.

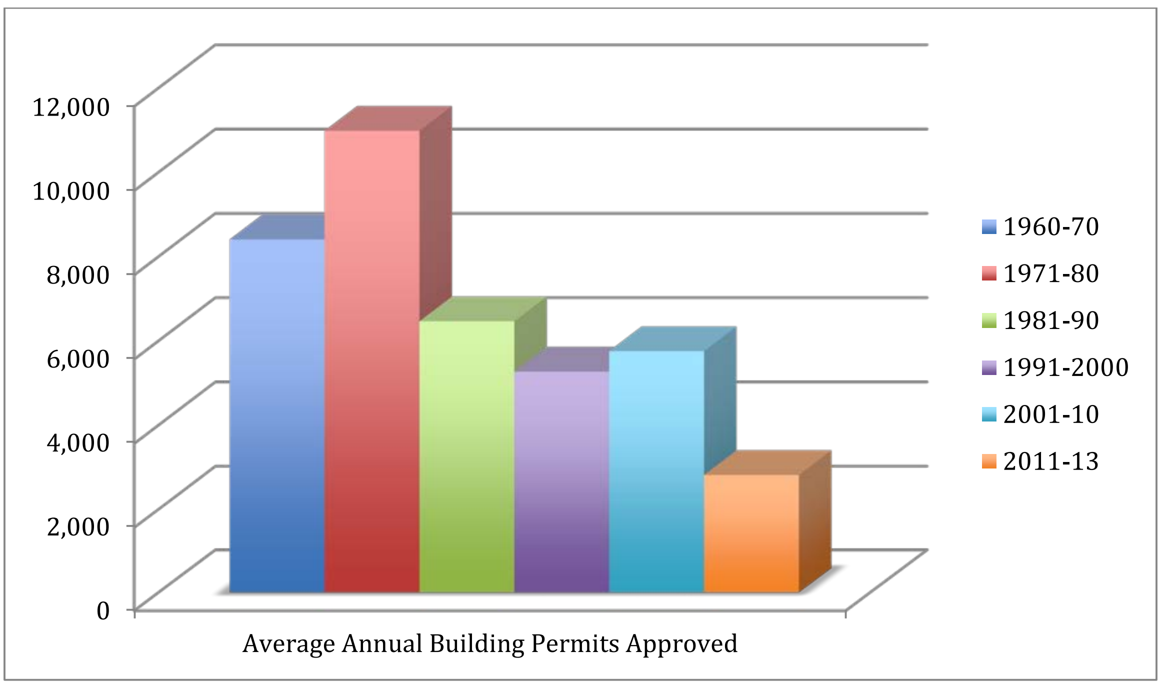
Brian Lee
Chairperson
Hawaii Community Development Authority

# HCDA POTS Report

**Executive Summary**

The need for affordable housing is apparent and at the top of everyone's minds. Creating truly affordable housing for residents of all income levels can help solve some of Hawaii's biggest problems today, including homelessness and high cost of living. There is no doubt that the State of Hawaii is experiencing a housing crisis. A recent report of the Department of Business, Economic Development and Tourism (DBEDT) "estimated Hawaii would need about 5,200 new housing units to be built each year until 2020 to adequately accommodate the state's projected population growth." (Eugene Tian, Economic Research Administrator READ, DBEDT)

Others (Paul Brewbaker, Economist) have noted "decades of under-building have aggravated Honolulu housing shortages." In fact, Brewbaker has said, "almost a new Ward Village is needed every year on Oahu, just for new household formation".




As you can see since a peak in statewide permits issued in the 1971-1980 of 10,983, there has been a steady decline in the number of building permits approved.

- 6,464 permits from 1981-1990
- 5,268 permits from 1991-2000

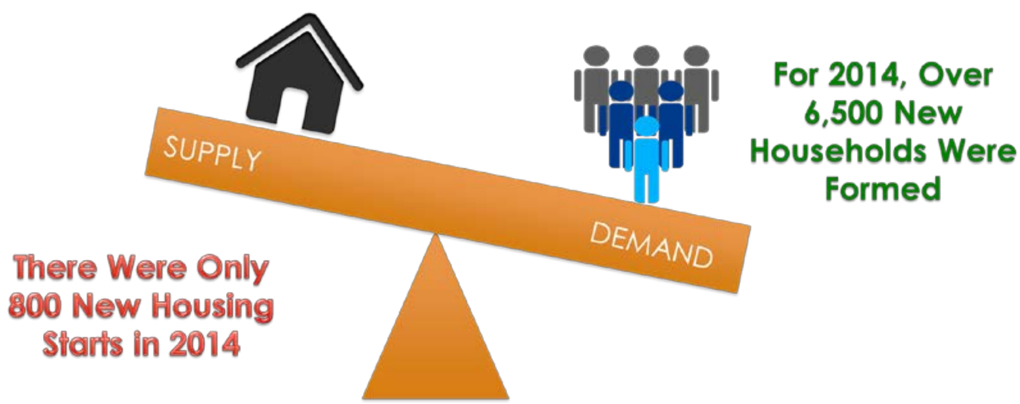
- 5,754 permits from 2001-2010
- 2,816 permits from 2011-2013

## The Need for More Housing Units is Clear!

Each year, more than 6,500 new households are being formed in our State. Without a supply of rental or for sale units being built, these households are:

- Being squeezed into the existing restricted supply of housing;
- Increasingly being confronted with high rental rates and sales prices; and
- Sometimes forced to move out of state.

We're Not Building Enough Housing for Our Population!




To meet the demands of the growing population, economists agree more housing is needed across the board in Hawaii, especially in the already developed urban core, like Kakaako. They say the addition of ANY new housing unit, whether it be low income, workforce housing, or even market rate, is ultimately a good thing because it helps to increase the supply and meet the demand of people wanting to move from one rung of the ladder to the next.

"If you build a high end home that somebody can move into from a more moderately priced home, if you move up that ladder then everybody moves up and somebody gets to move out of their parent's house into their first apartment. So it kind of doesn't matter what you build. The fact that you build a high end unit doesn't mean that there isn't opportunity at the lower end of the market. It creates opportunity."


Perhaps the biggest limiting factor when it comes to finding housing is COST. Because each household's income level is different, the federal government breaks them down into groups in relation to the annual area median income, or AMI. For Honolulu, the federal Housing and Urban Development Department (HUD) says 100% of the area median income in 2014 is $82,600 for a family of four, or $57,800 for a single person. Households making this level of income are referred to as the 100% AMI level. Other households who make more or less, are grouped into the appropriate AMI category.

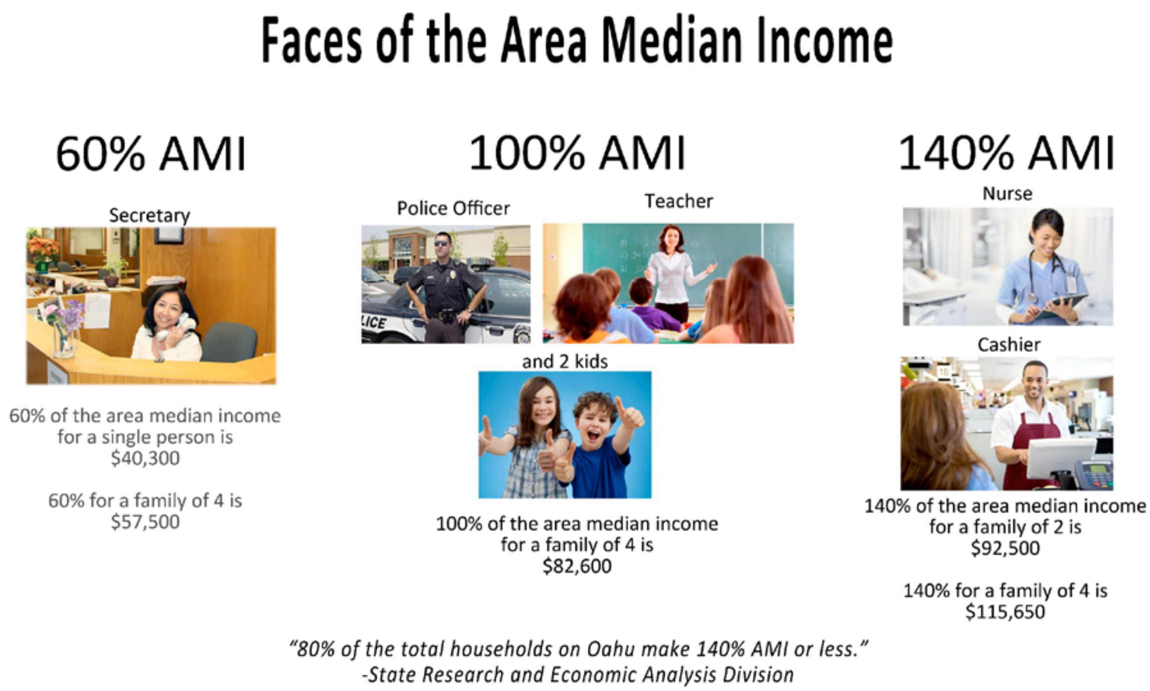
For example, if you're a retail salesperson or cashier making 10 to 11 dollars an hour, your annual salary would be around $24,000 or 25,000. If you look at this AMI chart, you'll see that falls just under the 40% AMI level. A registered nurse, or someone making around $81,000 a year would fall at the top of the AMI chart, around the 140% AMI level or higher.

HUD classifies "low income" as those making 80% AMI or less, or a single person making less than $54,000 a year. They say 50% AMI is very low income- that's about $33,500 for a single person, while 30% AMI is extremely low income. Those who work minimum wage jobs will likely fall under this 30% AMI level, or lower.


These AMI levels are important when it comes to developing affordable housing, as certain government tax credits and programs are only available to projects serving specific income groups, mainly the VERY LOW INCOME groups.

Despite HCDA's efforts to encourage and support the development of more low and extremely low income housing, HCDA's target demographic remains the working gap group of people making between 81-140% AMI. That's because other government agencies are already tasked with helping secure housing for the other income groups. For example, the Hawaii Housing Finance & Development Corporation (HHFDC) provides tax credits and subsidies for the construction of housing for those making 60% AMI and below, and also administers programs for new homeowners. The Hawaii Public Housing Authority manages section 8 and government assisted housing for those making 60% AMI to less than 30% AMI, while the Institute for Human Services (IHS) provides temporary homeless shelter and services. Since no other agency is specifically tasked with serving the gap group of individuals making between 80 and 140% AMI, the HCDA looks to serve this niche.

Each reserved housing unit or workforce housing unit approved by the HCDA is required to be reserved for families making less than 140% AMI. And the rental or sales prices are calculated so that a qualified household would spend no more than 33% of its gross monthly income on housing expenses.




As mentioned earlier, the demand for housing is extremely high in Hawaii. The HCDA is working to increase the supply, and in just the last decade, we approved over a dozen new residential developments in Kakaako and Kalaeloa, with more on the horizon. Some say these new developments specifically cater to foreign investors, but the sales numbers show that the majority of these new housing units are actually being sold to local buyers.

Paul Brewbaker notes, "So this idea of evil foreign and offshore investors dominating the housing landscape is an utter myth. At least ¾ of the new housing being built in Kakaako today is being and has been acquired by residents."

- That suggests the need that's not being fulfilled. If 75- 85% of your buyers are local, then you're probably not building enough.
- The total new construction and currently permitted projects will bring over 5,800 new housing units to Oahu.
- Over 50% of these units are reserved for income qualified households who make less than 140% AMI.
- Many of the newer developments are also priced to be affordable for even EXTREMELY low income groups, targeting those making as little as 30 or 60% AMI.

| 2014 Reserved Housing Income Limits - Honolulu County | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 1 person | 2 person | 3 person | 4 person | 5 person | 6 person | 7 person | 8 person |
| ***Extremely Low Income*** | **30%** | 20,150 | 23,000 | 25,900 | 28,750 | 31,050 | 33,350 | 35,650 | 37,950 |
| | 40% | 26,850 | 30,700 | 34,550 | 38,350 | 41,400 | 44,500 | 47,550 | 50,600 |
| ***Very Low Income*** | **50%** | 33,550 | 38,350 | 43,150 | 47,900 | 51,750 | 55,600 | 59,400 | 63,250 |
| | 60% | 40,300 | 46,050 | 51,800 | 57,500 | 62,100 | 66,750 | 71,300 | 75,900 |
| | 75% | 45,700 | 52,250 | 58,750 | 65,250 | 70,500 | 75,700 | 80,900 | 86,150 |
| ***Low Income*** | **80%** | 53,700 | 61,350 | 69,000 | 76,650 | 82,800 | 88,950 | 95,050 | 101,200 |
| ***Area Median Income*** | **100%** | 57,800 | 66,100 | 74,350 | 82,600 | 89,200 | 95,800 | 102,400 | 109,050 |
| ***Gap Income*** | 110% | 63,600 | 72,700 | 81,750 | 90,850 | 98,100 | 105,400 | 112,650 | 119,900 |
| | **120%** | 69,350 | 79,300 | 89,200 | 99,100 | 107,050 | 114,950 | 122,900 | 130,800 |
| | 130% | 75,200 | 85,900 | 96,650 | 107,400 | 116,000 | 124,600 | 133,200 | 141,750 |
| | **140%** | 80,950 | 92,500 | 104,100 | 115,650 | 124,900 | 134,150 | 143,400 | 152,650 |

| Adjustment for Unit Type | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Unit Type** | | **Studio** | **One Bedroom** | **Two Bedroom** | **Three Bedroom** | **Four Bedroom** | **Five Bedroom** |
| **Adjustment** | | **70%** | **80%** | **Base** | **108%** | **116%** | **124%** |

**For each person in excess of eight, the four-person income limit should be multiplied by an additional 8 percent. (For example, the nine-person limit equals 140 percent [132 + 8] of the relevant four-person income limit.)*

**Income limits are rounded to the nearest $50.*

**HUD base figures were interpolated by HCDA. This chart is provided as a guide only.*

Halekauwila Place was completed in April 2014 and offers 204 rental units to low income households making under 60% AMI. In May 2014, fee-simple condos at Rycroft Terrace were first offered for sale to extremely low income households making as little as 30% AMI, with all buyers in the building making no more than 120% AMI.

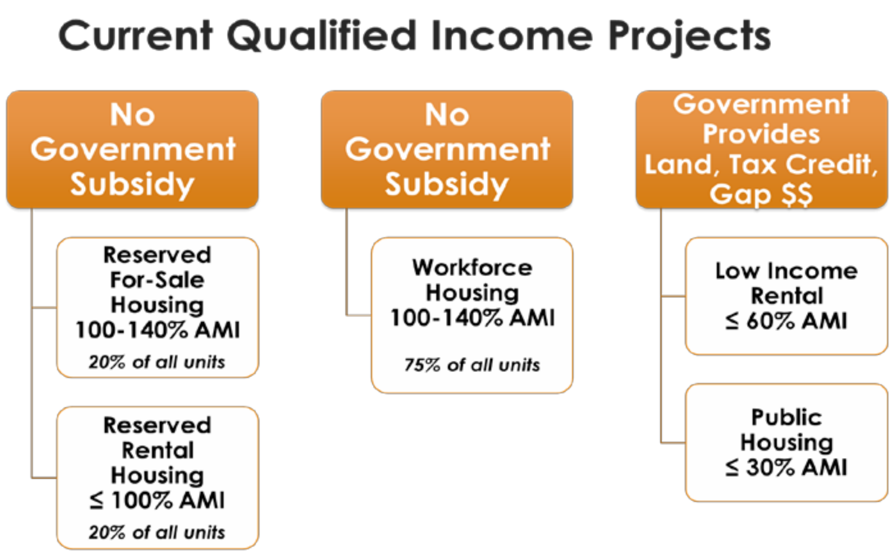
The Cloudbreak development in Kalaeloa will create 50 additional studio apartment rentals to serve as transitional housing for homeless veterans and non-veterans. Another Kalaeloa project involves the renovation of the Bachelors Office Quarters (BOQ) Building 77. This development will create another 100 one-bedroom rentals for households making between 70 to 110% AMI.

**Difference between “reserved,” “workforce,” "low income "and “affordable” housing**

With all of these numbers, percentages, and terms like AMI, it's easy to get confused. But a few definitions are important to remember when talking about so-called "affordable" housing. The HCDA regulates the development of both "workforce" and "reserved housing," which are two SEPARATE programs. Some might refer to them both as "affordable housing," however these three terms are not necessarily synonymous.

**“Affordable housing”** means different things to different people, as what may be affordable to someone with a high wage job, may not be affordable to someone who has no income. The HCDA defines affordability by formula. We call housing “affordable” if a household spends no more than 33% of its gross monthly income on housing expenses. These housing expenses include fixed payments like maintenance fees, insurance, and property taxes, so that a household can make the mandatory payments for housing without spending more than 33% of their gross monthly income.

"**Reserved housing**" is housing for low or moderate income groups that is required by the HCDA as a condition for new residential development in Kakaako and Kalaeloa. HCDA Reserved Housing Rules require every developer to reserve about 20% of their new residential development for sale or rent to those making no more than 140% AMI. Current reserved housing in Kakaako is available to households making anywhere from 30% to 140% AMI. The regulated term is 15 years for rentals, and anywhere from 2-10 years for fee-simple units.




"**Workforce housing**" is another type of lower priced housing for qualified income groups. In a workforce housing development, at least 75% of the units must be set aside for buyers making 100-140% AMI. Workforce housing units must also adhere to certain unit size restrictions to encourage more modest developments. In addition, workforce housing developments are specifically prohibited from receiving government funding, so a developer must finance the project entirely on his own. The construction of workforce housing also does not earn a developer any HCDA reserved housing credits for other developments.

**HCDA as a "Part of the Solution"**. So how can the HCDA ensure it is part of the solution and NOT part of the problem in solving Hawaii's housing crisis? First, the HCDA is carefully reviewing its reserved housing program to ensure it produces the maximum number of affordable units. We plan to make several amendments to our rules so that we can be more effective in placing Hawaii's working families in homes they can afford. However, at the same time, our policies cannot be so strict and rigid that they serve as a disincentive to developers, and cause developers to build elsewhere on the mainland.

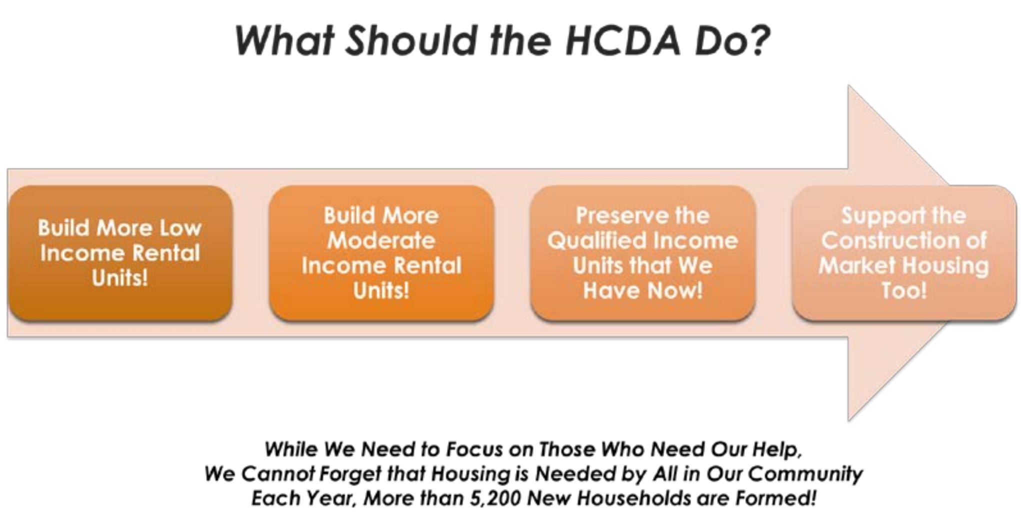
**HCDA POTS Initiative**

In July 2014, the HCDA established a committee of its members to analyze and recommend changes to its Reserved Housing Program that might produce more qualified income units in the Kakaako Community Development District. The committee undertook their analysis in the ensuing months and presents this report for review and possible adoption by the Authority as a whole. The members of the committee include:

- Brian Tamamoto, Chair (City Council small business representative)
- Brian Lee (Governor's at-large appointee)
- Luis Salaveria (Budget & Finance designated representative)
- Rodney Funakoshi (DBEDT designated representative)

## Implementation of the Committee's Recommendation

The committee's report will be presented to the full membership of the Authority at its November 25, 2014 meeting. The report is divided into four major sections. These sections include:



Within each of the four sections of the report, the committee identified actions and techniques that were deemed to be supportive of that particular objective. These actions and techniques include:

- Actions requiring Congressional action (2);
- Actions requiring change of State law or appropriation (4);
- Actions requiring coordination with the City & County of Honolulu or other state agencies (9); and
- Actions requiring amendment of its administrative rules by the HCDA (9)

**The POTS Strategy**

The diversity of the actions and techniques indicate that no single entity holds the solution or *silver bullet* for solving this issue. Instead, all in the State will have to band together to produce the relief that we all desire – *enhanced supply at low, moderate and market housing prices and diversity of housing opportunities (both rental and for-sale).*

If adopted by the full membership of the Authority as its own, this report will be disseminated to the: Governor, Speaker of the House and the Senate President (as a portion of its annual report; the Mayor and Council Chairperson of the City & County of Honolulu; and the state agencies named in the report. The report will also be transmitted to the Congressional delegation.

*Given the timeframe for action, the report's recommended action/techniques will have to be reviewed and ratified by future Authority members.*
The report will also be presented to community organizations such as the Ala Moana Neighborhood Board and the Kakaako Improvement Association. The Authority will also make presentations to the editorial boards of community media such as the Star Advertiser, Civil Beat and the Pacific Business News.

In accordance with state law, the Authority will also initiate rule-making (in accordance with appropriate requirements of Chapter 91, Hawaii Revised Statutes) and conduct the necessary public hearings prescribed by statute. However, in accordance with the spirit and intent of a resolution adopted by the Ala Moana-Kakaako Neighborhood Board, the Authority will also conduct at least two additional community open houses to ensure that public comment is solicited and received on any proposed changes to the HCDA administrative rules.

**Organization of this POTS Report**
Besides this Summary, the POTS report consists of: a detailed action/technique narrative; a listing of definitions; and a video report. A summary of the four objective areas with some frequently asked question (FAQ) follows.

**Objective - Build More Low Income Housing Rental Units**
**Frequently Asked Questions**

> **Why does Government need to build more Low Income Housing Rental Units?** *Nobody else will build these units. The rental revenue from these projects don't cover the cost to build and maintain the units.*
>
> **Who Builds Low Income Housing Rental Units Now?** *Currently only government or private developers given subsidy of cash and tax credits build these units.*
>
> **Who qualifies to live in a Low Income rental unit?** *The federal government defines any household whose income is 60% or less of the Area Median Income (AMI). In Honolulu for 2014 a single person making <$40,300/year is qualified to live in a government subsidized low income rental unit.*
>
> **How much government subsidy is needed to build Low Income Rentals?** *Besides providing LIHTC credits, it is estimated that at least $100,000 in gap funding is necessary to build each low income housing rental unit.*

**Actions/Techniques to Build More Low Income Rental Units**
Nearly 90% of all low income rental units in the nation are built with a subsidy and allocation of tax credits called LIHTC (low income housing tax credits). It is imperative that the funding and allocation for this program is expanded in order for more low income housing units to be constructed.

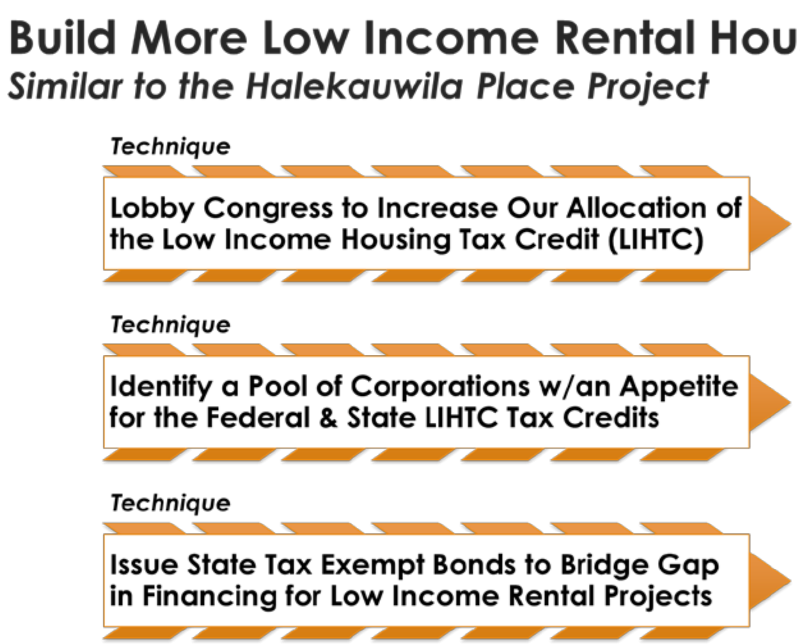
**Financing Techniques**

1. Have Congress Increase Its Annual Allocation for the federal LIHTC Program in Hawaii.
2. Identify a pool of corporations with an appetite for the LIHTC.
3. Identify specific LIHTC housing developments and costs. Have the Legislature appropriate necessary funds (via tax exempt bonds) for these projects to be constructed.

4. Secure Congressional Approve to Increase the HOME allocation to the State of Hawaii.
5. Work with the State Employees Retirement System (ERS) to provide gap financing for LIHTC developments that can provide a return appropriate for the ERS.
6. HCDA to work with the C&C of Honolulu to establish Tax Increment Financing (TIF) or Community Facility District mechanism to provide gap financing for specific LIHTC developments in Kakaako.

**Policy Techniques to Produce More Low Income Rental Units**

1. Encourage the Hawaii Housing Finance Development Corporation (HHFDC) to amend their Qualified Allocation Program (QAP) to allow LIHTC developments to allow up to 10% of the units to be occupied by households with incomes at 80% AMI or less.
2. HCDA to coordinate all rule changes with the HHFDC to ensure continuity and consistency in all qualified income housing programs.
3. HCDA and the C&C of Honolulu to coordinate rule and ordinance to allow bicycle and mechanized/robotic parking to substitute for required on-site/off-site parking requirements for LIHTC developments.



## Have More Moderate-Income Units (Rental or For-Sale) Built

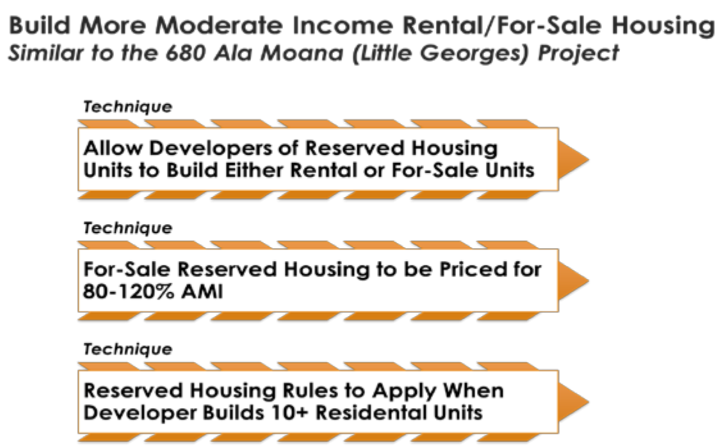
The HCDA currently administers an option whereby private developers may satisfy a condition of their development permit by providing 20% of their units as rentals for households make no more than 100% AMI.

**Frequently Asked Questions**

**What is defined as Moderate Income?** *The federal government defines moderate income as a household making between 81% to 140% AMI. In 2014, a single person making between $53,700 and $80,950/year.*

**Why does a person making Moderate Income need help with renting or purchasing a residential unit?** *With current housing prices, even a single person making as much as $80,000/year will have a hard time finding a home that they qualify for. Most homes are being built for households that can afford to pay more for their housing.*

**How many people in Hawaii make Moderate Income or less?** *The DBEDT estimates that 80% of our state's population make 140% AMI or less.*




1. HCDA to amend their rules to allow developers flexibility to provide either rental or for-sale units as market conditions dictate.
2. HCDA to amend its rules to specify that its Reserved Housing Moderate income households earn between 80% and 120% AMI.
3. HCDA to amend its rules to specify that its Reserved Housing rules will correspond with the proposed C&C policy that any project with 10 or more residential units are subject to providing qualified income units.
4. HCDA to amend its rules to establish incentives for Reserved Housing developers to provide larger units.

## Preserve Existing and Future Qualified Income Units

There is currently approximately 1,991 qualified income units in the Kakaako Community Development District. However, it is important to note that LIHTC rental units are typically locked in for 30 years, while the regulated period for HCDA Reserved Housing rental units are only for 15 years. The buy-back period for HCDA Reserved Housing for-sale units are only for 5 years. More should be done to preserve the status of existing rental and for-sale units.

**Preserve Existing and Future Reserved for-sale Housing Stock**

1. HCDA to amend its rules to extend buy-back period for Reserved Housing for-sale units from 5 to 30 years.
2. HCDA to work with ERS to establish investment pool to buy back and sell reserved housing units.
3. HCDA to amend its rules to specify that the regulated period for its Reserved Housing Rental Units is increased from 15 to 30 years.
4. HCDA to utilize AMI Indexing Technique to set resale pricing for all units that are bought back by the agency during the regulated period.
5. HCDA to have rental housing management agent verify tenant qualifications at least once a year.

**Reduce Development Costs for Reserved Housing and LIHTC Rental Unit Projects.** Developers do not build housing that do not return a profit. There is currently a gap or shortfall that makes it impossible for a developer to build qualified income rental housing without receiving subsidy and/or marketable tax credits. It is therefore important to provide incentives for developers to build Reserved Housing or LIHTC rental unit projects.

1. Allow HCDA Reserved Housing and LIHTC Rental projects to automatically qualify for 201H HRS Fast Track Processing.
2. HCDA and the C&C of Honolulu to allow parking to be unbundled from HCDA Reserved Housing and LIHTC rental projects located within a half mile or 15 minute walk for a transit or bus station.
3. HCDA, the Department of Education and the C&C of Honolulu to provide exemptions for HCDA Reserved Housing and LIHTC rental housing developments from impact fees relating to the provision of public school facilities or public facility dedication fees.
4. HCDA, the State Department of Taxation, the C&C of Honolulu and the State Legislature to amend requirements for HCDA Reserved Housing Rental Units from real property taxes and general excise tax until certificates of occupancy are issued.
5. The State Legislature to establish statute creating tax credit or deductions for developers achieving LEED silver or higher Energy or Development status when constructing LIHTC Rental Housing Developments

## Support the Construction of Housing for All Residents of Hawaii

By efficiently reviewing and processing all development permit applications brought before the HCDA within the parameters of law and rule, more housing will be constructed in the C&C of Honolulu. Any increase in the supply of housing will help to meet some of the demand for market housing and allow buyers currently living in moderately priced units to move up and give opportunity for those in need of that price point.

1. HCDA to continue to administer its zoning and development rules efficiently and to create community and place.

## Conclusion

The housing shortage that we are experiencing today is a product of economic cycles and decades of construction/lack of building activity. It is a problem that features:

- A growing backlog and shortage of new housing units and growing demand.
- Limited resources (both government and in the marketplace) devoted to supporting the construction of low and moderate income housing units for the section of our population that clearly needs help.
- Limited subsidy and support to build rental housing only for the very low income population (<60% AMI).
- Complex terms, formulas and strategies for the community to digest and understand.
- The need for sustained strategies and support by all stakeholders through this decade to even see the light at the end of the tunnel.
- No silver bullet strategy or solutions.

While this issue does not admit to quick and easily understood strategies, it is all the more imperative that we start down the road to a solution. Please feel free to review both the detailed description of the action/techniques and the glossary of terms. While there is much to digest and understand, finding both the will and discipline to reach the objectives is necessary for arriving at the solution.

The strategies described in this report are specific to the HCDA, but have application to the issues and situation faced within the whole of the City & County of Honolulu. Let's join together and all become a "part of the solution."