

*May 27, 2015*

*Ward Village Motion to Amend Decision-Making Hearing*

*Remarks made by Chair John Whalen after proposed order was moved and seconded:*

Let's review the background of this request:

- Less than two years ago, the developer promised to deliver up to 375 Reserved Housing units for sale to buyers qualified under the Vested Rules. 106 of these units were to satisfy the requirements for the two luxury condominium towers presently underway with unit sales prices in the multi-million dollar range. The remaining 269 RH units were to satisfy the requirements for future housing towers that were designated as part of the developer's vested Master Plan approval for Ward Villages.
- The developer has since had second thoughts about selling the Reserved Housing units due to what they cite as a shrinking, although still quite substantial, pool of prospective buyers for units with the price points that they had anticipated. The subtext is that the developer is facing competition from other developers who are selling units targeted to the same market. This implies that the developer may have to offer more attractive deals to buyers than they had hoped in order to sell their inventory. Is this a problem for the Authority to solve for them? Is this a problem for the local housing consumer struggling to put together the financing to buy their first home?
- The developer now requests the option to provide middle-income (not low-income) rental units for the short period of 15-years. Early in the hearing process for this request, the developer was asked to consider extending the regulated term to 30 years as a compromise because this was one of recommendations of the Authority's recently adopted Reserved Housing report. In addition, the Vested Rules provide that 15 years is the minimum regulated term, giving the Authority discretion to require longer terms. Unfortunately, the applicant has not agreed to the longer term,

even when encouraged to seek available governmental financial assistance and/or a non-profit partner to make a longer term feasible.

But the Authority has no reason to cave in and accept a 15-year regulated term, and here's why:

- First, the applicant's analysis of the comparative benefits of its proposed rental units versus its current plan for sale units is grossly exaggerated. The applicant alleges that many more people would be served by rental units based on a faulty assumption of a high turnover rate for rental units in the national aggregate from the U.S. Census. However, one of the testifiers, who actually manages affordable rental housing properties in Honolulu, admitted under questioning that nearly half of the tenants in the buildings he manages remain for at least 10 years. This is consistent with my understanding, as well, based on my experiences in housing planning and development for both the erstwhile city housing agency and more recently serving as a board director for two non-profit organizations focused on affordable housing.
- In portraying the for-sale option, the applicant's counsel considered only the regulated buy-back period for the RH units, mixing this up with and essentially omitting the equity-sharing requirement for these units. Equity-sharing continues until the first resale of an RH unit, regardless of when that occurs. The Authority is finding that the potential yield of this equity-sharing is quite significant due to the rise in property values in the district. The Authority can use the revenue from equity-sharing to fund future affordable housing projects, such as the one the Authority is presently considering at 630 Cooke Street. At the same time, local owner-occupant owners of RH units can, at resale, gain some of the equity from value appreciation and use it to scale a bit higher on the housing ladder, if they wish.
- This brings me to another point: that property values will increase even more significantly in locations near transit stations, such as 988

Halekauwila, which is right across the street from the planned Kakaako HART station. This isn't mere conjecture, it's a finding supported by empirical evidence in cities where such transit systems have been built. Here's a 2011 analysis that suggests that the characteristics and location of 988 Halekauwila offer optimal conditions for transit-induced housing value premiums (increases) brought about by transit. Howard Hughes Corporation has witnessed this first-hand from their headquarters in Dallas, after that city developed its rail transit system, DART. This 2007 report documents that property values increased almost 50% near DART stations in a two-year period after the station was operational.

- When I asked the developer why they were financing the project only through a HUD-backed loan and were not seeking other governmental assistance for the project, we got the unconvincing response that there was too much competition for resources such as rental housing bond financing. As I pointed out, this flies in the face of the State housing agency's most recent annual report that only about 2/3 of the available bond capacity in its Rental Housing Revenue Bond program had been used in 2014. And there are several other financing tools that can be employed, such as the Rental Housing Trust Fund, recently designated by the Legislature for a funding increase, and General Excise Tax waivers, all of which can be used in combination to support affordable rental housing. The developer's resistance to tapping these resources strongly suggests that the financing plan all along was to hold the rental units for no more than 15 years, then evict the tenants and sell the units on the market after the value had increased due to the investment in a rail transit project that is costing taxpayers \$6B at the most recent count, and most likely to rise. So it's not quite accurate for the developer to claim that there is no public subsidy involved in this project.
- To be clear, I do not at all mean to condemn or criticize the developer for seeking to make a profit. It's their job. But the Authority's job is to look out for the long-term public interest as expressed in statute. Let's put ourselves in the shoes (or slippers) of a tenant. What we've witnessed over the years tells us that there is a heavy human cost for the displacement of

tenants of modest income when a rental property suddenly comes out of inventory. For example, when the sale of Kukui Gardens was announced in 2006, panic ensued as the state and non-profit organizations scrambled to put together a financing plan to salvage as much of the affordable rental inventory in this project as possible to reduce the displacement of tenants. We got lucky that a reasonable solution could be reached in that case, but I am not so hopeful for this in the case of 988 Halekauwila because the financing plan appears to depend on the conversion to a market-rate at premium prices after the 15 year term.

- I believe all of us board members acknowledge that we cannot rely on developer contributions alone to address the affordable rental housing need in Kakaako. We need increased financial resources from all levels of government and added capacity-building in the non-profit sector to partner with private developers. This is reflected in the board's recently adopted Reserved Housing report and recommendations. On the other hand, I cannot accept a developer rental housing plan that will leave tenants in the lurch in 15 years, the public and non-profit sectors scrambling to contain the damage, and the developer reaping the profits from value-appreciation induced by a taxpayer-financed public works project. I am disappointed that the developer refuses to extend the term to 30 years, which would at least give tenants greater life-cycle security.
- If the applicant still wishes to consider a rental housing option, then I strongly recommend that they use the time extension the Authority is granting in the proposed order to seek the use of government assistance resources and partnerships with non-profit organizations and other affordable housing developers to make it feasible to develop rental housing for a regulated term of 30 years or more. If they exercise that option, then we will know that they have a sincere long-term commitment to Hawaii. If they don't, then they can provide the Reserved Housing sales units that they originally promised. The Authority's responsibility and the community's long-term housing needs will be met either way.

