

Moses, Kuulei N

From: Soares, Tommilyn
Sent: Tuesday, June 06, 2017 10:59 AM
To: Moses, Kuulei N
Subject: FW: Testimony for the Amending Rules to Increase Affordability and Preserve Kakaako's Affordable Housing Inventory
Attachments: SUBMITTED TESTIMONY on Affordable Housing 6-2017.doc

Hi Kuulei,

Please see the written testimony attached that was emailed to me yesterday.

Aloha,
Tommilyn K. Soares
Hawaii Community Development Authority
547 Queen Street
Honolulu, Hawaii 96813
Telephone: (808) 594-0300
Email: tommilyn.soares@hawaii.gov
Website: www.hcdaweb.org

From: Jeremiah, Theresa Jean [mailto:tjeremiah@honolulu.gov]
Sent: Monday, June 5, 2017 2:57 PM
To: Soares, Tommilyn <tommilyn.soares@hawaii.gov>
Subject: Testimony for the Amending Rules to Increase Affordability and Preserve Kakaako's Affordable Housing Inventory

Aloha Tommilyn,

I submitted my testimony online via your website. In the event, it did not go through, I am attaching a copy. Please acknowledge if you receive it. Thank you.

Jean Jeremiah
HART - Design & Construction
1099 Alakea Street, 17th Floor
Honolulu, Hawaii 96813
Phone: (808) 768-6126
tjeremiah@honolulu.gov

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SUBMITTED TESTIMONY
By Jean Jeremiah

KAKAAKO RESERVED HOUSING RULES AMENDMENTS
Amending Rules to Increase Affordability and Preserve Kakaako Affordable Housing Inventory

I am a resident in the Kakaako area. I am writing to you to voice my concerns and the concerns of many other residents in this neighborhood.

Honolulu is getting overcrowded and saturated with high rise luxury condominiums. When applying for zoning and permits, these developers are getting away by paying "extra money" and leaving only a small number of affordable units. All you have to do is take a look at the Kakaako Block. They claim affordable units --- starting at \$500,000 for one bedroom.

Here are my questions and concerns:

- (1) How do you define "affordable"? Where are these prices based on? What equation is taken into this formula?

Even the working professional class cannot afford to own a home in these luxury condominiums. We are forced out of our own neighborhood. How can the State of Hawaii propose to solve the housing shortage and homeless problem when its focus and priorities only caters to foreign investors?

- (2) Developers are offering in-house financing at "owner occupancy rates". These are Chinese, Korean, Canadian and Australian investors who claim to be owner occupied residents, but in actuality – they are absentee owners. AND after a moratorium of one year, they turn around and sell these units twice, triple the original price. **I have stated and proposed many times, that the moratorium should be 5 years or even longer.**
- (3) The local residents are the victims here. As the TV series and newspapers have published, the people of Hawaii are being "priced out of Hawaii". There is a continuous exodus of residents moving to the Mainland because they cannot afford to live here anymore. Even College graduates cannot afford to live here. As soon as they graduate and they move out to live independently. Unfortunately, that independence is fulfilled in the Mainland, not here in Hawaii.
- (4) Every month, I am a volunteer at IHS serving dinner at the homeless shelter on Iwilei Street. Although there are a number of homeless people who stand in line for the meals that we serve, there are also a number, who actually have jobs, but live in their cars ----- simply because they cannot afford to live in a home or rent a unit.

June 5, 2017

To: Chairman Whalen, Executive Director Souki, and Members of the Board of the Hawaii Community Development Authority

Re: Opposition to Proposed Amendments to Kakaako Reserved Housing Rules

Thank you for granting me the opportunity to testify before you in person at the HCDA hearing held on May 31, 2017. Per Chairman Whalen's request, I am submitting this written summary of my oral testimony from that morning for the record.

The purpose of my testimony to the HCDA board on May 31, 2017 was to challenge the accuracy and reliability of the "Final Feasibility Analysis of Proposed Kaka'ako Reserved Housing Rules" report by Strategic Economics dated May 26, 2017 (referred to below as the "SE Report"). I also raised concerns regarding the process and timing of the release of the SE Report to the public.

During the HCDA public hearings held throughout the month of May 2017 (5/3/17, 5/17/17, 5/31/17), HCDA staff made repeated references to an "independent economic analysis" that supported the proposed amendments to the Kakaako reserved housing rules. I assume that this "independent economic analysis" is the SE Report dated May 26, 2017 that was posted without announcement to the HCDA website at some point during the long Memorial Day weekend beginning May 26, 2017, just one business day prior to the scheduled May 31, 2017 final public testimony and decision making hearing regarding the proposed amendments to the Kakaako Reserved Housing Rules.

I spent a few late hours during the evening prior to the May 31, 2017 final decision making hearing, reviewing and examining the SE Report. For several reasons outlined below, I was left greatly troubled that HCDA board members were being encouraged to rely upon the report to make their voting decision regarding such an important public policy matter.

Market Rate Revenue Assumptions Regarding Workforce Housing

My brief, high level review of the SE Report focused mainly on its examination of Workforce (rather than Reserved) housing development, and I found several errors and questionable assumptions in the underlying analysis.

The first issue that I would like to highlight is that the SE Report used \$558,000 (1br units) and \$765,000 (2br units) as the average sale prices for the 25% of "market rate units" in their hypothetical workforce high-rise project that a developer would be allowed sell to non-workforce qualified buyers.¹ As explicitly

¹ SE Report; "Figure 2: Revenue Assumptions"; page 4.

stated in the SE Report, these prices are “based on a review of recent condominium sales in newly constructed high-rise developments, including Waihonua (1189 Waimanu St), Symphony (888 Kapiolani Blvd), and the Collection Honolulu (600 Ala Moana Blvd).”² Waihonua, Symphony, and The Collection are all luxury/upscale buildings that are obviously not comparable to the “market rate” units that would be included in a 75% workforce housing project such as the one hypothesized in the SE Report. The faultiness of this comparison is self-evident to anyone with even a passing familiarity with the amenities, programming, and level of physical finishes of these three buildings compared to those of 801 South Street, the only recently constructed workforce housing project currently existing in Kakaako.

The first three projects are highly amenitized, with building features including spacious swimming pools, spas, locker rooms, luxurious pool decks, cabanas with barbecue grills for outdoor entertaining, state-of-the-art fitness centers, yoga rooms, movie theaters, resident lounges, children’s play areas, fine artwork in common areas, and storage lockers. 801 South Street, as would any comparable Workforce housing project, includes none of these amenities. Even the simple example of these buildings’ relative maintenance fees serves as an illustration of their differences in amenities and services: monthly maintenance fees for Waihonua, Symphony, and the Collection currently average approximately \$0.89 psf/mo, \$0.66 psf/mo, and \$0.82 psf/mo, respectively, while 801 South Street owners are charged only \$0.48 psf/mo.³

Instead of using these luxury/upscale buildings as market rate comparables for a Workforce housing development, the best and most appropriate pricing comparables to use would be based off the prices of the re-sales at 801 South Street since it opened two years ago, since they represent actual, current, unrestricted “market rate” transactions of units within an existing, newly constructed Workforce housing project in Kakaako. For 1br units, there have been 7 re-sales at an average price of about \$475,000 – ranging from \$400,000 to \$515,000. For 2br units, there have been 8 re-sales at an average price of about \$653,000 – ranging from \$565,000 to \$725,000.⁴

Simply put, the SE Report significantly overstates the potential revenue that would be generated by the “Market Rate Units” in a 75% Workforce housing development. This is a critical error, that when corrected, completely undermines the report’s conclusion that Workforce housing development is feasible under the proposed rules. In fact, correcting for this error by substituting more reasonable revenue assumptions into the SE Report proforma analysis of Workforce housing development summarized in Figure 6 of the SE Report⁵ shows that developing Workforce housing under the proposed rules is **NOT feasible** under the report’s other assumptions. As an example, substituting the 801 South Street average sales prices of \$475,000 (1br units) and \$653,000 (2br units) into the SE Report Workforce proforma analysis results in a loss of \$8.3 million of net revenue (\$8.8 million of gross revenue) from the report’s proforma summary of Workforce development, which renders the report’s hypothetical Workforce project infeasible with a 12% return on cost – well under the SE Report return on cost feasibility threshold of 18%. Or, even substituting the 801 South Street high water mark sales comps of \$515,000 (1br units) and \$725,000 (2br units) results in a still infeasible return on cost of below 16%.

² SE Report; page 3.

³ Oahure.com; condominium sales and listings data for Waihonua, Symphony Honolulu, The Collection, and 801 South Street as of May 2017.

⁴ Oahure.com; condominium sales data for 801 South Street as of May 2017.

⁵ SE Report; “Figure 6: Pro Forma Summary for 75 Percent Workforce High-rise Condo Development”; page 9.

Workforce Housing Units Revenue Assumptions

The second issue that I would like to highlight is the disconnect between the Workforce housing units sale prices given in “Figure 2: Revenue Assumptions”⁶ versus the sales prices used in the report’s proforma feasibility analysis of Workforce housing development summarized in “Figure 6: Pro Forma Summary for 75 Percent Workforce High-rise Condo Development.”⁷

As stated in the report’s discussion of Revenue Assumptions for its analysis of development feasibility, the revenue assumptions used in the feasibility analysis are shown in Figure 2.⁸ Figure 2 provides the following average sales prices for Workforce housing units: \$378,631 for 1br units (35% of total units), and \$450,330 for 2br units (65% of total units). However, these sales prices do not correspond with the Affordable Units sales revenue calculated in Figure 6. Figure 6 shows \$124,108,000 of gross sales revenue being generated from the 257 “Below Market” units: an average of approximately \$483,000 per “Below Market” unit (shown on Schedule 6 as \$482,000 per unit).

Using the average sales prices from Figure 2 would result in gross sales revenue of \$109,285,485 (average \$425,000 per unit) being generated by the “Below Market” units – an amount \$14.8 million lower than the amount shown in Figure 6, which would have an even more severe negative impact on the SE Report’s proforma analysis of Workforce housing development feasibility.

I do not know which of the two sets of Workforce housing units revenue assumptions (Figure 2 averaging \$425,000 per unit vs. Figure 6 averaging \$483,000 per unit) is the appropriate set to use for the development feasibility analysis, because the SE Report does not make clear why the disparate sets of revenue assumptions are presented within the report. Again, if the Figure 2 assumptions are the correct assumptions to use, then the resulting re-calculated proforma analysis of Workforce housing development feasibility would show that it is **NOT feasible** to develop Workforce housing under the report’s other assumptions.

Either way, the inclusion of the differing Workforce assumptions absent an explanation for the discrepancies reveals a level of carelessness and/or ambiguity that calls into question the reliability of the report’s methodology and conclusions.

Feasibility Threshold Assumptions

One of the most important assumptions that the SE Report makes is that a developer will be willing to proceed with a high-rise condominium development based upon the project achieving a feasibility threshold of 18% return on cost, calculated as net revenue divided by total development cost. The SE Report claims that this feasibility threshold was set at 18% “(b)ased on consultations with developers with experience building high-rise projects in Honolulu...”

⁶ SE Report; page 4.

⁷ SE Report; page 9.

⁸ SE Report; page 3.

Based on my experience of observing and evaluating several dozen proposed and actual high-rise development projects in the Honolulu market, and based on my conversations with several experienced local developers and real estate investors, I do not think that a 18% return on cost (15% profit margin on net revenue) feasibility threshold is unreasonable. However, I do believe that it is an aggressive assumption, since my understanding is that local developers and development financing providers typically use a higher feasibility threshold in the range of a 25% return on cost (20% profit margin on net revenue) due to the inherent riskiness of a high-rise condominium development.

For competitive reasons, it may be difficult to convince local developers to reveal information regarding their proforma return on cost figures for actual completed projects, but I do know of only one recent local development with a going-in projected return on cost as low as 18% that successfully proceeded all the way to completion. Without revealing details that I am not authorized to share, the developer of this project was in the unique position of having access to a source of financing that is not generally available to local developers in the Hawaii market, so I consider that case to be an aberration from the norm.

With final regard to this point, I will just make the general statement that any proposed rule changes that make it less feasible/profitable for private developers to produce Workforce housing will likely have a dampening effect upon the private sector's ability and willingness to produce it, whereas I believe we should instead be providing developers incentives to build more Workforce housing to house our community's middle class.

Strategic Economics

The final issue that I wish to highlight concerns the appropriateness and qualifications of the firm Strategic Economics that was engaged to perform the feasibility analysis of the proposed rules changes. I raise this matter because of the issues concerning the SE Report that I outline above. I am not familiar with this firm, but a review of the Berkeley, California-based company's website reveals that it currently consists of 11 principals and associates – 10 of whom have earned a Master's degree in Planning, and the 11th having earned a Master's in Public Policy. Two of these individuals each have a second Master's degree in other real estate-related fields, but I do not see any mention of advanced degrees in economics or business.

My concern may be unfounded, and I mean no disrespect to the apparently highly skilled and experienced planning professionals of Strategic Economics, but it seems questionable to me that a company without economists was engaged to perform an economic feasibility report of such importance to our community. Chairman Whalen's response to this concern when I voiced it at the May 31, 2017 hearing was that it is his understanding that most of the top graduate programs in planning require students to take an economics course as part of their curriculum. I understand and acknowledge this, but even though I had the chance to study urban planning (which I found to be very interesting) as part of my own graduate program in business administration focused on real estate and finance, I think we could all agree that that does not make me qualified to form a firm called "Strategic Planning" and provide expert planning services for communities.

In closing, I humbly ask that the HCDA board and HCDA staff ensure that adequate time and resources are devoted to carefully analyzing the SE Report and any other reports or studies concerning the potential impacts of the proposed rules amendments. I think it is critical to examine and challenge the assumptions and methodology of such reports if they are to be relied upon in making such weighty decisions as are currently under consideration by the HCDA board. My cursory review of the SE Report revealed the issues I describe above, and I wanted to submit this testimony to ensure that they are brought to the attention of all, since I believe that the proposed rules changes before the HCDA board will effectively shut down the production of housing for middle income earners in Kakaako, directly or indirectly harming everyone in our community.

Thank you,
Kent Walther

Moses, Kuulei N

From: DeanHirabayashi <Info@asbhawaii.com>
Sent: Tuesday, May 30, 2017 2:24 PM
To: &HCDA
Subject: Public Testimony Website Submission Kakaako Reserved Housing rules

Name

Dean Hirabayashi

Organization

American Savings Bank

Address

1001 Bishop St.
First Floor
Honolulu, HI 96813
United States
[Map It](#)

Phone

(808) 627-6900

Email

Info@asbhawaii.com

Project Name

Kakaako Reserved Housing rules

Comment

Mahalo!

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- [Kakaako-17-05-30-001.docx](#)



P.O. Box 2300
Honolulu, HI 96804-2300

May 22, 2017

Hawaii Community Development Authority
547 Queen St.
Honolulu, HI 96813

Subject: 2017 Reserved Housing Rules Proposed Amendments

Aloha Chairperson Whalen and HCDA Members,

Mahalo for the opportunity to contribute to this important discussion regarding the proposed amendments to HAR Chapter 15-218 regarding Kakaako Reserved Housing Rules. American Savings Bank has been proudly serving Hawai'i's residents and businesses for over 90 years, and we share the community's concern for the need for affordable housing.

We have reviewed the proposed amendments and commentary from HCDA. It appears that Subchapter 3 contains many of the proposed changes; namely §15-218-30 through §15-218-45, and §15-218-47, which bundle reserved housing and workforce housing together into the same regulation. If these amendments are accepted, the rules for Sale and Rental of Reserved Housing Units – Subchapter 3 (despite its title) will also apply to workforce housing units.

It's our observation that generally workforce housing developments are less elaborate and have fewer amenities compared to reserve housing developments. Thus workforce units are sold at market price commensurate with the unit's appeal, unlike reserved units which subsist in highly amenitized projects and are sold at discount to market price. Because of this fundamental difference in project type, workforce units have inherent market price ceilings that keep them within the intended 140% AMI target.

While there may be apparent equality between workforce housing units and reserved units from a regulatory/academic standpoint, the proposed changes would effectively create additional burdens on workforce housing buyers which are not balanced by benefits. We are concerned that an unintended consequence of the proposed amendments may be to suppress demand and accordingly, the supply of future workforce housing development. Therefore, we cannot support the proposed amendments as written. If Subchapter 3 remains unchanged, there will be no risk of an unintentional negative consequence to workforce housing.

We appreciate your consideration.

Respectfully,

Dean Hirabayashi
Senior Vice President &
Commercial Real Estate Loan Manager



Member FDIC

Moses, Kuulei N

From: BertKobayashi <cyn@kobayashi-group.com>
Sent: Tuesday, May 30, 2017 3:10 PM
To: &HCDA
Subject: Public Testimony Website Submission Kakaako Reserved Housing rules

Name

Bert Kobayashi

Organization

Kobayashi Group

Address

1288 Ala Moana Blvd., Suite 201
Honolulu, HI 96814
[Map It](#)

Email

cyn@kobayashi-group.com

Project Name

Kakaako Reserved Housing rules

Do you support or oppose?

Oppose

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File

- [HCDA-Proposed-Reserve-Housing-Rules-Testimony1.docx](#)

March 28, 2017

Mr. John Whalen
Chairperson
Hawaii Community Development Authority
547 Queen Street
Honolulu, Hawaii 96813

Chairperson Whalen and Board Members:

**Re: Proposed Amendments Relating to HAR Chapter 15-218
“Kakaako Reserved Housing Rules”**

We appreciate the Hawaii Community Development Authority (HCDA) undertaking the task of amending the Reserve Housing Rules. The Kobayashi Group would like to offer our comments on the following proposed amendments:

Housing Type

Proposed Rules

1 Reserved Housing

Developments of 10 residential units or more shall provide 20% of the total number of units as reserved housing units.

COMMENT: The proposed amendment will unfairly place the small property owners in the same category as large land owners. The current rule allows small land owners the option to undertake a small scale housing project without higher development expenses. Instead of creating more reserved units, it will serve as a deterrent for small landowners to do any housing development. We strongly suggest HCDA review how many small property owners will be affected by this proposal.

2 Reserved Housing

A ‘Reserved Housing Unit Type and Corresponding Factor Table’ is being proposed to determine reserved housing units requirement for a development.

COMMENT: To encourage and build more reserve housing units, HCDA has contracted with a developer to undertake the planning, design, and construction of a 17-story “micro units” on a 10,409 square foot property at 630 Cooke Street. We believe this was innovative in providing more reserve units. The proposed amendment appears to have reversed that direction. Larger units translate to higher building cost that is not recoverable by the developer/landowner. The reality is that affordable units, for sale or rental, should not expect larger units, parking, and amenities as market rate units.

Additionally, we are interested to know when the 'Reserved Housing Unit Type and Corresponding Factor Table' will be made available to the public for further review and comment.

9 Reserved and Workforce
Housing

Based on a household income of 140% of AMI.
Requires the average sales price of all reserved
housing units in a project to be based on no more than
120% of AMI.

COMMENT: Using average cost projections to amend the 140% AMI to 120% AMI will be approximately \$_____ per unit multiplied by the total reserved units for the project. The cost to subsidize building reserve units will be added to the market sales units. This cost is upward of \$_____ or more. This will make the pricing beyond the financial reach of the average income buyer. We want to see more units at 120% AMI; however, HCDA needs to provide developer incentives to offset the expense to build reserve units. This can be in form of higher density, reduced parking requirement, reduced open space, and eliminate regulatory requirements and fees. We suggest that the HCDA Board seeks to adopt incentives for developers to undertake and offset the financial risk to build affordable units at 120% AMI. Without the developer incentives, including financial subsidies, we cannot support this proposed amendment in its present form.

We are also concerned with HCDA have a difference set of affordable definitions as the Federal, State, including HHFCD, and the City and County of Honolulu as it will affect project financing and/or make it more difficult to obtain loans.

When HCDA was enacted by the Hawaii Legislature in 1976, the legislative intent was to be able to timely develop certain core districts of Honolulu by adopting more flexible building rules. In doing so, HCDA was given special designation that specifically exempts cumbersome building regulatory requirements by the City & County of Honolulu. This proposal serves as a detriment to fulfill the legislative intent to develop Kakaako with the exception of the two largest Kakaako landowners. They are "grandfathered" under the HCDA approved master permit or until the master permit expires.

Thank you for the opportunity to provide comments.

Sincerely,

Bert A. Kobayashi
Senior Advisor

Moses, Kuulei N

From: dougvalenta <douglasvalenta@gmail.com>
Sent: Wednesday, May 31, 2017 7:19 AM
To: &HCDA
Subject: Public Testimony Website Submission Kakaako Reserved Housing rules

Name

doug valenta

Address

909 kapiolani blvd
honolulu, Hi 96814
United States
[Map It](#)

Email

douglasvalenta@gmail.com

Project Name

Kakaako Reserved Housing rules

Do you support or oppose?

Support

Comment

I am in support of the proposed changes for Kaka'ako reserved housing rules EXCEPT that the HCDA should reconsider the guidelines for income qualifications. This should be decreased to allow for those making less than the proposed 135%. Allowing for 80-120% seems a reasonable approach to truly allow for affordable housing