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From: SiddarthaSavara <sid@sidsavara.com>
Sent: Friday, July 21, 2017 7:20 AM
To: DBEDT HCDA Contact
Subject: Public Testimony Website Submission Kakaako Reserved Housing rules

Name

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Project Name

Kakaako Reserved Housing rules

Do you support or oppose?

Oppose

Comment

<https://dbedt.hawaii.gov/hcda/files/2017/03/20170716-Kakaako-Reserved-Housing-Rules-Amendments-Draft-Final.pdf>

As a whole I am opposed to these proposed changes. Taken together they distort the market further, and allow even more benefits to accrue for the few that are lucky enough to win the "housing lottery" for one of these units. In the long term I do not believe this will resolve the issues at all, and in the short term making it more onerous to develop projects will further reduce the units produced today as well.

I have read all the proposed amendments. I will begin with the ones I feel are most concerning and objectionable.

I am opposed to §15-218-17 which includes increasing from 15% to 20% required for rental units. This is the worst part of the amendments being proposed, in my view because I think it is going to have a large negative impact with these few words on developers who wish to create rental units. This serves only to drive up the rental price on the other 80% of units, because now instead of the 6 families supporting one (85 % to 15%) we have 4 families supporting 1 (80% to 20%). What seems like a relatively small change, only 5% more rentals, actually has the effect of making the entire remaining 80% much less affordable to families. We don't have a slew of rentals going up as it is - by my math, the remaining 80% rentals will increase in price from 5-15% per month, which is a huge difference. How many families in Hawaii right now would be forced out of their homes if their rents went up that much? These are the same families that previously could have been in that 85% renting at market rate, but now cannot because they are in the 80% supporting 20% instead.

I am opposed to §15-218-30 even though I like that section in general. This is because of §15-218-30 (b), allowing households to "upgrade" within affordable housing unit areas. This to me is perhaps the worst part of the rules. All this does is shut out other families once one family has qualified one time. It builds a culture of dependency where that family can be subsidized indefinitely, and will actually incentivize people to keep their incomes low as their family grows to avoid being "priced out" of the units.

I am opposed to §15-218-35 (c) as worded as well as §15-218-42 . §15-218-35 and §15-218-42 combined are the third most objectionable changes, in my view. No appreciation for the affordable housing units should accrue at all to the owners. The unit should be able to be purchased by the authority for the original sale price, plus any improvements based on financial documentation provided by the owners. Otherwise, this is just a transfer of wealth from everyone in the state who did NOT qualify for that lottery unit to that individual. Further, IF we are considering fair market value at all, the provision that "The buyback price shall be no less than the original sale price of the reserved housing or workforce housing unit. The amount paid by the authority to the seller shall" should be removed. Either the owners should have some skin in the game, or should not be able to profit from this unit. It should not be a lose-lose scenario for the authority, where if the value goes up the authority pays more, and if the value goes down the authority pays the original price. I am similarly opposed to the equity sharing provision in §15-218-41, as no equity should be "shared" - all the equity increases, for sales at any time, should go to the authority.

I am also opposed to §15-218-42 Deferral of first option to purchase and equity sharing, as many of the terms serve to allow creation of legacy units where family pass them on from generation to generation.

I am opposed to section §15-218-45 "Rental of reserved housing or workforce housing unit by reserved housing or workforce housing owner during regulated term" as written as it contains no wording for the authority to receive any compensation for the rental of said units. This first off could turn into a real problem for the authority - in later years I could see people crying foul, that they were denied while someone else was approved, etc. Second of all, what's the point of removing this affordable unit from the pool and putting it in market rate? Why not try to keep it in the pool/incentivize keeping it in the pool? I would propose if any owner wants to rent a unit, they cannot on their own. The authority should be given the right to find a property manager to manage and rent out the property (or perhaps the association itself by default would rent the unit out), and that any rent collected, minus property management fees, above the mortgage should go to the authority. This would allow an owner who needs to vacate for emergency reasons a way to still keep the unit available, while removing the profit motive.

I am opposed to §15-218-31 (d) as it favors one population group who happened to live in an area during a particular point in time. All individuals on Oahu have already been "displaced" to wherever they are currently living, based on their current ability to purchase or rent units.

I support striking §15-218-55 to provide flexibility.

Under §15-218-32 Income, the asset limit (135% of income - I would propose it should be tied to AMI instead though) I am concerned that I don't see "Qualified Retirement Accounts" defined anywhere.

I support adding in a clarification for cash-in-lieu payments in §15-218-17 (d) (3).

I support §15-218-17 (e) which restricts the usage of other units until the affordable requirement has been fulfilled. While I am not in favor of such affordable requirements to begin with, I support putting teeth to the rules so everyone is on a level playing field.

I support adding §15-218-18 (b) (3) to allow discretion over parking.

The rest of my comments are in general over the rules.

The proposal as a whole essentially do two things:

1) distort the market further

2) turn such affordable housing units into even more of a lottery, where the lucky few will benefit at the expense of the sellers and other individuals purchasing units in any development construction.

My perspective is that all the parties involved, the developers, the land owners, the individuals looking to rent or purchase a home, are acting in their interests based on the rules set forth by HCDA. HCDA cannot impact the intent of the developers - only place incentives that will cause them to act a certain way.

As it is designed right now, the affordable housing regulations in general is based on coercion. Developers must find a way to force the numbers to pencil out in spite of providing units at below market rate, which means the developers and other market rate buyers must somehow subsidize these units.

The end result of these amendments is two things.

First, by making it even more difficult for developers to meet the requirements, it will disincentive developers further from building units. This will result in less units being built overall, and it will also result in the units that are built taking even longer to build - requiring further creative financing to make it work.

Second, many of the buyback provisions provide for "Fair rate of return" while ALSO saying that HCDA may not buyback the unit at below what it was sold BUT if it is above what the buyer paid, they get equity sharing based on the soaring real estate price information provided by the Honolulu Board of Realtors. I could not believe it when I first read it, but that is exactly what it says - that buyers will reap the rewards if they sell, but have zero risk in the event a bubble bursts.

Personally I would like it to be that buyback would be capped at original purchase price plus 80% of interest paid while the family was residing in the unit. Lets not forget that even simply getting the original purchase price back means they have not lost money, and have managed to live in the unit for that period of time for free minus any opportunity cost of that money.

My bigger issue though is what these amendments do not address - the long term problem that these units will eventually make it back into the market rate pool anyway. And then what? Even tighter rules and regulations to make it even more difficult for developers, so we can coerce more distorted, subsidized units?

One of the real issues that I see is that many units that are purchased by investors never make it back into the rental market. They sit vacant as investments, or as second homes that people use a tiny fraction of the year. To me, that is a much bigger

issue that needs to be addressed.

Rather than working to make it more difficult to develop at all, and forcing developers to work around rules put in place - I propose HCDA truly consider what it's like as someone who is purchasing these units as an investor, and what their incentives are.

One idea I have is incentivizing renting out the units vs. keeping them as vacation rentals or second homes. For example, by perhaps working with the Honolulu City Council to further raise investor property tax rates, but allowing property tax to be deducted based upon GET collected for rent (for example) as well as other money that was recirculated in Hawaii.

This would very quickly and easily align the investors' financial incentives with the outcome we really want for Honolulu - because by having more units on the market, the supply increases and the rental prices would adjust downwards based on increased competition.

Property tax is already deductible against income tax, I am proposing increasing (doubling, perhaps even tripling) the Class A investor property tax, but allowing reductions against it for 1) GET paid to the state and 2) maintenance fees. Why maintenance fees? Because most of the maintenance fees go right back into the hands of workers and local businesses. Because of that, higher maintenance fees for investors is great news for local families.

In summary, I am against these amendments because they will lead to a further shortage of housing in the short term, do not address the root cause of the issue in the long term, and further distort/provide even more of a lottery by allowing the lucky few who qualify for these units to gain in bubbles, but force HCDA to absorb the loss if the market prices drop.