From: PaulBrewbaker <paulbrewbaker@tzeconomics.com>  
Sent: Tuesday, May 30, 2017 12:14 PM  
To: &HCDA  
Subject: Public Testimony Website Submission Kakaako Reserved Housing rules

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Paul Brewbaker

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TZ Economics

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United States  
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(808) 220-1538

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Project Name  
Kakaako Reserved Housing rules

Do you support or oppose?  
Oppose

Comment  
I proposal deferral and contemplation of reserved housing requirements that apply only to development of high end units, withdrawing such requirements on new units intended to be sold in lower quantiles of the existing home price distribution, as at least one of possibly many alternatives to tweaks in the current rules that I am not convinced will yield more new housing or more affordable housing. Mahalo.

File Upload  
- Brewbaker-testimony-May-31-2017-HCDA.pdf

File  
Testimony of Paul H. Brewbaker, Ph.D., CBE

on

PROPOSED AMENDMENTS RELATING TO HAR CHAPTER 15-218
"KAKAAKO RESERVED HOUSING RULES"

May 31, 2017

Thanks again for this third of three opportunities this month to testify on aspects housing economics and inclusionary zoning policy prompted by an HCDA proposal to change its regulatory requirements. Accompanying my testimony today is a PDF version of slides summarizing some of my preliminary findings from research on behalf of a group of developers interested in preserving the regulatory status quo ante.

I build on macrodynamics presented last time (May 17) attributing the reduction of new Oahu homebuilding after the mid-1970s to a structural shift in regulatory regime. The downshift from new home production at 4 to 5 percent of the existing housing stock each year on Oahu, 1945-1975, to production around 1 percent of the existing housing stock on Oahu, 1976-2016, cannot be attributed to a sudden shift in population or the economy. Taking long-term population trends into account, the residual shift can be attributed to a pattern of regulatory constraint originating in the mid-1970s comprising many things such as the creation of HCDA’s predecessor agency and the introduction of inclusionary zoning in the 1980s.

Today I emphasize microeconomics in suggesting that the rules changes being contemplated by HCDA’s Board are not binary, not simply a choice between “old rules” and “new rules.” There are alternatives.

Both the City and HCDA have engaged Strategic Economics to use financial feasibility models of new multifamily housing development to test various hypotheses concerning the modification of inclusionary zoning requirements. The Strategic Economics synthetic pro forma estimates of costs of building new residences, and associated financial returns, show that the dominant driver of feasibility and returns is economies of scale. As you move towards the inner city, and move mauka to makai, land cost per unit is rising so fast that you have to build taller, denser buildings to make projects pencil out.

This is just spatial economics.

Strategic Economics validates that, for almost all types of Oahu building, residential construction is a breakeven enterprise when not burdened by affordable housing requirements (inclusionary zoning) with one exception. If you are building “at the front of the house,” on the most expensive land, height and density that a developer is compelled to exploit drives down average land and construction cost per unit. This demonstrates the power of economies of scale.  

---

1 Developing a heterogeneous mix of units at different prices extends the result to economies of scope.
These findings underscore a point to which HCDA Chair Whalen and City TOD Administrator Rue previously have alluded in these proceedings. Both have observed that there is sufficient economic surplus to be mobilized by developing high-end units “at the front of the house” to cross-subsidize low-end housing units (what economists would call rent, value arising solely from scarcity rather than some value-addition like marble countertops), to produce “affordable housing” (City) or “reserved housing” (HCDA) under what I call production quotas.

The high-end can cross-subsidize the low-end. The problem is that new housing units priced in the middle of the home price distribution, sometimes called “workforce housing,” cannot mobilize a sufficient economic surplus to cross-subsidize the low-end. Ironically, inclusionary zoning requirements—production quotas—compel developers to build high-end units in order to cross-subsidize the low-end units without which no units will be entitled. This squeezes out the middle, which is where most people live.

HCDA does not face a binary decision between old and new rules. There is a spectrum of policy options. If only the high-end can cross subsidize the low-end, don’t obligate builders in the middle to adhere to rules seeking to mobilize cross-subsidization. My compromise suggestion is to defer action at this time on HCDA rules changes and consider this alternative. I propose that production quotas, inclusionary zoning requirements, apply only to high end units. Pick out the top 20 percent, or the top 17.59 percent, or the top 23.427395 percent; it’s arbitrary, knock yourself out. There is at least one alternative to the choice now facing the HCDA Board under which developers can build as much as they want in the middle of the home price distribution. I imagine there are others, all of which would be greatly informed by knowing the actual distribution of estimated construction cost of new housing units authorized by building permit, currently latent in the City’s Department of Planning and Permitting database, however helpful have been Strategic Economics’ estimates.

Mahalo,

[Signature]

Paul H. Brewbaker, Ph.D., CBE
TZ Economics
606 Ululani St.
Kailua, Hawaii 96734
Appendix: slides presented in the public hearing

Oahu residential incremental-capital ratio: new housing units authorized annually by building permit as fraction of prior year housing stock ($\Delta K_t / K_{t-1}$)

- Land Use Law amended (contested cases) (1975)
- HCDA established (Kakaako Redevelopment Authority) (1976)
- Inclusionary zoning first adopted (1987) (measured, early 2000s)
- 1945-1975 median: 4.5% of housing stock added each year
- 1975-2006 median: 1.0% of existing stock

Absent costs imposed by affordable housing requirements (AHR), primary source of net value creation from economies of scale

<table>
<thead>
<tr>
<th>(thou. $ or as noted)</th>
<th>Kapalama</th>
<th>Ala Mo (22)</th>
<th>Ala Mo (40)</th>
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<td>613.3</td>
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<td>Total unit cost</td>
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<td>Net unit value</td>
<td>26.8</td>
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</table>

Addendum: unit cost details

- Construction: 359.1, 319.6, 311.9
- City fees: 31.0, 53.6, 53.5
- Development: 95.5, 95.0, 94.9
- Contingency: 18.0, 16.0, 15.6
- Financing: 21.1, 24.1, 23.6
- Land: 25.1, 97.8, 47.6
- $n = units$: 286, 167, 343
- Land area (acres): 1, 1, 1
- Height (stories): 25, 22, 40

*Includes marketing costs

Average condo unit market values and delivered unit costs, Strategic Economics study (2016), sans AHR

(twogether dollars, by location and structure size)

Sources: Strategic Economics (June 2016): Affordable Housing Requirement Financial Analysis, Final Report prepared for the City and County of Honolulu

A compromise and proposal: defer adoption of new rules; choice is not binary

- New home production on Oahu declined from 4% to 1% of the existing housing stock in the mid-1970s
  1. **Nonrenewable**: gradual diminution of urbanizable land in Honolulu's core over the decades
  2. **Regulation**: shift to entitlement allocation emphasizing legal process, inclusionary zoning

- Strategic Economics cost studies underscore importance of economies of scale
  1. **Outside/Inside**: land costs are primary source of higher unit building cost in urban core, plus fees
  2. **Mauka/makai**: building "at the front of the house" more costly because of land (spatial economics)
  3. **Average cost**: height, density, heterogeneity *reduce* unit costs (economics of scale and scope)

- Inclusionary zoning—production quotas—introduce a distortion, perversely incentivizing the *high end*
  1. **Cross subsidization**: requires new owners to cross-subsidize new affordable units ("reserved")
  2. **Excluding the middle**: middle of home price distribution cannot cross-subsidize low end

- Defers changes to existing rules to contemplate application of reserved and workforce housing requirements only to units above threshold tied to upper quantile of prices (e.g. "top 20 percent"); study extent of misalignment of distribution of new home construction costs and existing home prices, if any
Alternative housing policy

Studies prepared for the
Hawaii Community Development Authority
Board of Directors

By Paul H. Brewbaker, Ph.D., GRE
TZ Economics, Kealua, Hawaii
May 31, 2017

Mahalo!
Oahu residential incremental-capital ratio: new housing units authorized annually by building permit as fraction of prior year housing stock ($\Delta K_t / K_{t-1}$)

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- 1976-2016 median: 1.0% of existing stock

**Land Use Law amended (contested cases) (1975)**
**HCDA established (Kakaako Redevelopment Authority) (1976)**

**Sources:**
Absent costs imposed by affordable housing requirements (AHR), primary source of net value creation comes from economies of scale

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</tr>
<tr>
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<td>47.6</td>
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- *n* = units
- *land area* (acres)
- *height* (stories)

Average condo unit market values and delivered unit costs, Strategic Economics study (2016), sans AHR\(^{†}\)

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</tbody>
</table>

\(^{†}\)Assumes no affordable housing requirement (AHR)

Sources: Strategic Economics (June 2016) Affordable Housing Requirement Financial Analysis: Final Report prepared for the City and County of Honolulu

Actual distribution of Oahu existing home sales prices in 2015 ($125k increments)

80 percent of trades in 2015 were at or below $775,000
(70 percent of trades were at or below $659,000)

These units can never cross-subsidize these units

Mean 600.0
Median 485.0
Maximum 19,800.0
Minimum 21.0
Std. Dev. 618.9
Skewness 10.8
Kurtosis 220.4
Jarque-Bera stat. 19164884
Probability normal 0.0000
Observations 9,636

Source for underlying data: Honolulu Board of Realtors; histogram and sample statistics calculated by TZE
A compromise and proposal: defer adoption of new rules; choice is not binary

- New home production on Oahu declined from 4% to 1% of the existing housing stock in the mid-1970s
  1. **Nonrenewable**; gradual diminution of urbanizable land in Honolulu’s core over the decades
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Mahalo!
Appendix 1: detailed actual distribution of Oahu existing home sales prices

[This slide intentionally left blank]
Actual 2015 distribution of Oahu existing home sales prices

Source for underlying data: Honolulu Board of Realtors; histogram and quantile thresholds estimated by TZE
Appendix 2: modeling structural break in Oahu new homebuilding after mid-1970s

[This slide intentionally left blank]
Oahu annual new housing units authorized by building permit 1926-2016, as function of resident population, dummies (italicized), with endogenous breaks: clampdown

Path illustrated uses OLS regression of housing unit authorizations on Oahu resident population with endogenous breakpoints and dummy variables for the Great Depression (1930-1936), World War II (1942-45), ILWU strike (1949), Credit Crunch (1967), Volcker Fed (monetary aggregate targeting (1981)), the Great Recession (2009) and regulation (1975). All other step-wise breaks are endogenous in years 1955, 1982, and 1996. Final specification selected to minimize Schwarz and Hannan-Quinn Information Criteria. A regulatory break dummy variable is set to the value 1 from 1975 onward, and is set to the value 0.00001 from 1926-1974 (estimating equation is in natural logarithms). Shaded blue area is 2 standard-error bandwidth around fitted values.
Oahu annual new housing units authorized by building permit, 1926-2016, as function of resident population, dummies (italicized), with endogenous breaks: clampdown

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Oahu annual new housing units authorized by building permit 1926-2016 higher than population change in early-statehood era, lower since the 1990s

This gap—between population change and new housing units—is the only reason a crisis of affordability now is perceived.
Unlike the Neighbor Islands, where population declined *absolutely* from the 1930s-1960s, Oahu resident population grew: mechanization (migration), statehood, agglomeration externalities in an increasingly services- and information-oriented economy.
Neighbor Island population declined 1930s-1960s from plantation mechanization and migration to Oahu, emerging urban hub in era of motor vehicular-based suburbanization.

Sources: Hawaii Department of Taxation, Hawaii DBEDT, U.S. Bureau of the Census; seasonal adjustment and deflation using construction cost deflator by TZE.
Hawaii statewide real contracting receipts also follow an arc reflecting higher economic growth in mid-20th century, lower growth in early 21st century (as with population).

If Hawaii's long-term steady-state economic growth rate is lower than in the late-20th century, construction activity need not be as large a share of output as in the past.

Sources: Hawaii Department of Taxation, Hawaii DBEDT, U.S. Bureau of the Census; seasonal adjustment and deflation using construction cost deflator by TZE.
Appendix 3: excerpts from Brewbaker UH Econ 311 lectures on housing, Spring 2017

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Decomposing house prices into implied valuations for land and reproducible structures (like Honolulu does with property tax assessments)

- House values weighted average of values structure and land; land weight rising with urban densification
- Supply and demand for housing:
  1. **Demand**: structure is capital input in home production, leisure; land capitalizes value of schools, commuting distances, views, microclimates, *etc.* (*derived* demand from household production)
  2. **Supply**: structures are easily reproduced; desirable residential land is not reproducible (exhaustible natural resource); asymmetry means that demand increases have different effects on components
- Cost of new structures = construction cost + cost of acquiring entitlement
- Land is non-reproducible, land prices three times as volatile as prices of structures
  1. Land’s share of new home prices is relatively small, larger share of the entire housing stock, explaining why price growth for existing homes outpaces new
  2. Regions where land is large share of housing value (HNL, SFO, BOS) more sensitive to demographics, interest rates, demand-side drivers rather than construction costs, and experience higher rates of appreciation and greater home price volatility
  3. Land’s value share trending upward, which has implications for portfolio allocation (incentive for people in high-priced areas to buy more low-risk bonds and fewer risky stocks)

"Clearly, land is something that home-buyers are willing to pay handsomely for, and that developers cannot cheaply incorporate in new homes. This scarcity requirement suggests that attributes such as good local schools, low crime, or a pleasant climate are by themselves insufficient to generate high long-term land values, because as long as developers can keep building new homes in low-crime, good-school, sunny-weather neighborhoods, house prices will not rise far above construction costs. There are two ways scarcity can arise. First, land-use restrictions may prevent developers from building enough new homes to align prices with construction costs. Second, scarcity can arise naturally. Suppose that part of the iconic middle-class lifestyle to which many Americans aspire is to own a detached house with a yard for the children and a short commute to work. In many cities developers cannot increase the supply of these homes for the simple reason that all the relatively central land has already been developed..."
“We have in mind a simple story than can perhaps account both for the decline in land prices between 1930 and 1950 and the upward trend since then. The interpretation of the decline is not new. As the cost of automobiles fell over the first half of the twentieth century car ownership surged, such that by 1950 there were almost as many cars as housing units in the United States: 40.3 million versus 46.1 million. As new roads were built, the quantity of land within reasonable commuting distance of city centers expanded rapidly. This increase in the supply of potential residential land has been put forward as a likely explanation for the decline in land prices over this period. Since the widespread adoption of the automobile there have been no further significant technological innovations in passenger transportation. Over time, more and more cities have either developed most of the land within reasonable commuting distance of the city center, or in a few cases have implemented policies to slow further development. Thus growth in the supply of desirable residential land has not been sufficient to accommodate growth in demand for housing, and land and house prices have risen. This explanation for the u-shape in the value of land over the past century awaits a more formal evaluation in the context of an explicit quantitative theoretical model.”

Regulatory restrictions result in higher housing prices than would otherwise have been true and more volatile house price dynamics (valuation cycles of greater amplitude)

- “The affordable housing debate should be broadened to encompass zoning reform, not just public or subsidized construction programs...we believe the evidence suggests that zoning is responsible for high housing costs, which means that if we are thinking about lower housing prices, we should begin with reforming the barriers to new construction in the private sector”
  
  Edward L. Glaeser and Joseph Gyourko
  “The Impact of Building Restrictions on Housing Affordability”

- “I find that supply constraints increase volatility through two channels: First, regulation lowers the elasticity of new housing supply by increasing lags in the permit process and adding to the cost of supplying new houses on the margin. Second, geographic limitations on the area available for building houses, such as steep slopes and water bodies, lead to less investment on average relative to the size of the existing housing stock, leaving less scope for the supply response to attenuate the effects of a demand shock. My estimates and simulations confirm that regulation and geographic constraints play critical and complementary roles in decreasing the responsiveness of investment to demand shocks, which in turn amplifies house price volatility.”
  
  Andrew D. Paciorek
  “Supply Constraints and Housing Market Dynamics”
  Federal Reserve Board Finance and Economics Discussion Series WP 2012-01 (December 2011)
Empirical estimates of housing supply “elasticity:” among urban markets, Honolulu is near bottom of list


Top 25 states, Wharton Residential Land Use Regulatory Index
(0 = national average, higher implies more restrictive regulation)

Index values are from the Wharton Residential Land Use Regulation Project. An index value of 0 implies the average level of regulation in the country. An index value of 1 implies a level of regulation one standard deviation above the national average. An index value of −1 implies a level of regulation one standard deviation below the national average.

The Economic Implications of Housing Supply (Glaeser and Gyourko (2017 forthcoming))

- Three core facts about housing supply:
  1. When building is unrestricted by regulation or geography, housing supply curves seem relatively flat (in our stock-flow model, the path of the housing stock)
  2. Where binding, constraints from geography and regulation severely restrict the ease of building, limiting land, lengthening time-to-build, reducing new house flow
  3. Stock supply of housing is kinked and vertical downwards (housing is durable capital, so when demand falls, housing stock does not decline (e.g. Detroit))

- Honolulu is a housing market with prices well above “minimum profitable production cost (MPPC),” limited by land availability and land use regulations, causing widening divergence between market prices and fundamental production costs

- Inelastic housing supply is a late-20th century urban phenomenon
  1. Essentially, property rights transferred from land owners to wider community
  2. Power of anti-growth political movements, environmentalism more broadly
  3. Marginal social costs overwhelming marginal private benefits of marginal house

- Economic consequences: contribution to rise in capital share of aggregate income, gains among richest members of oldest cohorts, reduction in housing wealth of young adults, wealth redistribution from buyers to select group of sellers, lower output

Recapping the literature and recommendation

- In the long-run, labor (population) and capital mobility imply that total returns on housing as an asset class will broadly match those elsewhere within an economic union:
  1. Total return is sum of capital gain and dividend
  2. Capital gain is house price appreciation
  3. Dividend comprises housing services (you get to live in the asset, unlike stocks)
  4. Risk-adjusted returns tend to converge over time; urban core residential land adds scarcity premium

- “Steep slopes and water bodies” impose natural, geographic constraints on development that the housing economics literature identifies in amplification of house price volatility

- Inclusionary zoning (Affordable Housing quotas), other regulatory constraints, aggravate the consequences of natural constraints, both when well-intentioned (agricultural preservation, watershed conservation, “ua mau ke ea o ka aina i ka pono,” etc.) or malevolent (The Politics of NIMBY)

- The cyclical window of affordability is going to slam shut, again even with (and faster without) accommodative interest rates—it’s only open momentarily once a cycle—should supply be constrained

- Turn housing policy on its head: make it as easy as is possible for builders to respond to incipient price rise below some arbitrary threshold (e.g. 140 percent of the median price)—THINK eBay, “you know there is enough entitlement to build when its value in the secondary market is zero”
Appendix 4: evidence on housing valuation cycles

[This slide intentionally left blank]
Why housing price cycles? A structural interpretation

- Some markets exhibited near log-linear appreciation until sub-prime mortgage lending turned them into bubblicious markets (examples: Phoenix, Las Vegas)
- Some markets cyclical because geographic constraints (mountains, ocean) interact with regulatory constraints (environmental authoritarianism*) to restrict the housing production response—low price elasticity of new housing supply in Hawaii
- Absent “frothy” credit conditions’ influence on housing demand (speculation), geographic constraints, and regulatory impediments, bubbles/cycles are dampened, smoothing price trajectories (e.g. Iowa)
- Constraints—geographic and regulatory—on new home supply “bandwidth” imply that common drivers for rising housing demand such as low interest rates (macroeconomics) or sub-prime mortgage lending (microeconomics), cause faster short-run house price increases in constrained markets (Hawaii) than in unconstrained markets (e.g. Iowa) even through longer run rates of home price appreciation experience a tendency towards convergence via arbitrage because of capital and labor mobility

*Using legal process as a coercion tool when neither preference revelation through popular, democratic political institutions, market-oriented allocation, nor hierarchical economic governance mechanisms—for example within large landholder institutions or large corporate structure—will suffice.
Median single-family existing home sales prices in the Bay Area and Honolulu reflect similar long-run trends, idiosyncratic demand events, supply constraints (amplitude)

Sources: Honolulu Board of Realtors, National Association of Realtors; seasonal adjustment by TZE
A regional example absent “steep slopes and water bodies” and a regulatory environment in which to build a house they ask “what’s a permit? Don’t you own the land?”

**fhfa home value indexes (2000 = 100)**
(all transactions incl. sales, other collateral valuations; data s.a.)

- 200
- 160
- 120
- 100
- 80
- 60
- 40

Sources: Federal Housing Finance Administration; rebasing, seasonal adjustment, regression on average of the two indexes by TZ Economics

*U.S. CPI-U inflation, annualized, 1982-2016, was 2.7 percent; compare to composite Las Vegas + Phoenix annualized appreciation rate 3.2 percent (as shown)*
Adjust Honolulu home valuations for consumer price inflation to re-state in real terms (constant 2016 prices): cycles of large amplitude followed the regulatory clampdown

Real index, 2016 = 100, log scale

Source: FHFA (https://www.fhfa.gov/DataTools/Downloads/Pages/House-Price-Index.aspx), BLS (https://data.bls.gov/cgi-bin/surveymost?r9); seasonal adjustment, quarterly interpolation of semi-annual Honolulu CPI, deflation of home price index, and log-linear trend estimates by TZE
**De-trended** Oahu median existing single-family home and condominium prices: rational speculative asset pricing bubbles ± 2 standard errors around trend

**Source for underlying data:** Prudential Locations, UHERO, National Association of Realtors; seasonal adjustment and normalization by TZE
Currently, Oahu home valuations on stable path with modest rates of appreciation (approximately 4.5-5.0%) facing a gradual anticipated interest rate rise.

Source: Honolulu Board of Realtors, monthly data; seasonal adjustment and trend regressions June 2011 through February 2017 by TZE, trend estimates take into account time-varying conditional volatility.
Honolulu home price appreciation in 20-teens approximates longer-run appreciation rates

Monthly, thousand $, s.a. (log scale)

Single-family  4.0%
Condominium   3.8%

Source: Honolulu Board of Realtors, monthly data; seasonal adjustment and trend regressions January 1987 through February 2017 by TZE
Estimated gamma distributions for Oahu existing single-family home sales prices in the “trend cross-over” years (previous slide) 1997, 2004, 2011, 2015

\[ f(x|s, r) = s^{-r} (x)^{r-1} e^{-s(x)} / \Gamma(r) \]

Source for underlying data: Honolulu Board of Realtors; empirical gamma distributions estimated by TZE. mahalo to The Howard Hughes Corporation for support for this research
Quantile thresholds from the inverse gamma distribution of Oahu existing home prices

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<td>4.380</td>
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<td>0.477</td>
<td>0.702</td>
</tr>
</tbody>
</table>

Actual median ($)  | 239,000 | 449,500 | - |
Actual mean ($)    | 312,302 | 559,917 | - |
Mean from ln distn ($) | 242,567 | 439,480 | - |

*Quantiles appreciate at average annual rate of 3.8% (2013-2023)
‡Median price from synthetic (empirical gamma) distribution

Source for underlying data: Honolulu Board of Realtors; empirical gamma distributions estimated by TZE, mahalo to The Howard Hughes Corporation for support for this research
From: SharonMoriwaki <sharonymoriwaki@gmail.com>
Sent: Tuesday, May 30, 2017 12:05 PM
To: &HCDA
Subject: Public Testimony Website Submission Kakaako Reserved Housing rules

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Sharon Moriwaki

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Honolulu, HI 96813
United States
Map It

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Project Name
Kakaako Reserved Housing rules

Do you support or oppose?
Oppose

Comment
This is in response to staff comments to testimonies. Please review as DIFFERENT FROM the earlier testimonies. Thank you.

File Upload
May 30, 2017

MEMORANDUM

TO: HCDA Board of Directors

FM: Sharon Moriwaki and Galen Fox

RE: Additional Testimony on HCDA Reserved Housing Rules; and Response to Staff Summary of and Comments on Testimonies

IMPORTANT: PLEASE DO NOT TREAT THIS MEMO AS "SAME COMMENTS AS MARCH 28 PUBLIC HEARING."

HCDA staff’s recent “SUMMARY OF WRITTEN AND ORAL TESTIMONIES RECEIVED AT PUBLIC HEARING” covers the period through the May 17 hearing. During that time HCDA received 111 comments that offered more than just an “oppose.” The leading testimony subject was opposition to changing workforce housing rules. In second place, at 23%, were testimonies calling for lowering the maximum affordability limit from 140% to 120% of the area median income (AMI) (one favored a maximum of 80% AMI).

“HCDA Staff Comments” collectively dismissed these 25 testimonies with the statement:

Given the high cost of living in Honolulu a household income of up to 140% can be considered to be within the range of moderate income and is consistent with the guideline provided by the Department of Housing and Urban Development. The Hawaii Housing Finance and Development Corporation also defines moderate income to be a household income of up to 140% of AMI. The City and County of Honolulu affordable housing rules for unilateral agreements also define “moderate income household” as a household whose income is greater than 80% but which does not exceed 140% of the area median income. The proposed rules amendments provide for a range of affordability and requires at least 50% of the reserved housing or workforce housing in a project to be priced at or below 120% of the AMI.

Let’s unpack “HCDA’s Staff Comments” above:

• “Given the high cost of living in Honolulu a household income of up to 140% can be considered . . . moderate”

New York City has the highest living costs. Honolulu ranks fourth (see below).

• “consistent with HUD guidelines”:

Previously, we noted that no other jurisdiction surveyed by the University of Hawaii’s Economic Research Organization uses government help (such as “reserved housing”) to assist households making more than 120% of AMI. If one googles “80% to 140% AMI,” the initial page has 18 entries (see attached PDF of the Google page). Of the 18, 14 refer to Honolulu or Hawaii. That’s because the rest of the country doesn’t use “140% of AMI.” Highest-priced New York City, for example, defines “Moderate Income” housing as 80% to 120% AMI. The New York City definition is especially relevant,
because HCDA's law requires “reserved housing” to be “moderate-income housing” — yet 140% of AMI is beyond even pricey New York City’s “moderate”.

HUD does allow moderate income housing up to 140% of AMI, as HCDA states, even though no jurisdiction besides Hawaii considers such a high ceiling worthy of subsidizing. HUD, however, expresses discomfort with having such a high ceiling. It has placed a memorandum on its website which states:

certain statements... can be misunderstood concerning the definitions of low income and moderate income persons... a statement that moderate income is “generally defined” as cash-income of 140% of AMI, with low income being 80% of AMI... do[es] not agree with how these categories are used under the CDBG program.

This from HUD itself:

- “The Hawaii Housing Finance and Development Corporation (HHFDC) also defines moderate income to be... up to 140% of AMI.”

HHFDC, which works closely with HUD, does refer to the HUD range. HHFDC’s programs, however, concentrate on low income housing, and are not involved in subsidizing homes costing anywhere near $722,000 (from HHFDC’s own chart, the price a developer can charge for a “reserved housing” unit purchased by a family of four earning 140% of AMI).

- “The City and County of Honolulu affordable housing rules for unilateral agreements... define “moderate income household” as a household whose income is greater than 80% but which does not exceed 140% of the area median income.”

Except that:

“Reserved housing” is for 20% of total residential units in Kaka’ako just as the City requires that the least expensive 20% of units built under its unilateral agreements go to households earning up to 120% of AMI. That means the City’s current limit for qualifying the bottom 20% of households is 120% of AMI, not HCDA’s 140% of AMI. It’s disingenuous to suggest otherwise. Furthermore, the City is not restricted by law to keeping its affordable housing in the “low- or moderate-income” range, as HCDA’s “reserved housing” by law must be.

And except that:

The City is proposing — even as HCDA seeks to amend its rules — an affordable housing requirement that 20% of all units constructed in the Ala Moana, Downtown, and Chinatown rail transit station area top out at 120% of AMI, with a further requirement that half the units go to households earning less than 100% of AMI.

From the HCDA 3/24/17 testimony of Kathy Sokugawa, City Department of Planning and Permitting Acting Director: “Like your proposed amendments [sic], we are proposing to reduce the top tier of affordability from 140% AMI to 120% AMI and lower.”

And from the HCDA 5/17/17 testimony of Councilmember Carol Fukunaga, who represents Kaka’ako:
I encourage HCDA to align its rule change for reserved housing with the City's proposal for its affordable housing requirement ordinance to reduce the top tier of affordability from 140% of AMI to 120% of AMI, with one-half of the affordable units priced at 100% of AMI.

The City's rule changes suggest developers have come to terms with 120% of AMI, evidence that 120% is a workable ceiling for Kaka'ako as well.

HCDA should take advantage of the City's current effort to revise its rules by, as Councilmember Fukunaga suggests, aligning both sets of affordable housing rules as much as possible:

— the City favors a minimum period of affordability of 30 years, nearly matching the period which HCDA is considering, and matching provides consistency between the city and Kaka'ako in its building developments.

— matching HCDA rules to the City's will discourage developers from "forum shopping" for the best deal rather than following the same rules whether it is Ala Moana or Kaka'ako.

— Kaka'ako is almost entirely within the transit-oriented development area of two stations; the City controls the other 19 stations, making cooperation and consistency in standards for affordability relating to income limits and sales price guidelines even more vital.

— With so much in common, HCDA is positioned to ask the City for the same breaks on property taxes and infrastructure that the City will provide developments in its areas, conforming to Acting DPP Director Sokugawa's words, "collaborating with HCDA . . . to better align . . . with our respective affordable housing policies."

- "amendments . . . require at least 50% of the reserved housing or workforce housing in a project to be priced at or below 120% of the AMI"

On the one hand, recognizing that 120% of AMI is an acceptable average reinforces the evidence elsewhere that reserved housing subsidies should not go to households earning more than 120% AMI. Allowing developers to average reserved housing at 120% AMI in theory gains no more profit than allowing sales of units capped at 120% of AMI.

On the other hand, allowing workforce housing in particular to sell for more than 120% of AMI distorts a program originally designed for

"essential workers" in a community i.e. police officers, firemen, teachers, nurses, medical personnel . . . service workers, as in the case of resort communities where one finds high real estate costs and a high number of low-paying service jobs essential to the local economy. Workforce housing may be targeted more generally at certain income levels regardless of type of employment, with definitions ranging from 50% to 120% of Area Median Income (AMI).

Workforce housing is not meant for young urban professionals.

HCDA seems adamant about preserving the 140% of AMI ceiling for "moderate income" households, even as it compromises down to an average of 120% of AMI. According to HUD figures, the total number of households affected by lowering the ceiling to 120% of AMI is 2,000. If HCDA holds to its
current draft, each of 2,000 more-needy families that should have access to a unit it can afford will watch that unit go to a household less worthy of government support.

**ACTION PROPOSED ON RESERVED HOUSING RULES:**

Based on the foregoing, particularly to meet the ever increasing need for housing affordable to those with low and moderate incomes, and to be consistent with the City’s standards, it is strongly recommended that the §15–218–5 Definitions be amended as follows:

“Moderate-income household” means a household whose household income is greater than eighty percent but does not exceed one hundred [forty] twenty per cent of the area median income.

Thank you for your consideration of our concerns on behalf of those residents who seek affordable housing in Kaka'ako.

Attachment: See PDF, next page.
From: BrickwoodGaluteria <sgaluteria@capitol.hawaii.gov>
Sent: Tuesday, May 30, 2017 11:16 AM
To: &HCDA
Subject: Public Testimony Website Submission Kakaako Reserved Housing rules

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Hawaii State Senate

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Project Name
Kakaako Reserved Housing rules

Do you support or oppose?
Support

File Upload
May 30, 2017

Hawaii Community Development Authority
Department of Business, Economic Development & Tourism
54 7 Queen Street
Honolulu, Hawaii 96813

Dear Chair Whalen and Members of the Hawaii Community Development Authority:

I am submitting testimony in support of the proposed amendments to HAR Chapter 15-218, "Kakaako Reserved Housing Rules."

According to the 2017 report prepared by the Hawaii Housing Finance and Development Authority entitled, "The Hawaii State Plan: Housing," approximately 25,848 housing units are forecasted to be needed on the Island of Oahu during the 2015-2025 period. Of this, 8,190 units are needed for those earning between 80 and 140 percent of the Area Median Income (AMI) income. The Authority’s housing strategy that includes public investment and subsidies for housing below 80 percent of AMI and the Reserved Housing and Workforce Housing programs that target housing between 80 and 140 percent of AMI for the Kakaako Community Development District has been making inroads.

The proposed rule amendments that target affordability and preservation of affordable units in the district are laudable objectives adopted by the Authority. Regarding affordability, I support the Authority’s proposal to reduce affordability, for both the Workforce Housing and Reserved Housing programs, from the current 140 percent of AMI and below to 120 percent of AMI on average with a ceiling of 140 percent of AMI. My understanding is that this market approach balances the need for affordable housing with the economic feasibility of the affected programs.

Regarding preserving affordable units in the Reserved Housing and Workforce Housing programs, I support a buyback provision that gives the Authority the first option to buy and resell affordable units at an affordable rate. Buyback provisions should apply equally to both programs. However, I do not support the continuous buyback provision being proposed. I urge the Authority to consider a less restrictive term like 30 years.
May 30, 2017
Page 2 of 2

Thank you for the work you have done over the past 3 years on this important issue. Kaka’ako cannot be a vibrant active community without fulfilling the legislature’s mandate which includes, “an increased supply of housing for residents of low- or moderate-income” (HRS § 206E-33(8)).

Sincerely,

[Signature]

Brickwood Galuteria
Senator, District 12
Waikiki, Ala Moana, Kaka‘ako, McCully, Mo‘ili‘ili

cc: Jesse K. Souki, Executive Director
Kent Walther <kentmoriwalther@yahoo.com>

Tuesday, May 30, 2017 1:07 AM

&HCDA

Public Testimony Website Submission Kakaako Reserved Housing rules

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Project Name
Kakaako Reserved Housing rules

Do you support or oppose?
Oppose

Comment
Please see attached testimony. Thank you.

Bottom line is that the proposed rules changes will hurt our community by negatively impacting the production of badly needed housing for our middle class residents.

File Upload

* 2017.05.30-HCDA-Testimony-KMW.pdf <http://dbedt.hawaii.gov/hcda/index.php?gf-download=2017%2F05%2F2017.05.30-HCDA-Testimony-KMW.pdf&form-id=4&field-id=4&hash=84e0cf6c9c90c0cb2705f2863b61a4b0efc42e94ea87de1dbdad58a090f01c06b>
May 30, 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 hearings held earlier this month on May 3 and May 17. Per Chairman Whalen’s request, I am submitting this written summary of my oral testimony from May 3 for the record.

May 3, 2017:

Hello, my name is Kent Walther; and I work with Tradewind Capital Group and have both lived and worked in Kakaako at various times over the past several years. First of all, I want to extend my appreciation to the HCDA board members for your service and dedication to our community.

My concern that I would like to bring to the board’s attention today is that I believe this wonderful, rising neighborhood of Kakaako should be a place where people from a diversity of incomes should be able to reside. I do not think it is in the best interests of our community for the expansive neighborhood of Kakaako in our city’s urban core to become an exclusive enclave of luxury and ultra-luxury housing for only the wealthy, save for small pockets of subsidized affordable housing.

I believe that the proposed rules changes will unintentionally throttle the development of housing for middle income workforce individuals, people whose families earn between 80-140% of the area median income.

In my role at Tradewind and in my previous role at BlackSand Capital Group here in Honolulu, I have had the opportunity to closely observe and become involved in the financing of several residential condo towers in the Kakaako and Ala Moana area. Many of the projects I helped out with were beautiful, luxury buildings, and I am proud of those projects that added to the character of their neighborhoods with their gleaming architecture and the significant amounts of additional property tax revenue that are now being generated for our city.

However, I want to tell you that the residential condominium project that I am most proud to have been affiliated with is the 801 South Street workforce housing project, which provided our community with over 1,000 badly needed, reasonably priced homes for our community’s average workers.

I know you have probably walked around Kakaako at night like I have, and looked up at the various condo buildings – and seen the difference between the lights on at 801 South Street versus the other
luxury high-rises in the neighborhood. Like me, you have probably seen all the dark windows of the units at the luxury towers owned as second homes by wealthy mainland and overseas owners who are most often not even here in our community.

Compare that to all the lights you will see on at night at 801 South Street, all of local residents who live in and contribute to our local community as valued members of our workforce every day. A lot of these folks might otherwise have had to live in distant parts of the island far away from their jobs, and have to commute long distances to work if they did not have the opportunity to live in Kakaako. And when you look up at those 801 South Street lights at night, I can tell you they won’t stay on too late, because the 801 South Street folks have to get to work in the morning.

After decades of existence, and swings of the pendulum between pro-development and anti-development sentiments, HCDA finally in the last couple of years aligned its incentives in a manner to reach our current state where it finally became feasible for a private developer like Marshall Hung to develop true workforce housing in Kakaako – privately financed, quality new housing for Hawaii’s average income earners.

Changing the rules now from our current equilibrium would cut off the supply of workforce housing, allowing only two types of housing to be produced in Kakaako: high-end luxury housing for the wealthy, and only a small amount of affordable housing for the very low income that will be limited since it relies upon public government funding, of which we all know there is a limited, finite amount available.

This would leave out the majority of our local population – the working middle class.

I encourage you to vote in opposition to the proposed amendments, or at the very least to take the additional time to fully investigate the intended and unintended consequences that they would have on the availability of housing for Hawaii’s middle class. I encourage HCDA to do everything it can to encourage and incentivize the production of housing in Kakaako, and keeping the current workforce housing development rules intact would be a solid first step toward ensuring that projects for Hawaii’s middle class like 801 South Street can continue to be produced.

Thank you very much,
Kent Mori Walther
I had sent in testimony for the March 28, hearing and would like to add a few additional thoughts. One is the FAIRNESS issue - As a small landowner with 20,488 sq. ft., we cannot make the numbers work under the present rules, so by making the rules tougher, our property cannot be developed for affordable and/or work force housing and will most likely remain in Commercial. The large landowners like Kamehameha and Howard Hughes, have the financial strength to build affordables and workforce housing but HCDA has exempted them from the proposed rules since they submitted master plans before the new rules were proposed. THESE LARGE LANDOWNERS HAVE COME IN FOR AMENDMENTS TO THEIR MASTER PLANS AND SHOULD THEN BE SUBJECTED TO THE NEW PROPOSED RULES LIKE THE REST OF US.

Secondly, PLEASE TAKE THE TESTIMONY OF PEOPLE LIKE PETER HO, PRESIDENT OF BANK OF HAWII; CATHERINE NGO, PRESIDENT OF CENTRAL PACIFIC BANK; HONOLULU HOME LOANS; AND MORTGAGE BANKERS ASSOCIATION SERIOUSLY. THEY ARE IN THE BUSINESS OF PROVIDING MORTGAGES AND ARE CAUTIONING HCDA THAT THE PROPOSED RULES WILL NOT BE CONducIVE TO EXPANDING OAHU’S HOUSING INVENTORY BUT WILL HURT IT.
May 24, 2017

The Honorable John P. Whalen, Chair,
Jesse Souki, Executive Director
Members of the Task Force Committee
Hawaii Community Development Authority

Re: Proposed amendments relating to HAR Chapter 15-218,
“Kakaako Reserved Housing Rules”

I am Victor Brock, representing the Mortgage Bankers Association of Hawaii
(“MBAH”). The MBAH is a voluntary organization of individuals involved in the real
estate lending industry in Hawaii. Our membership consists of employees of banks,
savings institutions, mortgage bankers, mortgage brokers, financial institutions, and
companies whose business depends upon the ongoing health of the financial services
industry of Hawaii. The members of the MBAH originate and service or support the
origination and servicing of the vast majority of residential and commercial real estate
mortgage loans in Hawaii. When, and if, the MBAH testifies on legislation or rules, it is
related only to mortgage lending and servicing.

The MBAH supports all efforts that can be made to increase the availability of affordable
housing while preserving the most flexible of financings options for those homebuyers to
both purchase and to refinance those properties to lower their monthly housing expense
and/or to finance maintenance or improvement of those properties.

In addition to testimony previously submitted by MBAH on March 28, 2017 and May 2,
2017, MBAH would appreciate consideration of an additional change not already
proposed in the amendments. Specifically, throughout the existing and proposed rules
protections for lenders are specified for purchase-money liens that are in first lien
position only, in both §15-218-35 (b)(5) and §15-218-41 (g)(1). The rules allude to
protections for “any other mortgages which were created with the approval and consent
of the authority”, however, requests for approval and consent for simultaneous purchase-

money second mortgages have been denied, and it is unclear in its current form when the
authority would issue such approval and consent.

Affording a lender protection to simultaneous second liens used for purchase money
transactions will provide more flexibility for homebuyers in the following circumstances:

1. There may be cases in which the combined payment of a “stack” of a first and
second mortgage results in overall lower payment for the homebuyer than a first
mortgage only with mortgage insurance (e.g. 80%/15% stack instead of 95% with mortgage insurance).

2. There may be cases in which a “stack” of a first and second mortgage is preferred by the homebuyer, as under current tax rules mortgage interest is fully deductible, however the mortgage insurance deduction is phased out for borrowers with an adjusted gross income between $100,000 and $109,000. Additionally, its deductibility is subject to annual renewal by Congress, which provides less assurance for homeowners in the long run.

3. At any time in the future there may be litigation against the developer due to construction defects/disputes, which may make the condo project “unwarrantable” for Fannie/Freddie/agency financing and ineligible for mortgage insurance. This may mean that all buyers need to provide 20% down payment. Portfolio lenders may be willing to offer an 80% first mortgage with a stacked second mortgage for a higher combined loan-to-value, despite the litigation, if they are offered protections on the second mortgage.

As “approval and consent of the authority” for “any other mortgages” may be withheld by the authority, the result is that lenders do not offer the above-described transactions as an option to any borrowers. We therefore recommend removal of the word “first” and pluralization of the word “mortgage” in both sentences in the sections shown below, in order to provide additional clarity to enable lenders to offer these types of transactions, to specify that these stack transactions were contemplated and approved, and to specify that the second mortgage does not need separate approval and consent by the authority. We are not aware of additional risks to the authority if the combined purchase-money liens are in the form of one loan or two loans. Any refinancing restrictions can continue to be enforced by the authority by the provisions in §15-218-41(g)(3).

§15-218-35 (b)(5) “In any purchase by transfer subject to an existing mortgage, the authority shall agree to assume and to pay the balance on any first mortgage(s) created for the purpose of enabling the owner to obtain funds for the purchase of the unit and any other mortgages which were created with the approval and consent of the authority”

§15-218-41 (g)(1). “Any first mortgage(s) created for the purpose of securing the payment of a loan of funds expended solely for the purchase of the real property by the seller,”

Thank you for the opportunity to present this testimony.

VICTOR BROCK
Mortgage Bankers Association of Hawaii
Name
Bernard Nunies

Email
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Project Name
Kakaako Reserved Housing rules

Do you support or oppose?
Oppose

Comment
Current proposal is not realistic. 140% of median = $140,000 annual income for a family of 4. How is this affordable?

Make "affordable housing" truly affordable by redefining the "moderate income" caps at no higher than 120% of the median income. This is aligned with the definition that the Honolulu City & County currently uses and is the common definition followed by other states.

Do what is right and stop allowing developers to build condos that only non-Hawaii residents can afford. Lower the definition of "moderate income" to no more than 120% of median income.
Moses, Kuulei N

From: KennieM <kendylmitsui@gmail.com>
Sent: Wednesday, May 17, 2017 5:37 PM
To: &HCDA
Subject: Public Testimony Website Submission Kakaako Reserved Housing rules

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Project Name
Kakaako Reserved Housing rules

Do you support or oppose?
Oppose
From: JustinTanoue <justin@justintanoue.com>
Sent: Wednesday, May 17, 2017 12:14 PM
To: &HCDA
Subject: Public Testimony Website Submission Kakaako Reserved Housing rules

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Project Name
Kakaako Reserved Housing rules

Do you support or oppose?
Oppose

Comment
I am a lifelong Hawaii resident, 34 years old, who lives with my parents. I've always wanted to purchase my own condo in Honolulu, but I cannot afford market rates.

I have two recommendations for the Reserved Housing Rule changes.

1) Currently, I am disqualified because I own 5 rentals in Las Vegas and land in California. Most of the condos I purchased in Vegas were around $45,000, and currently provide a loss. Most of them are still on loan. I do not own any property in Hawaii, and fear I never will because I am ineligible for reserved units due to my ownership in Nevada. Please change this rule!! Allow people to buy who own in other areas, but not in Hawaii.

2) Raise the height limits. 500, 550 feet. This will allow more housing near the rail stations. More housing means more homes and lower prices. That could provide an extra 10 to 15 floors per building at the reserved housing rates.

Mahalo for your consideration!
**Soares, Tommilyn**

**From:** NicoleMatsuo <nmatsuocom@gmail.com>  
**Sent:** Thursday, May 4, 2017 4:01 PM  
**To:** &HCDA  
**Subject:** Public Testimony Website Submission Kakaako Reserved Housing rules

<table>
<thead>
<tr>
<th>Name</th>
<th>Nicole Matsuo</th>
</tr>
</thead>
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| Email         | nmatsuocom@gmail.com                              |
| Project Name  | Kakaako Reserved Housing rules                    |
| Do you support or oppose? | Oppose                                           |

I strongly oppose imposing any additional barriers which will prevent developers from bringing more affordable housing units to market. I am a young professional who plans to remain in Hawaii, but who has seen many colleagues leave due to the limited availability of workforce housing. I believe much of our current problem could be improved by increased supply of housing in the urban core. That said, if new construction of residential product does not pencil, building will stop and housing prices will continue to outpace salaries. I hope the HDCA will consider working with developers instead of against them for the good of the community and for the future of Oahu.