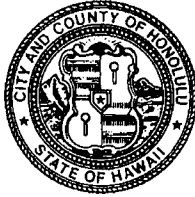


DEPARTMENT OF PLANNING AND PERMITTING
CITY AND COUNTY OF HONOLULU

650 SOUTH KING STREET, 7TH FLOOR • HONOLULU, HAWAII 96813
PHONE: (808) 768-8000 • FAX: (808) 768-6041
DEPT. WEB SITE: www.honoluluodpp.org • CITY WEB SITE: www.honolulu.gov

KIRK CALDWELL
MAYOR



KATHY K. SOKUGAWA
ACTING DIRECTOR

TIMOTHY F. T. HIU
DEPUTY DIRECTOR

May 2, 2017

Mr. John P. Whalen, Chair
and Members of the Board
Hawaii Community Development Authority
547 Queen Street
Honolulu, Hawaii 96813

Dear Chair Whalen and Board Members:

SUBJECT: Amendments to Kakaako Reserved Housing Rules (Revised)

This amends our comments dated March 24, 2017, which were based on an earlier draft of the Rules.

Everyone agrees that we need more affordable housing on Oahu. To the extent that governments can work together, we can be more effective in achieving this goal. Therefore, we are pleased that HCDA is re-evaluating its affordable housing policies and requirements, even as the City is updating its strategy and regulations.

We have been working with HCDA staff and other housing agencies to develop closely aligned affordable housing policies. The draft HCDA Rules and the City's proposed policies are more closely aligned than in the past, with respect to defined recipient or need groups, offering an in-lieu fee option, and longer re-sale restriction time periods. This is good practice, as we are dealing with generally, the same developers and overall housing market, and consistent policies should produce an even distribution of affordable housing.

Attached is an extended discussion on the similarities and our research that justifies our proposal.

Thank you for the opportunity to testify.

Very truly yours,

A handwritten signature in black ink, appearing to read "Kathy K. Sokugawa".

Kathy K. Sokugawa
Acting Director

Attachment

Attachment

Additional Background Information

Over the last three years, the City conducted extensive technical analysis on how much affordable housing should be required in a typical development. As a result, an islandwide affordable housing requirement (AHR) ordinance will be submitted to City Council soon. The analysis shows that the amount of affordable housing required should vary by income level, whether it is for sale or rental, and whether it is built on-site or off-site. The analysis also showed that the basic requirement of 20 percent affordable units (15 percent if rental) that both HCDA and the City are proposing should work in the hot market areas like Ala Moana and Kakaako.

Due to the vast majority of housing needs being at lower income levels, the City proposal is to reduce the top tier of affordability from 140 percent of Area Median Income (AMI) to 120 percent of AMI, with one-half of the affordable units priced at 100 percent of AMI. The HCDA proposal refers to an average, allowing a significant number of the units to be sold at the 140 percent level. Consideration should be given to requiring more of the units to be sold at the 100 and 120 percent AMI level.

The City's proposed requirement will give developers several options for compliance. The proposed ordinance incentivizes production of the required affordable units on site; but it would allow off-site production, although more units would be required. An in-lieu fee option is included, but not preferred; the proposed rate of \$45 per square foot is deemed high enough to incentivize on-site production, but still give developers another option. Most developers who are in pre-application discussions with the Department of Planning and Permitting (DPP) for projects in the Ala Moana rail station area (which overlaps with the Kakaako Community Development District) are planning to provide the affordable units on site at the recommended minimum of 20 percent of all units.

Unlike HCDA's proposed shared equity and buy-back requirements in perpetuity, the DPP proposes a minimum 30-year period of affordability, to build up and maintain the supply of affordable units over time. This extended period is reflective of programs in hundreds of localities across the country. Several banks have submitted testimony against HCDA's proposal, claiming that a perpetual shared equity requirement would limit banks from reselling mortgages on the secondary market (to Fannie Mae, Freddie Mac, FHA, etc.); and that this would impact the developers' ability to finance projects. Rick Jacobus, a consultant to the City, assures that Fannie Mae, Freddie Mac, and FHA do finance shared appreciation and deed restricted units (although he cautions that appropriate documents need to be carefully drafted). We understand that Fannie Mae and Freddie Mac are about to announce plans to make financing these homes even easier.

Some have argued that the extended restricted sales period will limit a homeowners' ability to build equity and "move up the housing ladder" with a large profit after their period of affordability ends. Both HCDA and City proposals allow homeowners to build equity for a future housing purchase. The City proposal is as follows: Appreciation is tied to the Consumer Price Index. As an example, assume an average 1 percent increase per year on overall house value, a \$300,000 home could appreciate by \$3,000 the first year, \$3,300 the next, etc. With a 10 percent down payment, that \$30,000 investment could appreciate by up to 10 percent per year. Compounded annually, it could grow to over \$77,000 in ten years. Since payments include paying down the mortgage balance, homeowners would also be building equity. Although the

amount would vary depending on the interest rate and term of mortgage, the principal payments could add up to an additional \$40,000 to \$60,000 in equity in 10 years. Although HCDA's proposed requirement includes equity sharing, and appreciation is tied to median home sales rather than CPI, there would still be a substantial amount available for down payment on a next house.

Recent national data has shown that this equity building works in practice. A 2009 Urban Institute study of seven programs (www.urban.org/policy-centers/metropolitan-housing-and-communities-policy-center/projects/shared-equity-research) included the City of San Francisco, which has similar affordability issues to Honolulu. For the 10-year period ending in 2010, the typical seller of an affordable home made \$70,000 on resale, for an average rate of return of 11.3 percent annual compounded interest on the down payment. The Grounded Solutions Network uses HomeKeeper web app data to track how many affordable home sellers are able to buy market rate homes; for 80 programs, the national average is 59 percent of sellers (<http://myhomekeeper.org/social-impact-dashboard>).