JOHN M. KNOX & ASSOCIATES, INC.

MAUI ISLAND HOUSING ISSUE PAPER

A Discussion Paper for the Maui County General Plan Update

SUMMARY OF RECOMMENDATIONS

December 2006

Prepared for:
PlanPacific, Inc., and
Maui County Planning Department

Prepared by:
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With Assistance of: Donald Shaw, AIA (Subcontractor)

PURPOSE AND OBJECTIVES

This "Maui Island Housing Issue Paper" was commissioned by PlanPacific, Inc. as part of its General Plan Update effort for the Maui County Planning Department. The paper was essentially completed in November 2006. Subsequent to that time, a new Maui County Council and Administration took office, and a finalized "Workforce Housing Ordinance" was adopted. Minor updates and revisions were accordingly made in December, although some language in the paper may still reflect the timeframe in which the great majority of the research and writing took place (August – November 2006).

The study objectives included:

- Define the Maui Island "housing problem" (addressed in Part A of the complete two-part paper).
- Define the County's role and resources (addressed in Part B).
- Develop clear policy option statements (also addressed in Part B).

ACKNOWLEDGEMENTS

Bank of Hawai`i: Paul Brewbaker, Chief Economist
Chris Hart & Partners, Inc.: Chris Hart, Glenn Tadaki
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FOREWORD: SOME BACK-WORDS

[I]n 1959 the average lower or middle-income family in Honolulu that desired to buy a house was making about as great a sacrifice as it possibly could …

– University of Hawai`i Economic Research Center. "Housing Needs in Hawai`i." December 1961

Hawai`i has had a serious housing problem for many years. Due to inadequate government action and a private industry which is either unable or unwilling to meet the housing needs of the bulk of Hawai`i's families, the problem has now become a crisis.

– Office of the Lieutenant Governor. "Hawai`i's Crisis in Housing." November 1970

Despite the production of over 60,000 housing units during the 1960s, decent housing and a suitable living environment elude many Hawai`i residents. In fact, there is persuasive evidence that more than one in every five Hawai`i households cannot afford the housing they occupy, one in five are overcrowded, and at least one in eight occupied substandard, dilapidated housing … Definitive housing policies and programs are needed to attack these problems.

– Marshall Kaplan, Gans, Kahn and Yamamoto. "Housing in Hawai`i: Problems, Needs and Plans." Prepared for the State of Hawai`i, Dept. of Planning and Economic Development. March 1971.

The rental market on Maui is tight. Prices are high and vacancies are few.

– U.S. Dept. of Housing and Urban Development. "Analysis of the Maui County, Hawai`i Housing Market, as of July 1, 1969.

The supply of rental units on Maui definitely exceeds demand … It is unlikely that the providing of rental units appropriate to the Maui market will remain an important planning function for the next several years.

– SMS Research. "Maui County Housing Study, 1982: Housing Need Assessment." Prepared for the Maui County Dept. of Human Concerns. June 1983.

Most housing studies and housing industry participants agree that Hawai`i has a serious housing problem. Invariably, a key issue of housing is the "affordability" question. Housing in Hawai`i is expensive. In 1983, the average-priced single family home in Hawai`i … was approximately $135,000. There is no consensus on a single reason for the high costs.

– Dept. of Planning and Economic Development. "The Hawai`i State Plan Affordable Housing Issue Paper." December 1984.

There is no "magic bullet" in meeting the State's affordable housing requirements. We must be courageous, diligent and consistent in our efforts to produce thousands of affordable housing units. This challenge cannot be met with sporadic appropriations from the State Legislature. <u>A long-term commitment of resources, as well as a short-term commitment to provide affordable housing, must be made.</u> Only then will we have a fighting chance of ensuring that safe, decent and affordable housing opportunities are available for all of Hawai`i's residents.

– Hawai`i State Housing and Finance Development Corp. "Overview of Affordable Housing Targets." December 1991. [Original emphasis]

This is a Summary of Recommendations from the two-part "Maui Island Housing Issue Paper" prepared for the Maui County General Plan Update. We first briefly explain the purpose and contents of each of the two parts, and then extract key recommendations.

PURPOSE AND HIGHLIGHTS OF PARTS A AND B

Part A: "Defining the Problem"

This part of the paper is data-intensive. It presents statistical measures, and some economic theory, in order to provide perspective on the extent of Maui's affordable housing problem, analysis of the social consequences of high housing prices, and some underlying reasons for the situation. The housing data in this paper – from U.S. Census and other sources – extend in some cases back to 1960, to give an appropriate historical context.

Some of the key themes emerging from Part A are:

- ***Hawai`i's (and Maui's) high housing prices are endemic and cannot be expected to abate easily or quickly.*** For as long as Hawai`i has been a state, our housing prices have been among the nation's highest – and Maui's have often been among the highest of the four counties. Maui is the only county where the homeownership rate has not risen in the past 25 years. From an economic perspective, high demand (augmented by offshore purchasers) and limited supply naturally result in higher prices. Level of demand and many other factors contributing to housing prices (e.g. cost of materials) are beyond the ability of government to affect or control.

- ***Housing affordability and demand must be understood in terms of economic cycles.*** The data presented in this paper suggest that relatively high prices here are longstanding and will probably continue to be high so long as the state and Maui remain desirable and accessible to large offshore markets. More attention should be given to the fact that Hawai`i's cycles are far more extreme than national ones. Housing producers have little incentive to generate supply during "down" times, and in the "up" times the lengthy regulatory system both delays production of new supply and also increases risk factors, shifting focus to the more profitable resort housing market. The lack of new supply exacerbates the cost issues.

- ***Because of the social importance of housing costs for Maui, data should be improved.*** There are various imperfections and biases in standard data sources, such as the merging of prices for resort housing with prices for standard residential housing.

Part B: "Assessing Potential Actions"

This part of the combined paper provides a "tool kit" of potential actions, drawing on a publication from the national Urban Land Institute (ULI) for selected examples from elsewhere in the country. The paper discusses and assesses these various policy options (most of them included in the subsequent Part B "Recommendations").

Political Context: Maui's housing problem is not problematic to everyone. Increased housing values for longtime homeowners have financed retirements, emergency medical care, and children's college tuition. Substantial numbers of Maui business leaders have profited from real estate development or resale. On the other hand, the limited supply of affordable housing is unquestionably problematic for young people seeking to become homeowners, for employers who cannot attract outside labor to the island or retain the employees they have, and for whole communities that suffer when needed professionals are effectively barred from moving to Maui by housing costs. A fine political balancing act is required to balance these competing interests.

Full Range of Potential Actions: The paper points out that there are *demand subsidies* (i.e., increasing the income of potential affordable housing recipients), and *supply subsidies* (i.e., increasing the stock of affordable housing). In practice, only the latter type of subsidy is feasible for a local governmental unit to furnish. The various “potential actions” designed to increase the supply of affordable housing include:

- Development Incentives
- Inclusionary Zoning
- Streamlining the Permitting Process and Waiving Fees
- The Community Land Trust
- The `Ohana Option
- Public-Private Partnerships Utilizing Public Lands and Facilities
- Workforce Housing in the Rural District
- Available Financial Assistance Programs
- Revenue Producing Tools
- Tax Increment Financing
- Implementing Smart Growth through Higher Density Development
- Utilizing the Property Tax

Current Maui Policies: The paper notes that Maui has thus far implemented a handful of the above actions. The new inclusionary zoning ordinance is highly controversial and its effectiveness remains to be seen. Maui has also had an accessory dwelling or `ohana option, which has been used by individual homeowners but should also be actively promoted by the county as part of its affordable housing policy. Perhaps the most prolific producer of affordable housing on Maui, at least in recent years, has been the Department of Hawaiian Home Lands. The newly-formed community land trust, Na Hale `O Maui, has the potential to become a major contributor in terms of creating new affordable housing stock and keeping such housing affordable over the long term.

RECOMMENDATIONS

Part A: Recommendations Regarding Data Improvements and Economic Cycles

Recommendations from Part A are limited to data quality concerns and broad economic cause-effect issues related to cycles and regulation.

(1) Improve Housing Data, Research, and/or Measurement

Get Better Data on Residential (Vs. Resort) Housing: Currently available data on housing sale prices and volume confound resort-zoned homes (never intended for the local market) with properties elsewhere on the island. Also, resale data are readily available, but data for sales of new housing units are not.

We recommend the County work with data providers for both resales and new homes – e.g., Title Guaranty, Realtors Association of Maui, Rick Cassiday – to explore the costs and feasibility of developing a reporting system which gives a more complete and accurate picture of the housing market on Maui.

Track Offshore Housing Uses (Not Just Purchases): Offshore housing purchases (especially outside resort areas) constitute an important part of the Maui real estate market. However, no direct study has yet been done that carefully tracks how much of the purchased housing stock actually remains available to the pre-existing residential population (i.e., as long-term rental) vs. how much is diverted for other uses – such as vacation homes and/or transient rentals, or full-time housing for new residents not involved in the local economy (e.g., retirees).

Such study needs to be ongoing over time, as changes in the housing cycle or changes in County policies (or enforcement of policies) may cause offshore investors not occupying their homes to switch back and forth among long-term rental use, short-term rental use, or leaving the homes mostly vacant. Conceivably, it might be done in partnership with other Neighbor Island counties facing similar issues.

Lobby the Census for Better Measures: The new American Community Survey provides important *annual* Census tracking data, at least at the county level. However, some key indicators of offshore uses of the housing inventory (e.g., conversion of what may have once been residential stock for use as second homes or vacation rentals) are now ill-defined and/or gathered in less than careful ways. This is increasingly important – especially to Neighbor Islands, where waves of offshore demand help exacerbate the volatility of the housing cycle for residents.

Maui County (as well as Kaua`i and possibly the Big Island) has a strong interest in working with the Census Bureau to make improvements. For example, timeshare might be made a separate category rather than being included with the vacant housing category of "*held for seasonal, recreational, or occasional use."* Census staff with whom we spoke suggested a potential ally on such data issues, one with a strong lobbying presence in Washington D.C., might be the National Association of Home Builders.

Develop Housing Policy Research Expertise: The entire state of Hawai`i has had a recurrent housing problem for decades, yet no organized and continuous focus on housing issues has been organized at the University of Hawai`i or similar research institution. Maui County should work with the State to encourage development of multi-disciplinary expertise that includes economics, planning, business, real estate, and public policy development.

(2) Making Housing Policy and Regulation More Sensitive to Economic Cycles

As previously noted, our housing markets plateau and stagnate for years, then play "catch-up" in ways that squeeze unlucky homebuyers and generate sticker shock for property taxpayers who had grown complacent during the plateau. Realistically, our challenge cannot be to bring Maui's home prices down to the level of, say, Iowa. Rather, it is to somewhat smooth out our stop-start housing supply pattern and allow housing values to appreciate in a more steady and predictable manner. There will still be cycles, but perhaps they need not be so extreme.

There are few if any models from other jurisdictions about how to accomplish this. Maui may be a pioneer in addressing the issue, and so recommendations are necessarily more for a general strategy, with specific tactics yet to be fully devised. However, elements of this strategy would include:

- The political will to take a long-term perspective, and to learn from history that the time to stimulate affordable housing supply is in advance of a "boom," not during it.
- Increased investment in homebuyer education and financial literacy … not just for those hoping to buy right away, but also using schools, banks, and credit lines to prepare people (especially younger people) to plan ahead as much as a decade. Unless younger Maui residents understand they need to steadily accumulate a down payment, perhaps for a small starter townhouse, their chances of owning a family home may grow much smaller in the future.
- During peak or immediate post-peak periods such as the present, focus on working with nonprofit housing developers, moderate expansion of the rental supply, and use of "good times" tax revenues for infrastructure development.
- Clearly designate preferred land for future new housing, so that it can be made quickly available when the economic cycle turns upward.

- Implement fast tracking or any other incentives from the Part B "tool kit" for affordable housing projects at times when the cycle appears likely to turn. Research and experience are needed to determine when this will be, but possibilities include:
  - Upticks in the employment situation – data provided in Part A show that the unemployment rate has been a good leading indicator of the economic cycle.
  - The point in the cycle when the volume of sales begins to rise, but prices are not yet much increasing. History indicates the cycle for Hawai`i housing sales volumes moves up before prices rise and also moves down before prices stabilize or fall.

It is at this latter point in the cycle that developers may see the most likelihood of actually making a profit from regular residential housing development – not reluctantly providing such housing stock as the price to pay for the "real action" of luxury homes.

Additionally, we would note that this broad strategy probably has more chance of developing into something specific and tangible if combined with some of the lessons learned from the Part A review of economic literature on housing (and generally consistent with Maui developer perspectives summarized in the overall paper), especially:

(1) Housing producers and their lenders consider factors such as time and certainty when setting a desired level of return, which in turn influences what type of housing they are willing to develop.

(2) Long and uncertain approval processes are tolerable for luxury home projects with potential large profits.

(3) Market-level, including affordable units, projects become much more attractive with shorter and more transparent approval processes.

In short, the length and complexity of housing approval processes should correlate with the price level, with quicker and simpler reviews for affordable products – so long as the area identified for development is clearly set forth in the Maui County General Plan as appropriate for residential development, and so long as there is also clarity about when/how infrastructure is to be provided.

Part B: Recommendations for Implementing the "Affordable Housing Tool Kit"

Our recommendations for housing policies are presented in terms of how they meet the Urban Land Institute’s “Principles of Successful Affordable Housing Programs and Developments.” They are summarized in the following exhibit in terms of:

- Policies
- Goals
- Objectives
- Minimal Requirements; and
- Measures of Success.

In an overall sense, our basic recommendation is to establish a ***multi-faceted affordable housing policy***, which includes:

- Providing Infrastructure for Affordable Housing Projects;
- Adopting an Inclusionary Zoning Program;
- Streamline the Permitting Process for Affordable Housing Projects;
- Waiving Selected Fees;
- Working with Na Hale `O Maui, the Community Land Trust;
- Utilizing the Accessory Dwelling or `Ohana Option;
- Developing Public-Private Partnerships Utilizing Public Lands and Facilities;
- Tapping into Available Financial Assistance Programs; and
- Implementing Smart Growth through Higher Density Development.

Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
Economic Cycle Respond to Economic Cycle.	To assure that affordable housing is built during boom periods.	Even out the peak and valley of the cycles with respect to production of affordable housing by offering extra incentives in boom periods and withdrawing incentives during slack periods.	Capacity for advanced planning to identify stages of the economic cycle so that it is possible to put the incentives in place before the boom makes it hard to do so and vice versa.	Production of affordable for-sale and rental housing during peak periods equal to or greater than during down periods.
Urban Infill/Smart Growth Provide necessary plan, zoning, and infrastructure especially water and roads, in areas where it is desirable to locate affordable housing.	To assure that affordable housing is built in existing urban areas or in areas added to the Urban District, or, in designated portions of a revamped State Rural District.	(1) Make certain that construction of affordable housing does not contribute to further urban sprawl in the Agricultural District and elimination of open space; and, (2) Minimize need for additional infrastructure, especially highways, and services in rural areas.	Establishment of adequate development plans and zoning allowances and construction of sufficient infrastructure in urban areas.	(1) Availability of plans, zoning, and infrastructure in areas in which the County desires affordable housing to be built; (2) Periodic survey of developers to determine the degree to which absence of infrastructure in urban areas is a barrier to the construction of affordable housing; and (3) Modification of requirement in any inclusionary zoning ordinance that mandates units to be constructed in the same area in which new housing is constructed.

Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
Infrastructure Make certain that required infrastructure is available in urban areas.	To assure that affordable housing is built in existing urban areas or in areas added to the Urban District or in designated portions of a revamped State Rural District.	Create affordable housing that does not contribute to further urban sprawl in the Agricultural District. Provide necessary infrastructure, especially water lines and roads in urban areas.	Close cooperation in planning and implementation among County Planning Department, Public Works and Environmental Management Department, and Department of Water Supply. Inclusion in capital improvement program of infrastructure projects designed to increase the supply of affordable for-sale and rental housing.	Availability of infrastructure in areas in which the County desires affordable housing to be built.
Inclusionary Zoning Make certain that a portion of the new singly-family and multi-family housing that is built is available to households in the low and medium income family ranges.	To assure that adequate housing is available to all segments of the population.	Require the construction of affordable for-sale and rental housing units as part of the construction of new housing developments, setting the percentages higher as boom periods approach and lower as they recede.	Design the inclusionary zoning (IZ) ordinance so that the percentage requirements of the multiple variables in IZ may be modified depending on the stage of the economic cycle being entered into.	The number of new affordable housing units built during peak and low portions of the economic cycle remain relatively constant.

Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
Streamlining the Permitting Process Streamline the permitting process for affordable housing, particularly as the housing production cycle enters the peak period.	To assure the continued production of affordable housing units during peak period in the housing cycle.	Encourage and facilitate the construction of affordable for-sale and rental housing units at times when a variety of other opportunities are available to developers.	Move the processing of application for permitting of projects that include affordable housing units to the head of the line and facilitate the permitting of such projects by other agencies.	The number of new affordable housing units built during peak housing cycle periods.
A Permanent Affordable Housing Stock Keep both affordable for-sale and rental housing permanently affordable.	To build up a large inventory of affordable housing that remains affordable for the foreseeable future.	Avoid building affordable for-sale and rental housing that only remains affordable for 10 or 15 or 20 years and then becomes market-price housing.	Seek to have ownership of as much affordable housing and the land on which it is located vested community land trusts. Community land trusts, in accordance with their missions and structure as non-profit perpetual trusts, are equipped to keep for-sale and rental housing affordable in perpetuity or, at least, for the long, long term.	Increase the total stock of affordable for-sale and rental housing units on Maui over time.
Address Special Needs Housing Address housing requirements for those who are aging and those who have special needs.	To assure that housing is built in urban areas that allows those age 65 and older and those with special needs to continue to live in their homes and communities.	Increase the availability of housing in the urban area that is both accessible and affordable for seniors and those with special needs.	Cooperation among the Planning, Public Works & Housing Departments and advocacy groups to assure that county ordinances facilitate housing that meets the needs of those who are aging and those who have special needs.	Portion of residents age 65 and over and those with special needs living in the general community.

Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
Mixed-Income Neighborhoods Provide for affordable housing in mixed income areas.	To assure that affordable for-sale and rental housing units are not constructed in areas that are segregated from the general community.	Avoid the negative social consequences that accompany segregation of low-income families and individuals in specific geographical areas.	Provide that affordable housing units, whether for-sale or rental, are built in mixed income areas, are interspersed with market units, and are constructed of the same level of quality as the market units, though making allowances that the affordable units may have somewhat smaller interior spaces and lack some of the internal amenities of the market units. Set standards for what constitutes mixed income neighborhoods (e.g., at least an identified percentage of households are above 140% of the HUD-established median household income). Examine whether an exemption from the application of the mixed income requirement should be granted in resort areas designed for second homes.	Annual survey of new affordable unit to determine if they are located in mixed income areas, are interspersed with market units, and are constructed of the same quality and have the same external appearance as the market units.

Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
**<u>The Accessory Dwelling of `Ohana Option</u>** Utilize the accessory dwelling or `ohana option as an important element in the overall strategy to increase the stock of affordable rental and family housing.	To encourage and facilitate the construction of accessory dwellings or `ohana units in the urban areas.	Encourage: (1) the individual home owner in specific geographical areas to create an accessory dwelling on his/her property that can then be used to house family members or be made available as a long-term rental; and (2) developers of single or multi-family dwellings to incorporate accessory dwelling units in their developments, which will be available to house family members or be made available for long-term rental.	Provide that the accessory dwelling or `ohana unit is located on the same lot as the primary structure, is built of the same quality, meets minimum area requirements, and is either used to house family members or is rented for long-term residential use. There are to be no means tests.	The number of new accessory dwelling or `ohana units built each year.
<u>Public-Private Partnerships</u> Enter into public-private partnerships that facilitate the construction of public facilities and affordable housing on government lands.	To provide governmental agencies with modern facilities while simultaneously increasing the supply of affordable housing.	Identify suitable public lands on which both public facilities and affordable housing can be located in urban areas; negotiate agreements with county state or federal agencies that control public lands; and enter into agreements with developers capable of building the required public facilities and affordable housing.	Assure that public agencies, state and county, have authority to enter into partnership agreements with developers to construct both public facilities and affordable housing.	The number of new affordable housing units built annually on jointly used public lands.

Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
Government Leadership Provide exemplary public leadership dedicated to building-up and maintaining the affordable housing stock on Maui.	To assure central direction of affordable housing efforts on Maui.	Designate one official directly accountable to the Mayor who is responsible for: (1) providing the critically necessary direction of county affordable housing endeavors within the county; (2) over-seeing the utilization of housing research data; (3) assuring inter-agency cooperation; (4) coordinating with non-county governmental jurisdictions, land owners, major employers, land trusts, developers, community groups, and others with a stake in the availability of affordable housing for Maui; and (5) exploring potential new initiatives, including funding options, designed to increase the stock of affordable housing.	(1) A close working relationship between the individual responsible for affordable housing and the Mayor; (2) a good working relationship with the Council, other county officials, and those outside Maui government with a stake in increasing the supply of affordable housing on Maui; (3) an adequate budget; and (4) an imaginative approach to increasing affordable housing on Maui.	The number of new affordable housing units built annually.

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ACKNOWLEDGEMENTS, PART A

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Data@Work: Rick Cassiday

U.S. Census Bureau, various staff

CONTENTS
(Part A)

EXHIBITS

No. Title Page

EXHIBITS (Continued)

I. MAUI HOUSING SITUATION ANALYSIS

As part of our scope, we were asked to "characterize Maui's housing problem." This mission could be interpreted in different ways – among them, (1) what are the exact parameters of today's needs and problems? ***or*** (2) what is the context, history, and cause-effect situation that should guide policy decisions?

For the most part, we have decided to emphasize the second rather than the first approach, because:

- The Maui General Plan process should appropriately consider a long-range horizon, suggesting a need to review history and not just analyze present conditions alone. Policy options discussed later in this paper need to respond to clear historical trends of economic cycles, not only the current or recent peak conditions.

- A new "Hawai`i Housing Policy Study" by SMS Research is currently underway, and should soon provide detailed information about present-day housing needs and conditions.

- The U.S. Census Bureau's recent issuance of the first-ever American Community Survey (ACS) dataset on Maui County housing conditions (for 2005) allows a unique opportunity to analyze trends and provide historical perspective for housing variables extending back in some cases to 1960.

The paper has three sections. This first, and longest, section provides quantitative data on a variety of issues contained in our scope. The second addresses primarily qualitative issues, including housing developer and economists' perspectives on possible causes. And the final section provides some recommendations which flow from the first two.

The value for policy development of looking at data in following exhibits includes the conclusions and/or reminders that:

(1) Housing affordability is a national concern. In real (inflation-adjusted) terms, the median price of a new home doubled from 1963 to 2005. The median resale value for single-family homes increased more than 50% since 1985 and more than 30% in the 2000-05 period alone. In that same five-year period, the percentage of American renters paying more than 30% of monthly household income went from 40% to 50%.

***(2) All of Hawai`i, not just Maui, has had a "housing problem" for decades.*** Among states, Hawai`i has ranked #1 or #2 for various cost/value indicators for 40-50 years. When household income is taken into consideration, our historical rankings are a little lower, but we are still among the top states. However, that's because people here have been more willing to have several household members work to afford the rent or mortgage. This state has a very long history of being among the nation's "leaders" in workers per household, crowding, and low ownership rates.

(3) ***Still, Maui often places tops among Hawai`i counties for cost and impacts.*** Among the four counties, Maui recently has had the smallest median number of rooms per home, most crowding, and (with Kaua`i) highest unaffordability index for housing cost. Alone among the counties, its homeownership rate has not perceptibly improved for 25 years.

(4) ***There are some silver linings.*** Along with the rest of the nation, Hawai`i and Maui are actually improving on many indicators of housing quality, if not cost – that is, the increasing costs or values reflect higher housing standards and quality. We may still be among the nation's "worst" in things like size of houses and crowding, but many other housing quality measures in Maui and throughout the nation are getting better.

(5) ***Statistics are imperfect – Maui's may have particular bias.*** Many data sources include prices and/or inventory located in resort-zoned areas, which can somewhat overstate the situation facing the typical resident.

(6) ***Rentals may represent the biggest imminent need*** … although rental demand fluctuates greatly over time, making it risky to build for that market.

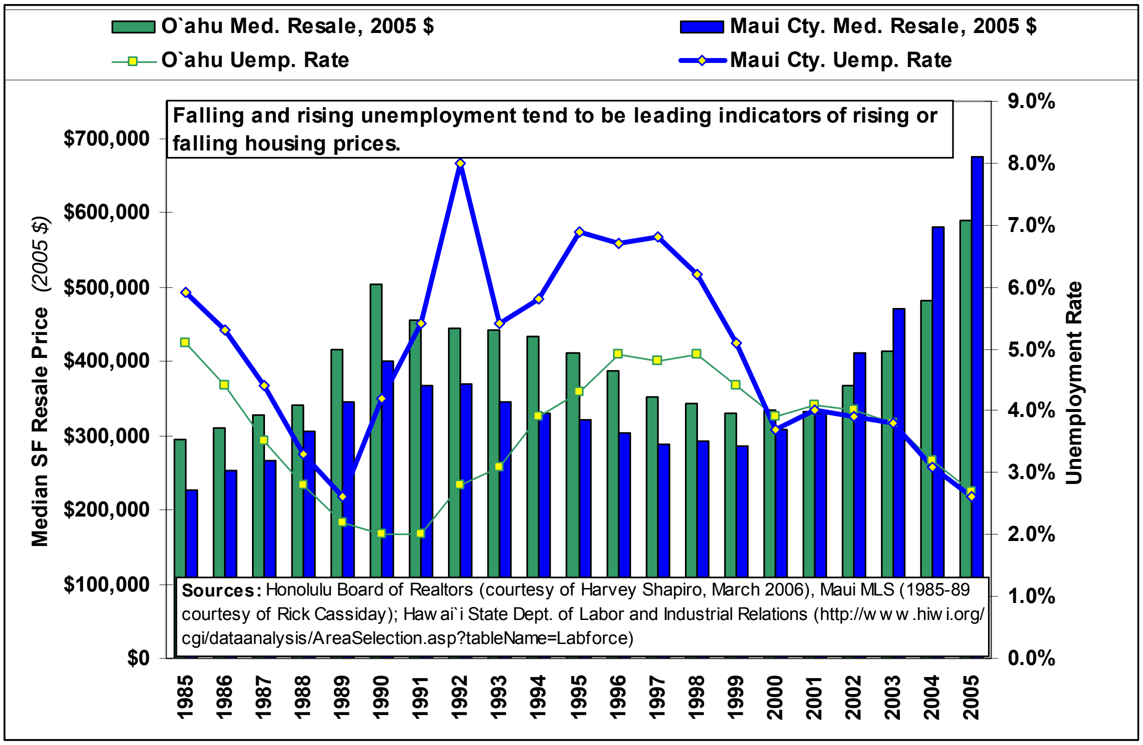
(7) ***The solution ultimately boils down to increasing supply.*** Hawai`i does have an "income problem," too, but that is a minor factor in the housing equation compared to lack of inventory. Without new supply, rising income just triggers a bidding war.

(8) ***Housing affordability and demand must be understood in terms of economic cycles.*** The foregoing points suggest that relatively high prices here are longstanding and will probably continue to be high so long as the state and Maui remain desirable and accessible to large offshore markets. More attention should be given to the fact that Hawai`i's cycles are far more extreme than national ones. Housing producers have little incentive to generate supply during "down" times, and in the "up" times the lengthy regulatory system both delays production of new supply and also increases risk factors, shifting focus to the more profitable resort housing market. The lack of new supply exacerbates the cost issues.

Out of all these points, we suspect the last is particularly critical, or at any rate the least frequently discussed. We do not know if this paper can successfully identify all the subsequent policy implications, but we hope it can start to focus more attention on the issue of the impact of economic cycles on the housing market.

Exhibit 1.1 on the following page shows the relationship between the economic cycle (as measured by unemployment rates) and median single-family resale rates since 1985 – the year this housing price measure was first available – for both Honolulu and Maui counties.

Exhibit 1.1: Economic and Housing Price Cycles, Honolulu and Maui Counties, 1985 - 2005



In addition to illustrating the relationship between economic and housing cycles, the chart also shows:

- Compared to O`ahu, Maui (along with other Neighbor Island counties) once had higher unemployment and lower housing prices. Since around 2000, that is no longer the case (albeit subject to the previously noted concern about Maui median values being more influenced by resort sales than is the case for O`ahu).

- Other than for a short time after the September 11, 2001 attacks, Hawai`i has had a full decade of falling unemployment and economic growth. Clearly, this has been a major contributor to recent housing demand.

As of this writing (October 2006), Hawai`i economists believe the housing cycle and an associated construction boom have peaked or are about to peak. Hopes are for a "soft landing" – a plateau rather than a decline – but history and the nature of statistical variation suggest the tide will eventually ebb, not just remain indefinitely high. This statement is not intended to suggest that current housing issues should be ignored, as they are undeniably still quite pressing. Rather, the point is that the best time for planning is before, not after, peak conditions … and there will be yet other peaks that can be anticipated by shifting economic indicators in the future.

1.2 Housing Cost and Affordability – Historical Data

The four exhibits on the following pages provide different but complementary perspectives on housing cost and affordability. The first two use U.S. Census data – from the decennial and the new American Community Survey (ACS) datasets.[1]

Simple Housing Costs: Exhibit 1.2 presents simple cost data – owner estimates of value for their homes, and reported median rents plus utilities. These provide the usual headlines about Hawai`i having the #1 or #2 costs in the country, with Maui ranked #1 or #2 among counties since at least 1990. Note that Maui and O`ahu estimated values declined from 1990 to 2000, while *rents cycled up and down greatly* over time.

Costs as Percentage of Household Income: Exhibit 1.3 reminds us that Hawai`i household incomes were generally higher than those nationally, so by these measures we are merely "among" the most expensive states. From this perspective, relative to other Hawai`i counties, Maui owners pay *more* of their income, but renters pay *less*.

Single-Family Home Prices and "Affordability:" Because of cycles, annual data are preferred when available. Exhibit 1.4 takes the median single-family home resale values from Exhibit 1.1, adds national data, and also shows an "unaffordability" index based on mortgage rates and HUD estimated incomes for a family of four. This chart shows even more clearly how Maui (and, though not shown there, Kaua`i`) has surpassed O`ahu in housing unaffordability. More importantly, perhaps, it emphasizes how extreme Hawai`i housing cycles have been compared to national ones.

Housing Costs Relative to Individual Salaries: While the previous two exhibits relate housing costs to "household" or "family" income, Exhibit 1.5 shows individual average salaries – though these are currently available only through 2004. This is important because, as will be seen, Hawai`i household incomes are based on higher than usual numbers of individual salaries. The lines in the exhibit show inflation-adjusted average salaries, and the bars indicate the number of years of one average salary required to purchase the median single-family home that year.

- The chart again illustrates, from yet another perspective, how expensive Maui housing is now compared to Mainland or even to O`ahu prices, and how much more variation one sees in the Hawai`i housing cycle than in the national one.
- It is noteworthy that there is *not* a great deal of variation in the Maui average salary, at least in the period shown on this chart. Since 1996, the average salary has been trending slowly upward throughout Hawai`i – though remaining well below national averages, especially on the Neighbor Islands. Wages alone do not drive housing prices. Changes in the housing market are more attributable to population and employment growth, interest rates, and perceived return on investment.

[1] The ACS, like many Census housing variables, is based on a survey and is subject to sampling error. The ACS is intended to replace the decennial survey data and provide annual estimates, though 2005 is the first year for Maui County. No Maui *Island* ACS data are available, so we use county data instead. Our goal for these tables was to provide history from 1960, but sometimes questions asked recently were not asked earlier, and a few earlier Census data points were not locally available.

Exhibit 1.2: U.S. Census Data on Estimated Value of Owner Housing and Gross Rents

	Decennial Census Results					ACS Results		% Change		
	1960	1970	1980	1990	2000	2002	2005	1960-90	1990-2000	2000-2005
Median Estimated Value, Owner-Occupied Units -- Constant 2005 Dollars										
U.S.	$66,500	$74,100	$106,000	$114,800	$135,800	$148,800	$167,500	73%	18%	23%
Hawai`i State	$98,600	$127,500	$234,800	$300,100	$269,500	$319,900	$453,600	204%	-10%	68%
(HI as % of US)	*148.3%*	*172.1%*	*221.5%*	*261.4%*	*198.5%*	*215.0%*	*270.8%*			
(HI Rank of 51)	*1*	*1*	*1*	*1*	*1*	*1*	*2*			
Honolulu County	$146,600	$183,000	$308,600	$403,200	$346,700	$360,600	$457,700	175%	-14%	32%
Maui County	$70,800	$113,000	$267,100	$285,900	$280,400		$573,400	304%	-2%	104%
(M.C. as % of HI)	***71.8%***	***88.6%***	***113.8%***	***95.3%***	***104.0%***		***126.4%***			

Source: U.S. and State from http://www.census.gov/hhes/www/housing/census/historic/values.html and other Census sources (recomputed to 2005 values using Honolulu CPI for Hawai`i and U.S. CPI for U.S.)

Note: No ACS values at all available for Maui County in 2002.
Maui County's estimated values were *lowest* of all counties in 1970 … 2nd only to O`ahu for 1990 and 2000 … were *highest* by 2005.

	1960	1970	1980	1990	2000	2002	2005	1960-90	1990-2000	2000-2005
Median Gross Rent (for those paying cash rent) -- Constant 2005 Dollars										
U.S.	$350	$415	$481	$571	$602	$712	$728	63%	5%	21%
Hawai`i State	$355	$507	$616	$830	$779	$913	$995	134%	-6%	28%
(HI as % of US)	*101.4%*	*122.2%*	*128.1%*	*145.4%*	*129.4%*	*128.2%*	*136.7%*			
(HI Rank of 51)	*15*	*3*	*2*	*1*	*1*	*2*	*1*			
Honolulu County	$423	$672	$753	$950	$900	$924	$1,012	124%	-5%	12%
Maui County	$234	$310	$832	$1,034	$884		$1,011	342%	-15%	14%
(M.C. as % of HI)	***65.9%***	***61.1%***	***135.0%***	***124.6%***	***113.5%***		***101.6%***			

Source: U.S. and State from http://www.census.gov/hhes/www/housing/census/historic/grossrents.html and other Census sources (recomputed to 2005 values using Honolulu CPI for Hawai`i and U.S. CPI for U.S.)

Note: Gross rent is the monthly amount of rent plus the estimated average monthly cost of utilities (electricity, gas, water and sewer) and fuels (oil, coal, kerosene, wood, etc.).No ACS values were available for Maui County in 2002.

Maui County's median rents were *highest* of all counties for 1980 and 1990 … 2nd to O`ahu in 2000 … tied with O`ahu in 2005.
As with estimated values, real gross rents declined in 2000, reflecting the extent that the cycle had fallen back from the 1990 peak.

Colored squares indicate years or periods for which data not available for particular (color-coded) jurisdictions.

Exhibit 1.3: U.S. Census Data on Housing Costs Relative to Household Income

	Decennial Census Results					ACS Results		% Change		
	1960	1970	1980	1990	2000	2002	2005	1960-90	1990-2000	2000-2005
Median Selected Monthly Owner Costs as a Percentage of Household Income in the Past 12 Months -- Households with Mortgage										
U.S.				21.0%	21.7%	22.6%	24.2%		3%	12%
Hawai`i State				21.4%	26.3%	25.8%	26.2%		23%	0%
(HI as % of US)				*101.9%*	*121.2%*	*114.2%*	*108.3%*			
(HI Rank of 51)				*19*	*1*	*2*	*5*			
Honolulu County				21.5%	26.4%	25.7%	26.0%		23%	-2%
Maui County				22.3%	27.9%		29.3%		25%	5%
(M.C. as % of HI)				***104.2%***	***106.1%***		***111.8%***			
Gross Rent as Percentage of Income in the Past 12 Months -- Percentage of Households Paying 30% of Income or More										
U.S.				41.2%	39.9%	44.6%	49.5%		-3%	24%
Hawai`i State				43.3%	43.3%	46.6%	50.0%		0%	16%
(HI as % of US)				*105.1%*	*108.7%*	*104.5%*	*101.1%*			
(HI Rank of 51)				*7*	*3*	*10*	*7*			
Honolulu County				43.7%	44.0%	47.2%	52.3%		1%	19%
Maui County				42.3%	39.9%		46.2%		-6%	16%
(M.C. as % of HI)				***97.7%***	***92.1%***		***92.3%***			

Source: http://www.census.gov/ and various other standard Census data sources.

Note: The 2002 ACS did not include Maui. These measures were not collected or reported in the present form prior to 1990.

Among the four counties, Maui owner costs were *highest* in 1990 and 2000, and were higher than Honolulu or Hawai`i counties in 2005. However, Maui County renters ranked *lower* than most other counties in 1990, 2000, and 2005.

Colored squares indicate years or periods for which data not available for particular (color-coded) jurisdictions.

Exhibit 1.4: Median Single-Family Resales and Unaffordability Index, 1985 - 2005

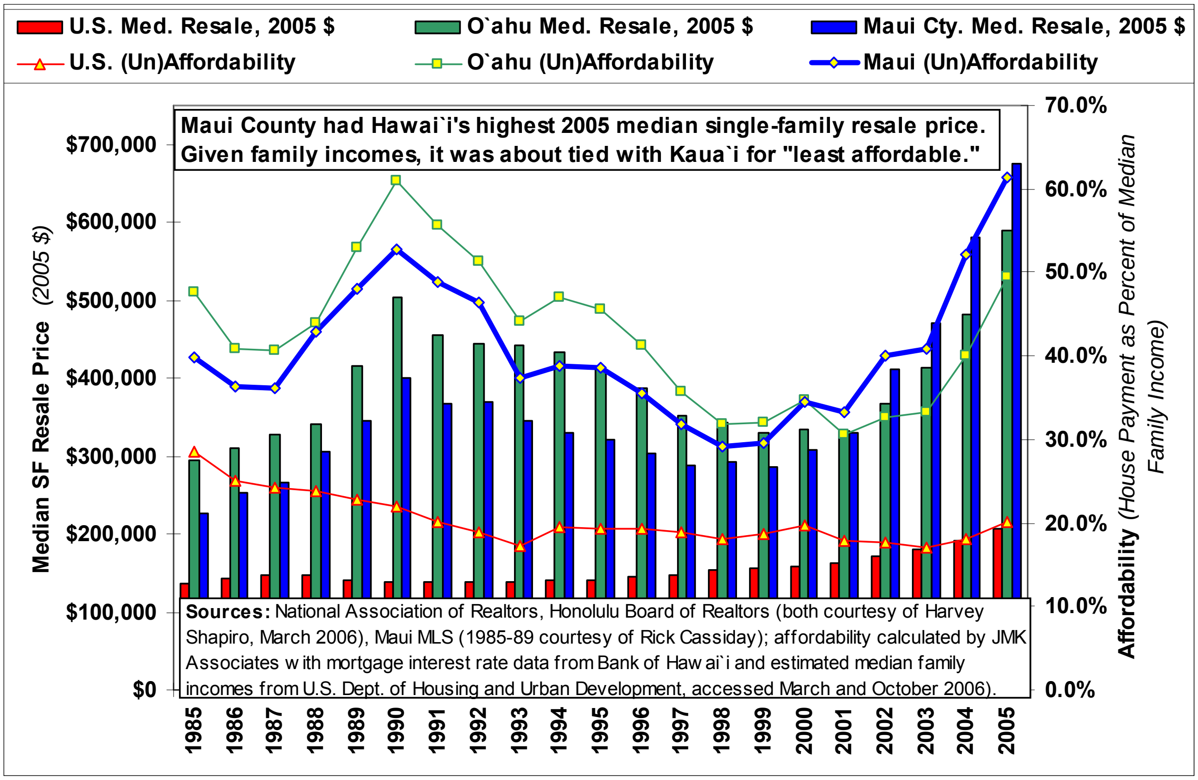
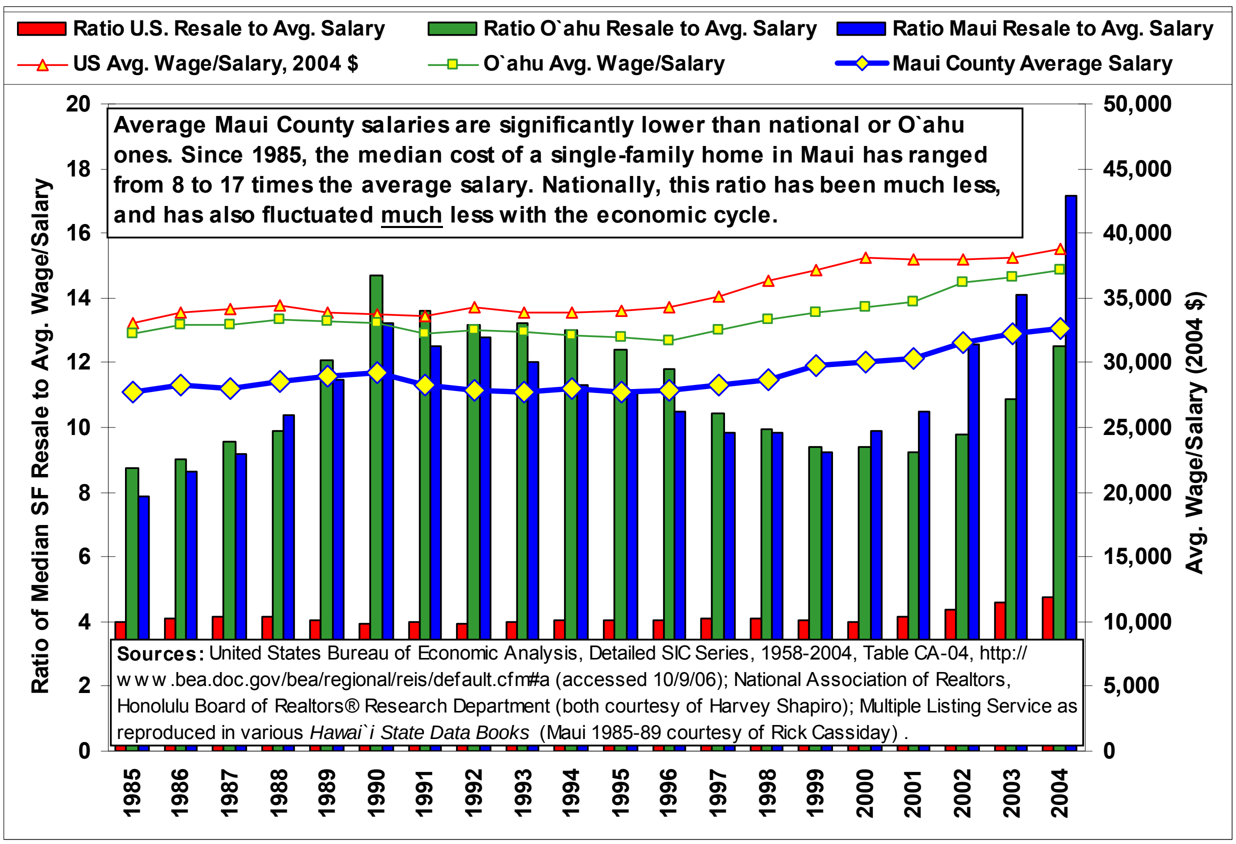


Exhibit 1.5: Average Salaries & Years of Salary to Buy Median Single-Family Home



Additional Insights from Other Studies or Consultants: Three studies or analyses are worth noting.

Hawai`i Housing Policy Study Data**:** The government-funded intermittent *Hawai`i Housing Policy Study* conducted by SMS Research three times in the past (and currently now underway again) included a survey that generated additional data about housing costs in relation to income. Specifically, it looked at percentage of households paying 30% or more of income for shelter.

Perhaps because of larger sampling error for individual counties vs. the state, or perhaps because Neighbor Island rental rates really do change greatly over fairly short periods of time, the Maui results over time do not seem particularly instructive – but statewide numbers based on larger samples do show a definite upward trend:

Exhibit 1.6: Survey Results, Percentage with Shelter-to-Income Ratios Above 30%

	Maui County			State		
	1992	1997	2003	1992	1997	2003
Owners	27.6%	26.1%	30.0%	23.0%	24.1%	28.3%
Rented or no cash	43.8%	38.6%	40.5%	43.7%	42.4%	47.7%

Source: SMS Research & Marketing Services, Inc. *Hawai`i Housing Policy Study, 2003.* (Hawai`i Housing Demand Survey component, Table IV-A-7.) Prepared for Housing and Community Development Corporation of Hawai`i, Department of Hawaiian Home Lands, Executive Office on Aging, County Housing Agencies, and Hawai`i Community Reinvestment Corporation. Dec., 2003.

The above data also help make the point that renters are more financially pressed than owners, in relation to their incomes. (In part, this is because renters typically have fewer incomes per household than do homeowners.) Although not shown above, the SMS survey confirmed the Census finding – mentioned in Exhibit 1.3 – that Maui renters pay less of their incomes than on other islands, but they are still more pressed than owners.

Tracking New Home Prices: One of the challenges of compiling housing data is that sales information for new house and condos are not reported in a standard series as are Multiple Listing Service information about resales. However, Mr. Rick Cassiday's "Data@Work" consultancy secures sales information from developers and publishes them in a proprietary newsletter. He has kindly permitted us to reproduce the following chart – Exhibit 1.7 on the next page – from *The Maui Real Estate Cycle* (For the 2nd Quarter, 2006, July 2006).

While Exhibit 1.7 tracks median home prices in current rather than inflation-adjusted dollars, and, of course, does not deduct resort-zoned sales, it clearly indicates that new home sales on Maui have recently been much pricier than resales. Although this undoubtedly reflects the inclusion of Maui resort housing inventory, it is still consistent with national data showing that new homes have out-priced existing ones in recent years – though these trends are now reversing nationally as the housing boom ends.[2]

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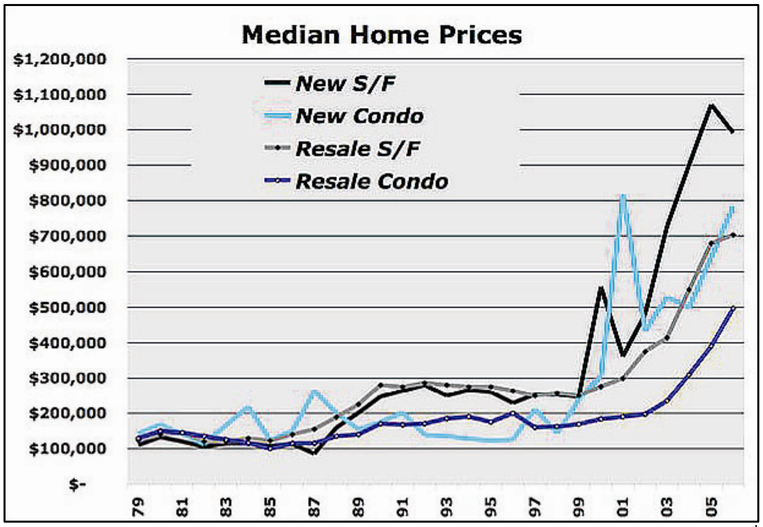
[2] Kathleen M. Howley. "New-House Prices Will Fall for First Time in 15 Years." Bloomberg.Com. http://www.bloomberg.com/apps/news?pid=20601087&sid=ati6ptPjRTuQ&refer=home. Oct. 11, 2006.

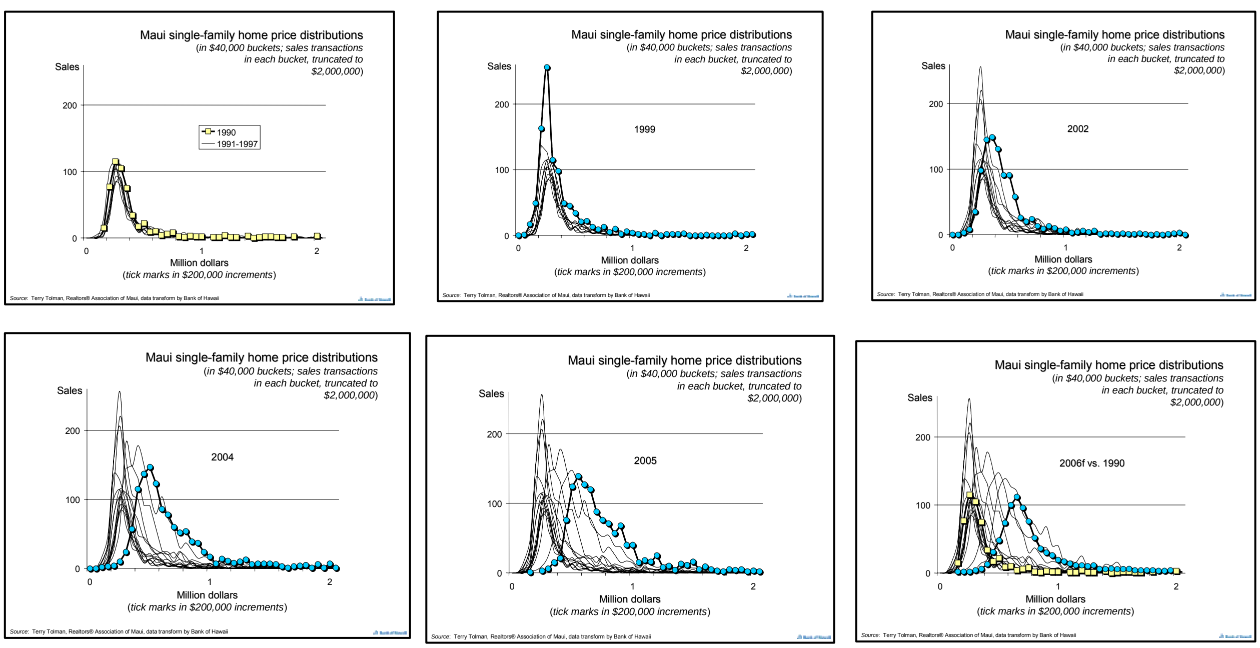
Exhibit 1.7: Maui Median Home Prices, Current Dollars



Source: Data@Work (rcassiday@aol.com), *The Maui Real Estate Cycle* (For the 2nd Quarter, 2006)

Verifying that the Maui Housing Cycle Is Now Peaking: In a recent PowerPoint presentation to the Realtors Association of Maui,[3] Dr. Paul Brewbaker charted the prices and volumes of Maui single-family homes in a time-lapse sequence starting at the peak of the last housing cycle in 1999. With his consent, we reproduce selected slides that show (1) the skew to higher-cost housing, and (2) the way the estimated 2006 curve almost exactly matches the 1990 shape except for higher cost.

Exhibit 1.8: Completing the Cycle, 1990 - 2006



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[3] Paul Brewbaker, Senior Vice President and Chief Economist, Bank of Hawai`i. "Aspects of Maui Residential Investment." Presented to Realtors® Association of Maui, July 21, 2006.

1.1 Housing Cost and Affordability – Projections and Forecasts

Short-Term: Nationally, there are many prognostications of what will happen next. We attach particular importance to this analysis from the Urban Land Institute (ULI):

> During the housing boom, buyers believed that home values would continue to rise at unprecedented rates… Today, the psychology of the market has changed. For prospective buyers, renting suddenly doesn't sound like such a bad idea. Housing prices will level out or even fall in some markets and **rents will continue to rise** with respect to housing prices until the market returns to a more normal price-to-rent ratio. According to statistics published by The Joint Center for Housing Studies at Harvard University, from 2003 to 2005, a family purchasing the median existing home saw monthly mortgage payments increase by 28%, while rents increased by only 6%. That gap will have to close.
>
> **The transition in the market will be painful, especially for low-income renters** and households that bought more house than they could afford at the top of the market… today's rising rents are merely an echo of inflation that occurred over the past 10 years as housing prices rose…. Interest rate hikes will make homeownership less attractive, increasing demand for rental units and continuing to push up rents.[4] [*emphasis added*]

This national logic certainly applies to Maui as well. On O`ahu, the City and County's Affordable Housing Advisory Committee also foresees that the imminent housing crunch will be largely in the rental market.[5] While Maui has yet to see the large-scale tent cities that currently afflict O`ahu's Wai`anae Coast, this is the prospect of gravest immediate concern. (In fact, as will be noted later, Maui's 2005 rental vacancy rate was already lower than O`ahu's.) At the same time, past history indicates that cost (and supply) of rentals can vary greatly with the economic cycle, so successful efforts to meet this likely short-term need could also result in an eventual rental glut. Learning to negotiate the effects of such cycles represents a key challenge for long-range planners.

Long-Term: There are no forecasts or projections of housing costs or affordability per se. However, the new Maui County Planning Department's *Socio-Economic Forecast* does include forecast of units at various levels of the HUD median income. Exhibit 1.9 reproduces this forecast, adding information about 2005 from the ACS. The forecast is, of course, intended to predict long-term trends rather than precise points in the economic cycle. However, it may be seen that the Census figures indicate fewer households in the "affordable" or "workforce" categories than initially estimated for 2005. This is due in some part to a smaller than expected population number, but in larger part to a greater than expected gain in household incomes. (Note: In the forecast, Exhibits R-9 and T-9 provide a breakdown of the numbers for Maui Island and regions.)

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[4] John K. McIlwain (ULI Resident Senior Fellow) and Melissa Floca and Rizwan Sheikh (ULI Scholars in Residence). "The Bankers Must Be Renters." Sept. 25, 2006. Posted on the ULI website at: http://www.uli.org/AM/Template.cfm?Section=John_McIlwain&Template=/TaggedPage/TaggedPageDisplay.cfm&TPLID=124&ContentID=24354

[5] Affordable Housing Committee, City and County of Honolulu. "Report and Recommendations." April 2006. Posted at: http://hawaii.uli.org/Meetings/AHACFINALREPORT.doc

Exhibit 1.9: Projected Number of Households by HUD Income Categories

Forecast Variables Variables	Hist. 1990	Hist. 2000	Est. 2005	ACS 2005	Proj. 2010	Proj. 2015	Proj. 2020	Proj. 2025	Proj. 2030
Population	100, 504	128, 241	140,050	138,433	151,300	162, 600	174,450	186,850	199,550
Households	33, 207	43, 622	49,140	48,393	54,036	58,913	64,136	69,590	75,019
Number of Households Earning No More Than:									
50% of HUD Median	7,638	15,285	12,187	9,244	13,401	14,610	15,906	17,258	18,605
80% of HUD Median	12,453	23,050	23,931	18,310	26,315	28,691	31,234	33,890	36,534
100% of HUD Median	16,604	30,473	29,091	23,512	31,989	34,877	37,969	41,197	44,411
120% of HUD Median	20,256	33,591	33,465	27,644	36,798	40,120	43,677	47,391	51,088
140% of HUD Median	23,245	35,592	38,182	31,744	41,986	45,775	49,834	54,072	58,290
HUD Median Income	$37,700	$56,500	$55,830	$55,831	$65,625	$70,556	$76,112	$81,959	$87,340
Local Estimates (in 2000 dollars)	$38,715	$43,570	$50,502	$53,254	$59,363	$63,823	$68,849	$74,138	$79,006

Source: Maui County Planning Department, "Socio-Economic Forecast: The Economic Projections for the Maui County General Plan 2030." June 2006. American Community Survey data from U.S. Census Bureau, with inflation-adjusted median income calculated by JMK Associates using 2004 Honolulu CPI. JMK Associates also calculated households in various HUD categories using an unchanged 2005 HUD median income figure.

1.3 Consequences for Maui Residents and Workers

One of the most critical consequences of high housing cost and low supply is potential difficulty in attracting or retaining labor supply for further economic growth. Despite high demand for labor in the current economy, Hawai`i's labor force participation rate has been declining over time … and from 2002 to 2004 (the last available year) has been below the national rate. Lack of "workforce housing" is considered a key barrier to expanding the labor force.

Beyond this, Hawai`i residents in general and Maui residents in particular have been paying high social – in addition to financial – costs for the local housing situation for many decades. Exhibit 1.11 on the following page compares national and Hawai`i homeownership rates over time. This exhibit is useful not only for showing the gap between local and Mainland rates, but also because it indicates that the economic cycle has an effect on homeownership as well as on other housing indicators.

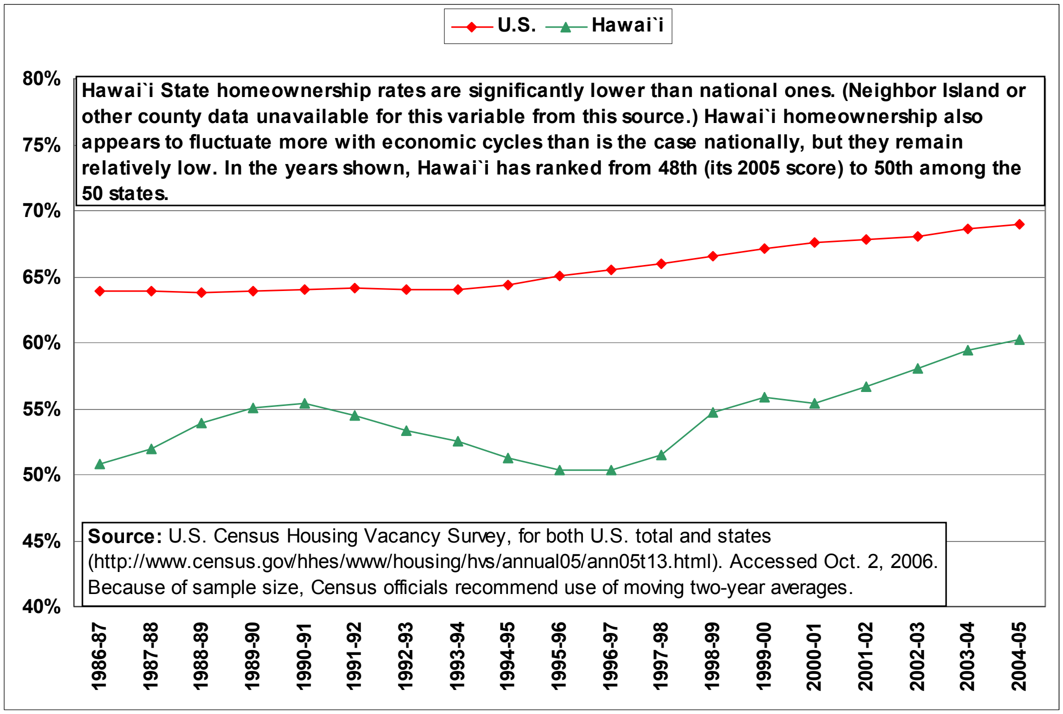
The impact on ownership might be rephrased as a *delay* in the average resident's ability to purchase a home. Both nationally and in Hawai`i, homeownership is lower for younger people, but this "youth gap" is particularly noticeable for Hawai`i:

Exhibit 1.10: Homeownership Rates for All Vs. Younger Householders, 2000

	All Householders	Householders Under 35
U.S.	66.2%	39.1%
Hawai`i	56.5%	24.5%

Source: U.S. Census, Historical Census of Housing Tables, http://www.census.gov/hhes/www/housing/census/historic/ownerchar.html

Exhibit 1.11: National Vs. Hawai`i Homeownership Rates



Other exhibits on the following pages provide additional data – down to the county level – which repeat or expand on the theme that ***Hawai`i is among the worst states in the nation for homeownership, small homes, and crowding***[6] … and ***Maui generally has even greater negative figures***. Its homeownership is still a bit above O`ahu's, but Maui is the only Hawai`i county where ownership has not improved at all for 25 years.

Finally, there are social costs involved in ***high numbers of workers per household*** – more family members need to work.[7] Using Census data, JMK Associates calculates that Hawai`i was #1 in the nation for 1990 and has been #2 (after Utah) for 2000 and all subsequent American Community Surveys. Maui County, followed by Kaua`i, now has the highest number of total workers per occupied housing unit in this state. As of 2005, Neighbor Island numbers headed back up (perhaps indicating a rise in labor force participation), and the Maui County figure was 24% above the national average.

Exhibit 1.12: Ratio of Total Workers to Occupied Housing Units, 1990 - 2005

	United States	Hawai`i County	Honolulu County	Kaua`i County	Maui County
1990	1.28	1.31	1.69	1.56	1.62
2000	1.24	1.23	1.47	1.33	1.45
2005	1.23	1.27	1.41	1.47	1.54

Source: Census data available at www.census.gov. The Kaua`i 2005 value was not directly supplied by the Census bureau, but was calculated by subtracting the other county numbers from the statewide numbers.

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[6] The previously-cited government-funded SMS Research housing surveys also found that Maui residents reported more crowding than almost every other county in 1992, 1997, and 2003.

[7] This is frequently associated with concern about small children with both parents in the workforce. However, Hawai`i's situation – if not necessarily Maui's – has been somewhat improving; see Exhibit 2.16.

Exhibit 1.13: U.S. Census Data on Homeownership Rates and Median Number of Rooms Per Occupied Unit

	Decennial Census Results					ACS Results		% Change		
	1960	1970	1980	1990	2000	2002	2005	1960-90	1990-2000	2000-2005
Homeownership Rates										
U.S.	61.9%	62.9%	64.4%	64.2%	66.2%	66.4%	66.9%	4%	3%	1%
Hawai`i State	41.1%	46.9%	51.7%	53.9%	56.5%	56.1%	59.7%	31%	5%	6%
(HI as % of US)	*66.4%*	*74.6%*	*80.3%*	*84.0%*	*85.3%*	*84.5%*	*89.2%*			
(HI Rank of 51)	*50*	*50*	*50*	*49*	*49*	*49*	*48*			
Honolulu County	27.4%	45.0%	49.9%	52.0%	54.6%	54.0%	57.6%	90%	5%	6%
Maui County	45.8%	58.5%	57.6%	57.6%	57.6%		58.8%	26%	0%	2%
(M.C. as % of HI)	***111.4%***	***124.8%***	***111.4%***	***106.8%***	***101.9%***		***98.6%***			
Median Number of Rooms										
U.S.	4.9	5.0	5.1	5.2	5.4	5.4	5.5	6.1%	4%	2%
Hawai`i State	4.6	4.7	4.4	4.3	4.5	4.5	4.8	-6.5%	5%	7%
(HI as % of US)	*93.9%*	*94.0%*	*86.3%*	*82.7%*	*83.3%*	*83.3%*	*87.3%*			
(HI Rank of 51)	*1*	*1*	*2*		*50*	*50*	*50*			
Honolulu County	4.6	4.6	4.3	4.3	4.4	4.5	4.8	-6.5%	2%	9%
Maui County	4.7	4.8	3.9	4.0	4.3		4.3	-14.9%	8%	0%
(M.C. as % of HI)	***102.2%***	***102.1%***	***88.6%***	***93.0%***	***95.6%***		***89.6%***			

Source: U.S. and State from http://www.census.gov/hhes/www/housing/census/historic/owner.html and other Census sources

Note: The 2002 ACS did not include Maui. From 2000, measures for median rooms also separately available for owner- vs. renter-occupied units. Expectably, owner households have more rooms. However, Hawai`i's rankings among states for median rooms are about the same for both categories of tenure.

Hawai`i ranks among the lowest of the states for both homeownership and median number of rooms. Among the counties, Neighbor Islands have historically had higher homeownerhip rates than O`ahu. However, Maui County has moved from the state's *highest* homeownership rate in 1960 and 1970 to the third *lowest* (barely above O`ahu) in 2005. While every other county has gradually increased its homeownership rate, Maui's has essentially been flat at about 58% since 1970.

Maui's median number of rooms was smallest of the four counties in 2000 (and was smallest of available counties in 2005).

Colored squares indicate years or periods for which data not available for particular (color-coded) jurisdictions.

Exhibit 1.14: U.S. Census Data on Crowding of Housing Units

	Decennial Census Results					ACS Results		% Change		
	1960	1970	1980	1990	2000	2002	2005	1960-90	1990-2000	2000-2005
Crowded (1.01+ Persons Per Room) -- Owners and Renters Combined										
U.S.	11.5%	8.2%	4.5%	4.9%	5.7%	4.0%	3.1%	-57%	16%	-46%
Hawai`i State	25.7%	19.9%	15.3%	15.9%	15.4%	13.7%	8.7%	-38%	-3%	-44%
(HI as % of US)	*223.5%*	*242.7%*	*340.0%*	*324.5%*	*270.2%*	*342.5%*	*280.6%*			
(HI Rank of 51)	*2*	*1*	*1*	*1*	*1*	*1*	*1*			
Honolulu County	33.5%	[redacted]	15.5%	15.6%	16.0%	14.8%	8.6%	-54%	3%	-46%
Maui County	[redacted]	[redacted]	16.4%	15.8%	16.4%	[redacted]	11.0%	[redacted]	4%	-33%
(M.C. as % of HI)	[redacted]	[redacted]	*106.9%*	*99.4%*	*106.5%*	[redacted]	*126.4%*			
Severely Crowded (1.51+ Persons Per Room) -- Owners and Renters Combined										
U.S.	3.6%	2.2%	1.4%	2.1%	2.7%	1.3%	0.7%	-42%	29%	-74%
Hawai`i State	8.6%	7.8%	7.0%	7.8%	7.7%	6.0%	2.9%	-9%	-1%	-62%
(HI as % of US)	*238.9%*	*354.5%*	*500.0%*	*371.4%*	*285.2%*	*461.5%*	*414.3%*			
(HI Rank of 51)	*8*	*2*	*1*	*1*	*2*	*1*	*1*			
Honolulu County	[redacted]	6.9%	7.4%	7.7%	8.2%	6.4%	3.0%	[redacted]	6%	-63%
Maui County	[redacted]	6.2%	7.3%	6.8%	8.2%	[redacted]	3.2%	[redacted]	21%	-61%
(M.C. as % of HI)	[redacted]	*79.5%*	[redacted]	*87.2%*	*106.5%*	[redacted]	*110.3%*			

Source: U.S. and State from http://www.census.gov/hhes/www/housing/census/historic/crowding.html; other standard Census sources for counties.

Note: We were unable to find some of the county data in readily available form prior to 1990, and the 2002 ACS has no Maui County values. Since 2000, published data are broken out by owner- vs. renter-occupied units, which have been combined above. Rental units are more likely than owner-occupied units to be crowded … but compared to elsewhere in the country, Hawai`i's owner-occupied units were even more above the norm than the rentals. For example, in 2005, 6.6% of Hawai`i's owner-occupied units were crowded (1.01+ persons per room) -- which was highest in the nation for owner units. For rental units, 11.9% were crowded -- but this was second to California's 13.2% for rentals. (The significant overall drop in Hawai`i crowding in 2005 is somewhat suspicious; samping error or methodological change may be involved.)

Among the four counties, Maui households were the most crowded since at least 1980. Maui and Honolulu vie with one another over time for most "severely crowded."

1.4 Selected Household Characteristics – Historical Data

Some Hawai`i household "characteristics" may also in part be "consequences" of affordability challenges. For example, it is difficult to know to what extent our high average household sizes simply reflect social trends toward larger Island families vs. more adult workers or adult children living at home longer. Similarly, our relative paucity of single-occupant households could be "family lifestyle" or "can't afford to live alone!" However, exhibits on the following pages show:

- Hawai`i **household sizes** are among the largest in the nation, though Maui's are a bit below the state average. However, the clear historical trend has been downward, and Maui's rate of decline generally matches that of the state as a whole.
- Hawai`i's percentage of children in two-parent families with **both parents in the labor force** is higher than the national average, though we are far from the top state on that statistic. However, Maui's rate (along with Kaua`i's) is substantially higher than either the state's or the nation's rate, and it is *not* going down as are those of the state and nation as a whole.
- The rise in **single-occupant households** – both owner- and renter-occupied, nationally and locally – may help explain declining household sizes. As a state, Hawai`i has some of the lowest percentages in the nation. However, the numbers are going up on Maui as elsewhere: In 2005, 1 of every 3 Maui renters and 1 in 6 owners were single occupants.[8]
- **Children under 18** are associated with falling percentages of both the population and also of households containing at least one child. Maui's decline has recently not been as rapid as that experienced nationally or statewide, but the Maui trend is still downward, particularly for households containing children.

  (While not included for reasons of space, we also found a clear national and state trend for more of the household with children to consist of single parents or non-family arrangements. The overall proportion of households with children is going down, but this proportion is going up in the broader society. The situation for Maui is a little less clear, as there appeared to be a spike in 2000 and a decline in 2005. However, even in 2005, 1 in 4 Maui households with children consisted of single-parent or non-family arrangements.)
- Exhibits 1.17 and 1.18 indicate the shift to **more elderly** had not begun taking place in an overall statistical sense as of 2005. However, it should be noted that (1) the underlying age distribution of the current population suggests a **shift is imminent**; and (2) the increases in housing values are likely making housing unaffordable to larger portions of seniors. Thus, the demand for senior housing has been increasing even if the proportion of the population holds steady.

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[8] Additionally, as of 2005, 28% of Maui households with any senior citizen 65+ consisted of a senior living alone. This percentage has been edging up faster in Maui than it has for the state as a whole. Hawai`i actually has the nation's lowest percentage of single-occupant senior households, and even Maui is still far below the national average. But the percentage of seniors living alone is definitely, if gradually, rising.

Exhibit 1.15: U.S. Census Data on Average Household Size and Children with Two Working Parents

	Decennial Census Results					ACS Results		% Change		
	1960	**1970**	**1980**	**1990**	**2000**	**2002**	**2005**	**1960-90**	**1990-2000**	**2000-2005**
Average Household Size										
U.S.	3.31	3.11	2.75	2.63	2.59	2.61	2.60	-20.4%	-2%	0%
Hawai`i State	3.88	3.59	3.15	3.01	2.92	2.91	2.88	-22.4%	-3%	-1%
(HI as % of US)	*117.3%*	*115.6%*	*114.4%*	*114.2%*	*112.7%*	*111.5%*	*110.8%*			
(HI Rank of 51)	*1*	*1*	*2*	*2*	*2*	*3*	*3*			
Honolulu County	3.94	3.59	3.15	3.03	2.95	2.95	2.91	-23.2%	-3%	-1%
Maui County	3.82	3.52	3.11	2.99	2.91		2.86	-21.7%	-3%	-2%
(M.C. as % of HI)	***98.5%***	***98.0%***	***98.9%***	***99.4%***	***99.7%***		***99.3%***			
Percentage of Children Under 6 in Two-Parent Families with Both Parents in Labor Force										
U.S.				55.5%	53.2%	53.7%	53.1%		-4%	0%
Hawai`i State				59.7%	57.5%	60.8%	56.2%		-4%	-2%
(HI as % of US)				*107.6%*	*107.9%*	*113.1%*	*105.8%*			
(HI Rank of 51)				*16*	*18*	*13*	*26*			
Honolulu County				59.3%	56.3%	57.8%	56.0%		-5%	-1%
Maui County				59.7%	60.7%		60.0%		2%	-1%
(M.C. as % of HI)				***100.0%***	***105.7%***		***106.8%***			

Source: http://www.census.gov/ and various other standard Census data sources.

Note: The 2002 ACS did not include Maui. Prior to 1990, data about employment status of parents were not collected or published in this form. From 2000, household size is also separately available for owner- vs. renter-occupied units. Expectably, owner households have larger household sizes. However, Hawai`i's rankings among states are about the same for both categories of tenure.

Consistent with data about crowding and number of rooms, Hawai`i has had one of the country's higher average household sizes, though both state and national figures are trending down. Among the counties, Maui's household size has been slightly lower than of the four counties in 2000 (and was smallest of available counties in 2005). Maui's rate of decline has been consistent with national and statewide

For young children living in two-parent homes, the general trend is for a gradual decline in the rate of both parents working, both nationally and in Hawai`i. However, the Maui County percentage has stayed flat since 1990. Kaua`i's rate was even higher than Maui's in 1990, 2000, and 2005.

Colored squares indicate years or periods for which data not available for particular (color-coded) jurisdictions.

Exhibit 1.16: U.S. Census Data on Single-Occupant Households

	Decennial Census Results					ACS Results		% Change		
	1960	1970	1980	1990	2000	2002	2005	1960-90	1990-2000	2000-2005
Single-Occupant Households as Percentage of All OWNER-Occupied Households										
U.S.	8.8%	11.8%	15.3%	18.6%	20.3%	21.2%	21.7%	111%	9%	7%
Hawai`i State	5.1%	6.8%	11.1%	14.7%	17.3%	18.7%	17.9%	188%	18%	4%
(HI as % of US)	***58.0%***	***57.6%***	***72.5%***	***79.0%***	***85.2%***	***88.1%***	***82.4%***			
(HI Rank of 51)	***51***	***51***	***51***	***50***	***50***	***46***	***50***			
Honolulu County		6.3%	11.1%	14.4%	16.9%	17.5%	18.4%		17%	9%
Maui County			11.5%	14.4%	16.3%		17.9%		14%	10%
(M.C. as % of HI)			***103.4%***	***97.7%***	***94.2%***		***99.8%***			
Single-Occupant Households as Percentage of All RENTER-Occupied Households										
U.S.	20.7%	27.2%	36.0%	35.2%	36.5%	37.7%	37.8%	70%	4%	4%
Hawai`i State	16.9%	18.0%	23.5%	24.8%	27.8%	28.1%	28.9%	47%	12%	4%
(HI as % of US)	***81.6%***	***66.2%***	***65.3%***	***70.5%***	***76.2%***	***74.6%***	***76.4%***			
(HI Rank of 51)	***38***	***49***	***51***	***51***	***50***	***50***	***50***			
Honolulu County		17.6%	23.3%	24.4%	27.4%	28.0%	29.1%		12%	6%
Maui County			26.1%	27.2%	29.5%		33.4%		9%	13%
(M.C. as % of HI)			***110.9%***	***109.7%***	***106.3%***		***115.7%***			

Source: U.S. and State from http://www.census.gov/hhes/www/housing/census/historic/livalone.html and other Census sources

Note: The 2002 ACS did not include Maui. We were unable to find some county data for earlier years from readily available sources.

Among the counties, Maui renters have had the highest rates since 1980, another indicator that rents have historically been more affordable on Maui. The rate for Maui owners, by contrast, were tied with O`ahu for highest in 1980 but then dropped to lowest of counties with available information in 2000 and 2005. This is another indicator that Maui owners must pay more than in other counties.

Colored squares indicate years or periods for which data not available for particular (color-coded) jurisdictions.

Exhibit 1.17: U.S. Census Data on Children and Senior Citizens as Percentage of Population Living in Households

	Decennial Census		ACS	% Change in Number of Children/Seniors		Ratio of % Change to Total Pop. % Change	
	1990	2000	2005	1990-2000	2000-2005	1990-2000	2000-2005
Children Under 18 as Percentage of Total Population Living in Households							
U.S.	26.2%	26.3%	25.4%	13.2%	2.0%	1.04	0.30
Hawai`i State	26.0%	25.0%	24.1%	6.4%	-0.7%	0.58	0.27
(HI as % of US)	*99.4%*	*95.2%*	*95.1%*	*48.7%*	*-36.7%*	*55.5%*	*88.5%*
(HI Rank of 51)	*43*	*33*	*32*	*38*	*34*	*37*	*17*
Honolulu County	25.4%	24.6%	23.8%	1.8%	-1.7%	0.37	0.02
Maui County	26.8%	25.8%	24.3%	26.0%	4.7%	0.82	0.31
(M.C. as % of HI)	***103.1%***	***103.0%***	***100.7%***				
Seniors 65+ as Percentage of Total Population Living in Households							
U.S.	12.2%	11.3%	11.3%	5.0%	5.1%	0.38	0.94
Hawai`i State	11.3%	12.4%	12.9%	20.7%	9.8%	2.11	1.84
(HI as % of US)	*92.6%*	*109.7%*	*114.7%*	*417.6%*	*192.8%*	*555.7%*	*195.6%*
(HI Rank of 51)	*37*	*11*	*7*	*5*	*9*	*3*	*6*
Honolulu County	11.0%	12.6%	13.4%	20.8%	9.1%	3.89	2.76
Maui County	11.1%	10.4%	10.4%	20.0%	8.9%	0.72	0.96
(M.C. as % of HI)	***98.7%***	***84.2%***	***80.6%***				

(Ratios greater than 1.00 -- e.g., for the U.S. from 1990-2000 -- mean the population of children under 18 is growing proportionately faster than is the overall population for the indicated place and time period. Ratios less than 1.00 -- e.g., for Maui in both periods -- mean the population of children is growing more slowly.)

(Ratios greater than 1.00 -- e.g., for the State of Hawai`i -- mean the population of seniors 65+ is growing proportionately faster than the overall population for the indicated place and time period. Ratios less than 1.00 -- e.g., for Maui -- mean the population of seniors is growing more slowly.)

Source: http://www.census.gov (1990 and 2000 from Summary File 1) -- data based on household population, excluding group quarters.

Interpretation: For children, the proportion of the population started to shrink from 2000 to 2005 on a national basis … with the state and Maui declining at about the same rate. Compared to other states, Hawai`i's changes are not particularly striking.

For seniors, the national proportion has been slightly shrinking, but Hawai`i is now one of the faster growing states in terms of percentages. However, that's mostly due to increases on O`ahu -- Maui's senior population is NOT increasing at the same pace as the state as a whole.

Exhibit 1.18: U.S. Census Data on Households Containing At Least One Child or Senior Citizen

	Decennial Census		ACS	% Change in No. HHs with Children/Seniors		Ratio of % Change to Total HH % Change	
	1990	2000	2005	1990-2000	2000-2005	1990-2000	2000-2005
Households with Children Under 18 as Percentage of Total Households							
U.S.	36.5%	36.0%	34.9%	13.6%	1.6%	0.90	0.37
Hawai`i State	40.4%	37.9%	35.3%	5.7%	1.4%	0.49	-0.11
(HI as % of US)	*110.5%*	*105.3%*	*101.2%*	*41.7%*	*87.2%*	*54.4%*	*-29.4%*
(HI Rank of 51)	*10*	*7*	*12*	*35*	*16*	*39*	*33*
Honolulu County	40.1%	37.8%	35.4%	2.0%	0.1%	0.22	-0.34
Maui County	40.4%	38.8%	36.5%	23.0%	2.9%	0.83	0.42
(M.C. as % of HI)	***100.1%***	***102.2%***	***103.4%***				
Households with Seniors 65+ as Percentage of Total Households							
U.S.	24.1%	23.4%	23.0%	11.4%	3.4%	0.77	0.64
Hawai`i State	24.7%	27.4%	28.7%	25.8%	11.8%	1.96	1.78
(HI as % of US)	*102.3%*	*117.1%*	*125.1%*	*226.8%*	*345.5%*	*253.2%*	*276.9%*
(HI Rank of 51)	*20*	*3*	*2*	*5*	*5*	*3*	*5*
Honolulu County	24.3%	28.1%	29.7%	25.0%	11.1%	3.13	2.25
Maui County	24.2%	23.5%	24.1%	27.8%	13.9%	0.89	1.24
(M.C. as % of HI)	***98.1%***	***85.9%***	***83.9%***				

(A ratio greater than 1.00 would mean households with children under 18 are growing proportionately faster than are all households for the indicated place and time. Ratios less than 1.00 mean that households with children are growing more slowly -- i.e., are diminishing as a percentage of the total.)

(Ratios greater than 1.00 -- e.g., for the State of Hawai`i -- mean households with seniors over 65 are growing proportionately faster than are all households for the indicated place and time place and time. Ratios less than 1.00 -- e.g., for the U.S. -- mean that households with seniors are growing more slowly.)

Source: http://www.census.gov (1990 and 2000 from Summary File 1)

Interpretation: For children, there was actually a small statewide decline in total households with children -- but this took place mostly on O`ahu; Maui households with children increased in numbers, just more slowly than the overall household increase.

For seniors, Hawai`i is now one of the nation's leaders in terms of percentage of households with at least one person 65+. Again, however, that's mostly due to increases on O`ahu -- the percentage of Maui households with seniors is staying roughly constant.

1.5 Selected Household Characteristics – Projections and Forecasts

Maui County's recently published *Socio-Economic Forecast* includes projections of: (1) average household size; and (2) population age distributions.

Household Size: For household size, the assumption is of a decline that tends to flatten out in the future, much as the national drop in household size has slowed with time (see previous Exhibit 1.15). In addition to the county figures in Exhibit 1.19 below, the forecasts assume that average household size will remain relatively highest in the Wailuku-Kahului area, and relatively lowest in Kīhei-Mākena.

Exhibit 1.19: Projected Future Maui County Average Household Sizes

2005	2010	2015	2020	2025	2030
2.9	2.8	2.8	2.7	2.7	2.6

Source: Maui County Planning Department, "Socio-Economic Forecast: The Economic Projections for the Maui County General Plan 2030." June 2006. P. 18.

Age: For population and age-sex cohorts, the County model begins with official State DBEDT projections for Maui County … makes separate calculations for Lāna`i and Moloka`i (including slower growth for Moloka`i) … and calculates age-sex distributions for Maui Island as a residual. Selected figures for youth and senior citizen percentages are given below. The projection is for a slight drop in the proportion of youths but a substantial increase in the proportion of senior citizens.

Exhibit 1.20: Projected Future Maui Island Percentages of Youth and Seniors

	Youth			Seniors			
	0-9	**10-19**	***Subtotal***	**65-79**	***80+***	***Subtotal***	**Total Population**
2000	13.6%	13.7%	*27.3%*	8.4%	2.9%	*11.2%*	118,371
2030	13.3%	13.1%	*26.4%*	14.7%	5.2%	*19.9%*	186,204

Source: Maui County Planning Department, "Socio-Economic Forecast: The Economic Projections for the Maui County General Plan 2030." June 2006. P. 42.

While the foregoing Exhibits 1.17 and 1.18 found no evidence that the projected shift to more elderly had begun in Maui as of 2005, the underlying age distribution of the current population leaves little doubt that the number and proportion of elderly will grow significantly in the next 10-20 years. The County should plan for the special needs of elderly residents, by addressing housing affordability, types of housing that allow aging-in-place, and supportive building code standards.

The County forecast also suggests that the 2030 elderly population will be heavily over-represented in the Wailuku-Kahului region (40.4% of the elderly, vs. 30.7% of the overall, population), but will be somewhat under-represented in Pā`ia-Ha`ikū (7.0% of elderly vs. 9.9% of overall population) and Kīhei-Mākena (19.0% of elderly vs. 22.9% of overall population).

1.6 Availability/Supply Vs. Overall Demand – Historical Data

Production of Overall Net New Housing Supply: Job and population growth drives housing expansion. Maui produced something close to "enough" new units for its expanding number of households throughout the 1990s (although whether by actual construction or by sometimes-illegal partition of homes into multiple units is unclear). However, Maui has been struggling more in the early 2000s. Its situation has not been as dire as O`ahu's, but clearly gives cause for concern:

Exhibit 1.21: Recent Census Data on Net Gains in Population and Housing Units

	CENSUS NUMBERS PER YEAR			NET CHANGE		
	Decennial Census		ACS	Decennial Census		ACS
	1990	2000	2005	1990-2000	2000-2005	1990-2005
Population Living in Households						
U.S.	242,050,161	273,643,273	288,378,137	31,593,112	14,734,864	46,327,976
Hawai`i State	1,071,484	1,175,755	1,238,158	104,271	62,403	166,674
Hawai`i County	118,650	145,873	164,437	27,223	18,564	45,787
Honolulu County	803,068	845,211	873,177	42,143	27,966	70,109
Kaua`i County	50,566	57,831	62,111	7,265	4,280	11,545
Maui County	99,116	126,693	138,433	27,577	11,740	39,317
Occupied Housing Units						
U.S.	91,947,410	105,480,101	111,090,617	13,532,691	5,610,516	19,143,207
Hawai`i State	356,267	403,240	430,007	46,973	26,767	73,740
Hawai`i County	41,461	52,985	59,470	11,524	6,485	18,009
Honolulu County	265,304	286,450	300,557	21,146	14,107	35,253
Kaua`i County	16,295	20,183	21,587	3,888	1,404	5,292
Maui County	33,145	43,507	48,393	10,362	4,886	15,248
Persons Per Occupied Unit (Average HH Size)						
U.S.	2.63	2.59	2.60	2.33	2.63	2.42
Hawai`i State	3.01	2.92	2.88	2.22	2.33	2.26
Hawai`i County	2.86	2.75	2.77	2.36	2.86	2.54
Honolulu County	3.03	2.95	2.91	1.99	1.98	1.99
Kaua`i County	3.10	2.87	2.88	1.87	3.05	2.18
Maui County	2.99	2.91	2.86	2.66	2.40	2.58

Source: U.S. Census data from http://www.census.gov (Summary File 1 for 1990 and 2000.)

Interpretation: Through whatever means, Maui added enough housing units (or at least "households") to accommodate its population growth more effectively (as measured by new persons per new occupied unit) than other counties or the nation as a whole in the 1990s. Still, the 2.66 net average new household size for Maui units added in the 1990s was below its 1990 starting place of 2.99, so success was relative to other places, not relative to "need."

During the housing boom of the early 2000s, the story was different. The nation as a whole -- and the other two Neighbor Island counties -- have generated household growth with net new household sizes actually exceeding the 2000 benchmarks. But Maui and, particularly, O`ahu, produced new households which could absorb population at less than the 2000 benchmark household size.

Vacancy Indicators: Census data confirm that rentals are generally more available than for-sale units, but Hawai`i rental supply varies with the economic cycle much more than supply of units for sale – presumably because in good times rentals can be sold or, in some cases, made available for visitor use. In 2000, Hawai`i had the 3rd highest rental vacancy in the country; by 2005, it had one of the nation's tightest rental markets.

As with affordability, Maui's supply situation was better than O`ahu's in the last (ca. 1990) housing boom, but today is worse in some respects. Maui County had the lowest rental vacancy rate in the state in 2005, though O`ahu still had a slightly lower for-sale vacancy rate.

Exhibit 1.22: Recent Census Data on Vacancy Rates

	BASED ON TOTAL HOUSING UNITS, INCLUDING INVENTORY FOR SEASONAL USE & OTHER UNSPECIFIED VACANCIES			BASED ON ADJUSTED TOTALS, ELIMINATING SEASONAL, UN-SPECIFIED VACANCIES, AND OTHER MISCELLANEOUS VACANT		
	Decennial Census		ACS	Decennial Census		ACS
	1990	2000	2005	1990	2000	2005
RENTAL Vacancy ("For Rent" as % of All Housing Units)						
U.S.	3.0%	2.3%	2.5%	3.2%	2.4%	2.7%
Hawai`i State	2.4%	3.4%	1.8%	2.6%	3.7%	2.0%
(HI as % of US)	*81.4%*	*151.1%*	*69.8%*	*80.8%*	*155.7%*	*72.1%*
(HI Rank of 51)	*36*	*3*	*46*	*37*	*3*	*47*
Honolulu County	2.0%	3.9%	1.7%	2.1%	4.1%	1.9%
Maui County	3.7%	2.5%	1.0%	4.4%	3.2%	1.3%
(M.C. as % of HI)	***151.0%***	***74.7%***	***59.5%***	***172.5%***	***85.0%***	***67.4%***
OWNER Vacancy ("For Sale" as % of All Housing Units)						
U.S.	1.2%	1.0%	1.1%	1.3%	1.1%	1.1%
Hawai`i State	0.4%	0.8%	0.5%	0.4%	0.9%	0.5%
(HI as % of US)	*34.0%*	*77.7%*	*45.8%*	*33.7%*	*80.1%*	*47.3%*
(HI Rank of 51)	*51*	*42*	*51*	*51*	*42*	*51*
Honolulu County	0.3%	0.8%	0.3%	0.3%	0.9%	0.3%
Maui County	0.7%	0.6%	0.4%	0.8%	0.7%	0.5%
(M.C. as % of HI)	***162.7%***	***69.0%***	***77.4%***	***186.0%***	***78.4%***	***87.8%***

Source: http://www.census.gov (1990 and 2000 from Summary File 1)

Note: The adjustment to eliminate seasonal and other vacancies not for rent/sale has more impact on Maui than other areas because of Maui's large percentage of timeshares and second homes.

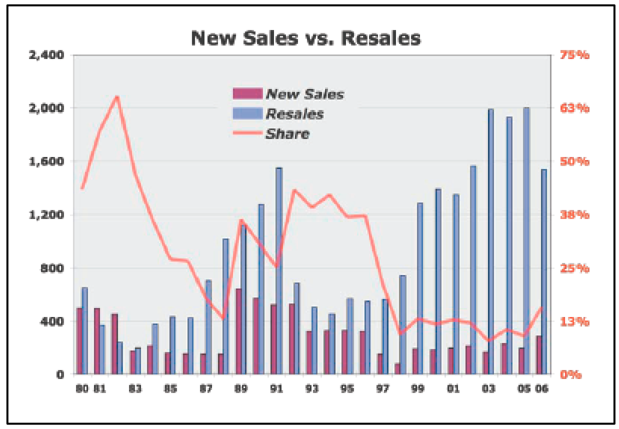
In 2000, before the current housing boom truly took off, rentals were more available in Hawai`i than in all but two other states, but for-sale units remained relatively unavailable. By 2005, Hawai`i's rental supply had tightened dramatically. Maui's situation -- which had been better than O`ahu's in the 1990 boom -- has become worse than O`ahu's in the 2000's.

New Inventory Listed with Realtors: We again express our appreciation to Mr. Rick Cassiday for sharing proprietary information and conclusions.

Exhibit 1.23: New Vs. Resale Data for Maui, from 1981

Single-Family

Condominium

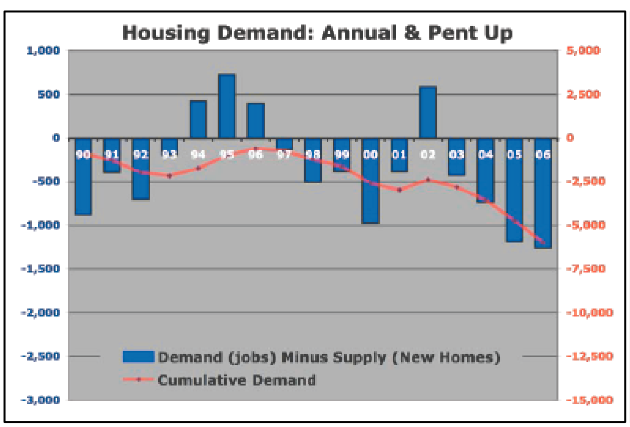


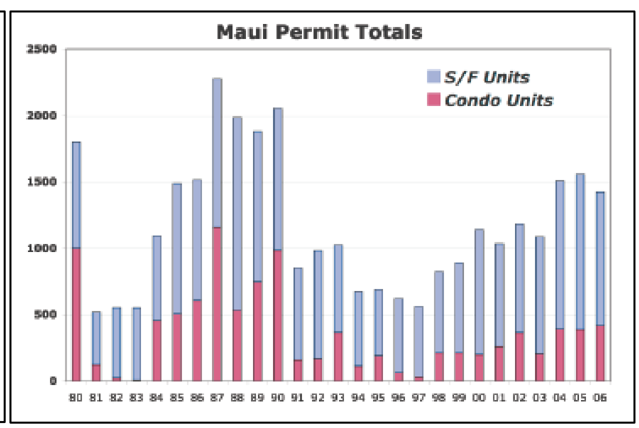
Source: Data@Work (rcassiday@aol.com), *The Maui Real Estate Cycle* (For the 2nd Quarter, 2006)

In discussing the low new-sales for single-family homes in recent years, Mr. Cassiday observes: "The new homes industry … has not really responded to the stimulus of the market, especially in comparison with the last market cycle. As such, the resale market has had to bear the brunt of demand – which it can no longer do as effectively, due to the rise in prices." And in regard to condominiums: "… the current level of production is woefully weak by historical standards."

Mr. Cassiday further concludes that Maui pent-up demand now exceeds the level of the last housing boom, and permitting activity is at a lower level:

Exhibit 1.24: Housing Demand Vs. Permitting Activity





Source: *Ibid.* See above.

Thus, the fundamental issue seems to be why the industry is not producing more housing. We will explore this question to some extent in Section II.

1.7 Availability / Supply Vs. Overall Demand – Forecasts and Projections

Forecasted Demand: The following exhibit shows projected housing demand, based on the County's 2006 *Socio-Economic Forecast*, for Maui County, Maui Island, and various regions. It is primarily based on the earlier mentioned forecasts of resident population,[9] with subsequent calculations about the number of housing units needed to accommodate this population in each region. (Also see foregoing Exhibit 1.9 for projections about resident households by HUD income categories.)

Exhibit 1.25: Projected Maui County, Island, and Regional Housing Demand

FORECAST VARIABLES	2000 (Historical) MAUI COUNTY	2005 (Projected)	2030 MAUI COUNTY	2030 MAUI ISLAND
Resident Population	128,241	140,050	199,550	186,254
Resident Households	43,622	49,140	75,019	70,058
Resident Housing Demand*	45,918	51,727	78,967	73,745
Total Non-Resident Housing Demand**		2,066	10,923	10,607
Total Housing Demand		53,793	89,890	84,352

FORECAST VARIABLES (Baseline Version)	Lahaina 2030	Kīhei-Mākena 2030	Wailuku-Kahului 2030	Upcountry 2030	Pā`ia-Ha`ikū 2030	Hāna 2030
Resident Population	28,903	38,757	71,223	30,880	13,863	2,626
Resident Households	10,816	15,897	25,855	11,667	4,896	928
Resident Housing Demand*	11,385	16,734	27,216	12,281	5,153	977
Total Non-Resident Housing Demand	3,668	3,720	1,504	841	653	221
Total Housing Demand	15,053	20,454	28,720	13,122	5,806	1,198

FORECAST VARIABLES (Regional Trend Version)	Lahaina 2030	Kīhei-Mākena 2030	Wailuku-Kahului 2030	Upcountry 2030	Pā`ia-Ha`ikū 2030	Hāna 2030
Resident Population	28,870	42,741	57,249	36,201	18,412	2,781
Resident Households	10,801	17,639	19,741	13,995	6,886	996
Resident Housing Demand*	11,369	18,568	20,780	14,731	7,249	1,048
Total Non-Resident Housing Demand	3,668	3,720	1,504	841	653	221
Total Housing Demand	15037	22,287	22,284	15,572	7,902	1,269

* includes vacancy factor
** County figure of 10,923 derived by subtracting 78,967 from 89,890. The actual numbers shown in the Socio-Economic Forecast sum to 11,890.

Note: The forecasts have two different regional forecasts, one that is based on the overall "baseline" model, and the other based on historic trends for each region.

Source: Maui County Planning Department, "Socio-Economic Forecast: The Economic Projections for the Maui County General Plan 2030." June 2006.

Potential Supply of Affordable Housing: Most of the available projections and forecasts were developed during the 2003 - 05 period, when prices where rapidly escalating and many proposed housing projects had been stalled or delayed. Since that time, the number of real estate sales has declined, although prices remain high. The

[9] For the first time, the forecasts have provisions for "non-resident demand." We note that the forecast methodology states: "Offshore demand is quantified as a ratio of non-resident to resident *sales* by region in 2004, applied to the demand for new resident housing units" (emphasis added). As will be discussed shortly, there is an important distinction between overall "sales" to offshore purchasers (which can include investment properties, some of which may be rented to residents) vs. offshore "uses" (such as vacation homes) which remove these units from the available residential inventory. However, it is our understanding that the County interprets the non-resident demand figures as being entirely for non-resident uses.

focus of political discussions on Maui has shifted from an alarmist view that not enough units of affordable housing have been produced quickly enough, to a more measured realization that, in fact, large numbers of affordable units have been proposed – though in combination with other development proposals. A list of approved or proposed projects include 9,400 affordable units as part of a cumulative total of 21,400 homes, leading the Maui Mayor to suggest the County can actually afford to be selective rather than approving any project that includes affordable housing.[10]

As a reference point, the Maui County Department of Housing and Human Concerns (HHC), based on State studies, had estimated that Maui needed 1,390 affordable units for sale during the 2003-2007 period (or 278 per year) for first-time homebuyers, as well as 2,570 affordable rental units (or 514 per year).

The appendix to this study contains full details of a more recent analysis – using the 2006-2010 timeframe and the most recent qualification criteria from the current workforce housing policy – which brings the estimated demand down from 278 to about 235 "affordable" for-sale units per year.[11] Another adjustment (which includes percentages of applicants likely to qualify for mortgages) would further reduce the realistic demand level closer to 200 for-sale units per year in the "affordable" range. The estimated demand for rentals would be more than three times that. By contrast, a list of pending projects based on County lists shows several thousand proposed affordable housing units, of which less than one-third consists of rentals.

In the summer of 2006, the Maui County Planning Department had a list of more than 30 projects under consideration on the Island of Maui, with approximately 9,480 affordable units. Of the 9,480 units, 5,328 are planned and committed; 688 are in the planned and designated class, but whose future is uncertain; and 3,464 are in the proposed category, for which no formal submission has been made.

If all 5,328 affordable units cited above that are planned and committed are built in the next five years, then that number would substantially exceed the 3,960 units needed for the 2003-2007 period.

One of the crucial and immediate needs within Maui County is to expedite plans which already have known sites in which affordable workforce housing can be actualized and benefited from. However, it is also critical to put much more emphasis on production of rental housing.

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[10] Ilima Loomis. "Affordable housing formula." *Maui News.* Sept. 17, 2006 http://www.mauinews.com/story.aspx?id=23360

[11] This is based on the currently available State model and data. Subsequent run-ups in Maui prices may well mean the model should be adjusted and estimates revised. The basic point here is not the specific number, but the need to make realistic, careful demand assumptions and to focus more on rentals.

The technical appendix to this study shows projections of housing demand and supply taken from a report prepared earlier this year. Additionally, a new statewide study of housing demand and supply using more recent data is currently being conducted by SMS Research and is expected to be completed sometime in early 2007.

II. POSSIBLE CAUSAL FACTORS

The dynamics of housing production and pricing are extremely complex, and it is beyond the scope of this paper to provide a truly comprehensive textbook on all of them. Such an analysis would also include consideration of many key drivers that are far ***beyond the control of local government***,[12] including:

- National/international economic cycles and housing policies (e.g., income tax law);
- Interest rates (which have been a key factor in the latest cycle) and associated public willingness to accept higher levels of household debt through "creative financing" mechanisms;
- Price of steel, oil, other supplies, and transportation factors;
- Construction labor costs and supply;
- Offshore demand – basic desirability of Maui;
- High levels of speculation in some economic cycles; and
- Total supply of developable land.

However, this section will include attention to:

(1) Concerns about the impact of offshore markets on current housing supply;

(2) Key infrastructure constraints to increasing supply;

(3) Housing developer perspectives elicited in interviews for this paper; and

(4) A brief summary of emerging economic theory on regulation and housing costs.

The latter two will strike a common theme: Regulation to prevent poor planning and sprawl comes with a financial price to both developers and consumers. The public and its government have generally felt this price needs to be paid. However, to the extent that this price is related not just to the <u>fact</u> of regulatory review but to the <u>length</u> and complexity of such review, there may be ways to mitigate, if not eliminate, all of them.

[12] There is of course an even longer list of factors that the County can partially affect, though it is open to question how important these factors are compared to the bulleted ones above. However, these include: number of permits per year; permit and entitlement processing time; fees charged; expiration dates on permits; supply of zoned and serviced land; water distribution network; budget for housing; tax structure; and use of public lands. In perhaps more limited ways, the County also has some influence over resident expectations and policy responses to offshore demand and high levels of investment/speculation.

2.1 Competition from the "Offshore Market"

The 2006 Maui County *Socio-Economic Forecast* reports that 37% of all Maui Island housing sales in 2004 were to buyers residing outside Maui County. Proportions were highest in the Kīhei-Mākena and Lahaina areas, lowest in Wailuku-Kahului.

However, a distinction must be made between (1) resort areas vs. residential ones, and (2) offshore purchases vs. actual offshore uses. First, the California millionaire who buys a Kapalua luxury vacation home built specifically for that offshore market is not competing with the average Wailuku resident (except to the extent that luxury home construction may bid up labor and supplies). Second, the investor from New York or Honolulu may contribute to a current spike in prices by outbidding the Kīhei investor, but any of them might rent out the home for local residential use.

A supply problem arises when any owner – offshore or local – moves what previously had been (or was primarily built to be) local residential housing stock into non-residential uses. Non-residential uses can include: (1) vacation homes; or (2) transient vacation rentals (TVRs).[13] Both are controversial topics on Maui, for which limited data exist. The problem is compounded by the fact that many TVRs are also part-time vacation homes, with owners defraying mortgage costs by (sometimes illegal) TVR use.

Overall Census Data on Seasonal Units and Vacant Units with Ownership "Else-where": Short of a badly needed actual house-to-house inventory effort, the best – if imperfect – proxy measures available now for uses (rather than simple ownership) are:

- Census data on vacant units that are held for "Seasonal, Recreational, or Occasional Use" (SROU) – mostly vacation homes, with some timeshare.[14]
- "Vacant units" actually occupied at Census time, but by short-term visitor renters or second-homeowners who would not remain for more than a two month total.

Exhibit 2.1 summarizes SROU data and "residence elsewhere" at the national, state, and county levels. It indicates Hawai`i is becoming a national leader in both categories, especially the "residence elsewhere" one. Maui has rates far above the state as a whole – highest of the four counties since 1990. Substantial percentages of the net increase in Maui housing units since 1990 have consisted of units in one or both of these categories. It should be noted that both measures are somewhat broad and have high potential for reporting confusion and error, in addition to the fundamental issue of mixing resort-zoned timeshare/condos/homes with residential-area second homes.

[13] The distinction between "residential" and "non-residential" uses would ultimately have to be expanded to include consideration of purchasers originally coming from out of state, but who then become full-time Maui residents without participating in the local economy – i.e., retirees or perhaps telecommuters. These numbers are difficult to predict with traditional models based on local economic conditions. The dynamics of that market are likely quite different from those dominated by investors or second homeowners.

[14] It is conceptually problematic that the Census Bureau lumps timeshare with SROUs, as these are no more likely to affect or ever become residential inventory than are hotel units. To date, timeshare probably comprises a small percentage of Hawai`i SROUs, but this is likely to increase in the future. The high SROU count on Maui represents a major part of the reason for presenting "adjusted" Exhibit 2.23 totals.

Exhibit 2.1: Recent Census Data on Vacant Housing Units Related to Offshore Uses

	Decennial Census		ACS	Change in SROU as % of Change in Total Housing Units		
	1990	2000	2005	1990-2000	2000-2005	1990-2005
Seasonal, Recreational, and Occasional Use (SROU) as % of All Housing Units						
U.S.	3.0%	3.1%	3.1%	3.6%	3.5%	3.6%
Hawai`i State	3.3%	5.6%	6.4%	18.1%	19.7%	18.5%
(HI as % of US)	*109.0%*	*179.9%*	*206.2%*			
(HI Rank of 51)	*20*	*10*	*8*	*2*	*4*	*2*
Honolulu County	1.6%	2.2%	3.1%	7.0%	24.6%	11.9%
Maui County	14.1%	17.3%	17.8%	26.7%	23.2%	25.7%
(M.C. as % of HI)	*429.2%*	*311.2%*	*277.4%*			

"Current Residence Elsewhere" as % All Housing Units	1990	2000	2005	Change in Residence Elsewhere as % of Change in Total Housing Units: 1990-2000	2000-2005	1990-2005
U.S.	1.0%		0.6%			-0.9%
Hawai`i State	1.6%		2.5%			5.9%
(HI as % of US)	*158.0%*		*378.7%*			*100.0%*
(HI Rank of 51)	*5*		*1*			*1*
Honolulu County	0.7%		1.0%			2.9%
Maui County	6.4%		8.2%			11.8%
(M.C. as % of HI)	*413.9%*		*332.7%*			

Source: U.S. Census data from http://www.census.gov (Summary File 1 for 1990 and 2000.) The 2000 Census had no question about "Vacant, Usual Residence Elsewhere." This and SROU are both sub-categories of vacant units, though they are not mutually exclusive and are separately reported.

Note: In Hawai`i, SROUs are mostly second homes (perhaps visitor rentals as well) or sometimes timeshares. "Current residence elsewhere" means a visitor or part-time resident was present but said they would not be residing there for more than two months (2005) or six months (1990).

Earlier Census data indicate Hawai`i ranked 47th on the SROU measure in 1970 and 39th in 1980, so the rise in rankings has been rapid. Among Hawai`i counties, Maui has had the highest percentage of SROUs at least since 1990.

For vacant units whose owner resides elsewhere, Hawai`i rose to the #1 position in 2005 with its 2.5% figure, and Maui's 2005 figure of 8.2% was more than three times the statewide average. It was the highest of the four counties in both 1990 and 2005. About 1 in 8 net new housing units created in Maui between 1990 to 2005 was vacant and owned by persons living elsewhere.

Nevertheless, the Maui SROU and "residence elsewhere" percentages are still striking. In 2005, when Hawai`i was #1 in the nation with 2.5% of its units vacant and owned by those residing elsewhere, Florida was #2 with just 1.4%. Not one of Florida's 33 counties had a "residence elsewhere" percentage greater than Maui County's. Only four Florida counties had a higher SROU rate than Maui. At the same time, it is to be remembered that these countywide figures can include resort-zoned units that were never part of, nor targeted for, residential use. These data alone do not clarify the impact of offshore uses in residential areas outside resorts. They simply reflect the depth of Maui's growing appeal to the offshore market.

Kauaian Institute Findings Related to SROUs: In 2005, The Kauaian Institute (TKI) produced a Maui Island study[15] that attempted to go down to the community level by: (1) an internet count of apparent TVRs in single-family homes as of 2005; and (2) comparison with 1990 and 2000 Census data on SROU units in the same communities.

The Census 2000 SROU counts were adjusted to subtract DBEDT 2000 timeshare and visitor condo counts to estimate "pure" (single-family) vacation homes vs. the remaining category of seasonal condos/timeshares.

- ***Split between single-family and condo/timeshare*:** Islandwide, an estimated 84% of year 2000 SROUs consisted of condo or timeshare units (7,821 total); only 16% were single-family vacation homes (1,492 total).

- ***Geographic location:*** Both types of SROU units were located mostly in the West and South Maui areas – a combined 97.1% for condos/timeshares and 72.5% for homes. Only 1% of each type was located in Central Maui (Wailuku, Kahului, Waihe`e, Waikapu). So the second-home impact is a negligible concern there, and a minor to moderate issue in the East and North Maui areas.

- ***Indicators of impact on residential stock since 1990:*** The study compared 1990 and 2000 housing units by community, and used some simplifying assumptions to allocate net change to owners, renters, and seasonal use. Seasonal units tended to grow more rapidly than residential units in most parts of the island.[16] But only in the Lahaina area was there an apparent significant loss of residential stock (in rentals) and a roughly matching gain in seasonal homes.

  Outside West and South Maui, there was just one community – Pā`ia – where a significant share (39%) of net change in housing units was comprised of net change in SROUs. This affects the character of the neighborhood but does not clearly establish whether there was diversion of residential stock or simply construction of new SROUs.

- ***Islandwide growth rate of seasonal homes:*** Again based on a variety of assumptions, TKI estimated growth in various categories from 2000 to 2004 (Exhibit 2.2., next page). The estimated growth rates for both single-family SROUs and TVRs were both substantially higher than growth in rental or owner units. Again, this does not establish the extent to which there may have been conversion of residential stock vs. substantial emphasis in new construction on vacation homes.

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[15] The Kauaian Institute. "Transient Vacation Rentals on Maui: A Comparative Analysis of the Geographic and Economic Footprint." August 2005. Available at http://www.kauaian.net/VacRent/. Also available at that site are similar studies of TVRs on Kaua`i and O`ahu. The Maui study received some criticism for ignoring TVRs in multi-family residential-zoned apartments and condominiums, though it included data suggesting its islandwide TVR total count (including bed-and-breakfasts) was consistent with the level of reported TVR use according to State visitor surveys.

[16] One exception was Kīhei, where nearly 25% of the island's new units were built between 1990 and 2000. Owner and, particularly, rental stocks grew more rapidly there than seasonal units.

Exhibit 2.2: Estimates of 2000 - 04 Increase in Maui Island Housing Categories

	TVR SF Units*	SROU SF Homes*	SROU MF Condo/Time	Other Vacant**	Renter	Owner
2000	644	1,492	7,821	2,353	17,055	22,986
2004	1,095	2,352	8,885	2,705	17,859	25,184
% change	70%	58%	14%	15%	5%	10%

* These two categories are not necessarily mutually exclusive. TVR figure here includes bed & breakfasts.
** Unclassified vacant, not all available for rent or sale. The substantial number of such units from the Census is a caution that the SROU figure may understate the true number of units being held for vacation homes and/or visitor rentals. The Census is making an effort to sharpen its recording of "Other Vacant" – in fact, the 2005 Maui County ACS "other" figure was down to 1,634; SROU up to 11,093. The combined 2005 ACS figure of 12,727 was thus less than TKI's estimated 2004 total 13,942 for Maui Isle.
Source: The Kauaian Institute (P. 6), full reference in footnote at bottom of foregoing page.

Kauaian Institute Findings Related to TVRs: Based on an intensive internet search,[17] TKI estimated there were 800 single-family vacation rental homes and 295 bed-and-breakfasts – totaling 1,095 TVR units – in 2005[18] on Maui Island. (Note that this figure would exclude any residentially-zoned apartments being used for vacation rentals.)

- ***Growth rate:*** As per Exhibit 2.2 above, TKI estimated TVRs to be the smallest but most quickly growing part of the Maui Island housing inventory.
- ***Numbers by place:*** The greatest numbers of TVRs in any single community were in Ha`ikū-Pa`uwela (128 rental homes and 51 bed-and-breakfasts), Kīhei (160 rental homes plus 60 B&Bs), and Lahaina (53 rental homes plus 56 B&Bs). Numerically, these three communities were the only ones to have 100+ TVRs.
- ***Percentages by place:*** As a percentage of total housing, however, certain small communities were seen as disproportionately affected by TVRs – Sprecklesville (18% of inventory in TVRs), Hanā (15%), Huelo-Waipi`o (11%), and Pā`ia (9%). Regionally, Central Maui had very few TVRs (except for some Wailuku B&Bs), and West and South Maui had small overall percentages. Proportionately, North and East Maui were more affected.
- ***TVRs related to all vacation homes:*** Anecdotal reports suggest that many vacation rentals are often operated by offshore vacation homeowners hoping to defray mortgage expenses for what might later be a retirement home. TKI estimated TVRs to comprise 36% of vacation homes (with the other 64% simply left vacant when not in use) as of 2000 islandwide, growing to 43% as of 2004. However, those percentages are based on assumptions rather than any direct survey or other database. They also do not address local vs. offshore ownership or properties.

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[17] TVRs, many of them illegal, tend to avoid giving the property address on their websites and may advertise the same property under several different names on different websites. Thus, substantial detective work and critical judgment was required for the TKI study. It should also be noted that DBEDT's annual *Visitor Plant Inventory* lists TVRs – but only those willing to acknowledge their activities to the State, thus probably a severe undercount.

[18] TKI attributes the 1,095 number to 2004 and to 2005 in different parts of the same report.

SMS Research Study of Vacation Rental Properties: In 2002, SMS Research conducted a study on single-family vacation rentals for the Maui Planning Department.[19] Among other findings, it determined that –

- ***Survey of resident attitudes:*** As of that time, residents believed there were negative impacts but still supported legalization for various reasons (property rights, sympathy for visitors seeking such accommodations, etc.).

- ***Unlikelihood of vacation rentals ever becoming residential uses again:*** In comparison to TKI's numbers, the 2002 SMS study estimated Maui County then had about 2,000 vacation rentals (many of them "large and well-appointed" oceanfront full homes, but also cottages, `ohana units, and units within or beside owners' homes) … but further estimated that no more than 20%, or about 400, "could conceivably be converted to affordable resident homes." The reasons for this conclusion – which basically said that vacation rentals have little effect on affordable rentals for Maui residents – included:

  - Larger homes, often fronting the ocean, command high market prices and so would not provide "affordable" rentals. Additionally, many owners of such units occupy them part of the year and would be unlikely to rent them on a full-time basis if they could not rent them out to short-stay visitors.

  - As for smaller vacation rental structures located in residents' home properties: "If owners are willing to have them occupied continuously – and at least some are not willing – these units are likely not in conformity with County codes for multi-family use of homes. Similarly, ohana unit rentals might be feasible but entail code violations." (P. 25)

Possible objections to these conclusions include: (1) code violations for residential use would probably be no more an obstacle than are violations of provisions against short-term visitor rentals; and (2) this logic does not address question of whether the units had been taken from residential use or whether more such conversions would be encouraged. Again, though, solid data on how many of these units were once in residential use vs. custom-built for this purpose is sorely lacking.

General Conclusion: Available data show clear and dramatic growth in units for offshore use, but simply cannot determine how much actual conversion of residential property has occurred. There is at any rate no way to prevent offshore purchases of existing residential property for vacation homes (though TVR use might be minimized through vigorous County action). Ultimately, it makes most sense to satisfy the offshore demand by building projects designed for that market. Perhaps the more important implications for residential uses will be indirect – whether Maui's limited supply of builders find it more profitable to focus development on luxury homes than on normal residential property, and if residential development can be made more profitable and/or less risky than luxury home production.

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[19] SMS Research, Inc. "Transient Vacation Rental Research." Prepared for the Maui County Planning Department, October 2002.

2.2 Infrastructure Constraints

There are fundamental infrastructure constraints that ultimately control development on Maui. As noted above, there is only limited amount of dry land and fresh water on Maui. (Obviously, salt water and underwater land are plentiful.) Even more to point, with respect to affordable housing, there is a very limited supply of land which:

- is accessible by paved road;
- has a reasonable (i.e. buildable) slope; and
- has a water meter.

Water: According to interviews with local developers for this study, access to the water distribution system is the primary infrastructure constraint on the development of affordable housing. This is not to say that Maui's rainfall, on average, does not provide enough water for the current population. Rather, it is the water distribution systems that limit home builders at the present time.

Whether or not Maui's water distribution system can (or should) be developed to accommodate future population demand is a very contentious issue, and is beyond the scope of this paper. The reader is referred to a recent study for a more complete quantitative discussion of the issue, prepared as part of a comprehensive update of the Maui County Water Use & Development Plan:

"Maui County Water Use and Development Plan: Resource Options." (Preliminary Draft) Prepared by Carl Freedman, Ha`ikū Design & Analysis, 4234 Hāna Hwy., Ha`ikū HI 96708. August 24, 2005. http://mauiwater.org/WUDPdraftResource.pdf

Traffic and Transportation Systems: Similarly traffic has been cited as another infrastructure constraint on the development of affordable housing for Maui. Any new housing project, which has a significant number of units, will alter traffic on existing roads and may even trigger the need for additional roadwork. Since traffic conditions have become a significant concern for Maui residents in recent years, the traffic impacts of proposed developments are the subject of controversy.

As with the water distribution system, whether or not Maui's road system can (or should) be developed to accommodate future population demand is also a contentious issue, which is beyond the scope of this paper. The reader is referred to the following study for a more complete discussion:

"Joint State/County Maui Interim Transportation Plan." Prepared by State of Hawaii Department of Transportation, Statewide Transportation Planning Office – in cooperation with County of Maui, Department of Public Works & Waste Management State of Hawai`i; Department of Transportation; U.S. Department of Transportation, Federal Highways Administration. January 2002. Executive Summary posted at http://www.hawaii.gov/dot/stp/mauiitp/execsummary.pdf .

2.3 Developer Perspectives

As described at more length in the companion Part B paper, we interviewed ten Maui developers on a confidential and anonymous basis for this study. Some of our questions involved perceptions of the causes of the current situation.

When developers were asked about the rise in housing prices, they gave a variety of responses which shared a common theme: *A restrictive and time-consuming permitting process has prevented housing supply from meeting demand.*

Numerous news articles have cited developers' complaints about the length of the permitting process and its impact on housing affordability. More than three years ago, the president of the Maui Contractors Association was quoted as saying that delays in housing projects generally create a lack of inventory and cause housing demand and prices to rise.[20] Developers at that time also said they would be willing to build more units in the affordable range, if the necessary entitlements and infrastructure were provided by the government.

Several reasons for housing price increases that were cited by Maui developers in our interviews:

- "Market demand and lack of product because of government process"
- "Lots of demand and little supply"
- "Permitting delays restraining new supply"
- "Infusion of out-of-state buyers able to pay"

In particular, the delay involved in rezoning seemed to strike an emotional chord. Developers repeatedly expressed frustration over being subjected to a restrictive and lengthy entitlement process, saying that government officials do not understand that restricting permits when demand is high causes prices to rise. In light of this, they also felt unfairly blamed for current house prices,

Comments from developers about laws of supply and demand vs. government practices generally involved three aspects:

- Factors that local government can (and should) control;
- Factors affected by developer or landowner practices; and
- Factors they believe are misunderstood by government, the press, and/or the public.

Factors that local government can and should control: Current governmental policies, in effect, act as a meter for growth, said the developers we interviewed. This is not done by explicitly stating the maximum number of permits to be issued each year. Instead, the permitting process acts as a kind of obstacle course which meters growth

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[20] Gary Kubota. "Maui developers upset over new planning director." *Honolulu Star-Bulletin*. (http://starbulletin.com/2003/02/03/news/story4.html) February 3, 2003.

by frustration and delay. Metering growth by making the permit process onerous is not uncommon. It is used, consciously or not, by many local governments to control growth. However, in places which take this approach, the results for affordable workforce housing are the same: No one wants to build anything but expensive houses when it takes so much time and effort to get the permit.

Factors affected by developer or landowner practices: Some of our interviewees noted that major Maui land owners, by following normal business practices, avoid putting too much land on the market at one time. To do so might lower prices, reducing long-term overall profits. However, just as with the County's permitting process, this can contribute to extremely high price increases during periods of strong demand.[21]

Factors misunderstood by government, the press, and/or public: Developers of new housing (especially new luxury homes) are often called responsible for high housing prices, when in fact new houses represent only a small portion of the homes sold. Resales account for many times the number of new house sold. However, some noted to us, very few articles are written about real estate agents fees and the profits made by sellers of existing homes.

In summary, the causes of current housing problems are the subject of much discussion among housing developers. However, they feel that the issues listed above need to be better understood by both government and the voting public.

As a group, the developers on Maui said they are willing to cooperate with policies and practices that preserve open space and natural beauty. They said they are willing to recognize that the rate of population growth and development needs to be carefully monitored and even metered, in order to prevent environmental damage.

Developers also said they would be more likely to accept limits on development for environmental reasons if these limits were openly stated and the permit process were more straightforward and efficient. They expressed willingness to build more affordable units in the range if the County provides the necessary entitlements and infrastructure.

2.4 Economists' Perspectives on Causes[22]

This topic could be a study or a full book in its own right, and so we must focus on a particular aspect. We will primarily follow up on developers' concerns about the impact of the regulatory system, particularly the question of incentives or disincentives for generating more supply when the economic cycle takes an upswing.

[21] We would note that Maui's largest landowners (1) are also among its largest employers, and thus have some incentive to be concerned about affordable workforce housing; and (2) several have major proposals now in the permitting process that could provide such housing.

[22] The authors are researchers, planners, and do basic socio-economic research; we do not claim specialized expertise in the economics of housing, which is a complex and specialized field. We note the irony that Hawai`i – a state that has been affected by housing issues to the degree and lengthy period of time documented in this section – has not encouraged development of specialized expertise in this field at the University of Hawai`i or similar research institutions.

There are many other cause-effect issues, but not necessarily ones over which the County has any control. Briefly noting just a few of these:

(1) Why have housing prices gone up nationally? Analyses of the most recent cycle tend to focus on basics of interest rates, increased willingness to assume household debt, wealth transfer to the Baby Boom generation, increases in real household income, new financing methods, and investors looking for new opportunities after the collapse of the "Dot Com" stock market bubble.

However, that is a short-term perspective. From a longer-term perspective, one of the more trenchant analyses focuses on the "silver lining" mentioned at the beginning of Section I – the increase in indicators of what are generally considered to be housing quality indicators. Anne Mackin argues that the "American Dream" of ever-increasing material attributes in housing has been unsustainable in its upward trend, and that expectations of large homes and/or lots must be tempered in the future:

> When developers look at the difficulties of increased regulation … and vocal opposition to growth, they sometimes see regulators, conservationists, protectionists, and citizens as the problem. And when citizens and regulators look at the rate and quality of suburban growth in this country, they often fault developers. But manipulating all players on this stage are the forces of population growth and economic strain that causes frustration on both sides. The American Dream [big homes and yards] is at the intersection of those factors.[23]

***(2) Why does housing cost more in Hawai`i?*** The basics involve limited land supply, limited number of major landowners, and the fundamental desirability of the Islands. Bank of Hawai`i Chief Economist Paul Brewbaker observes that Hawai`i single-family home prices have maintained a roughly constant premium ratio over national figures since at least 1960, because investment capital is mobile and rates of price appreciation thus rise on a parallel track throughout the entire country: "That is to say, housing prices have *always* been higher in Hawai`i than on the mainland and probably *always* will be, if varying from time to time."[24]

(3) How are government subsidies most effectively directed? Most of the attention to this issue has necessarily been at the national or state/provincial levels, where budgets permit more substantial expenditures. In a review of the interaction of planning and housing economics in Europe and the U.S., Michael Oxley finds the prevailing emphasis has shifted to "demand subsidies" (providing support to low-income consumers, as with housing vouchers) rather than "supply subsidies" (providing land, inventory, or major incentives to developers):

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[23] Anne Mackin. *Americans and Their Land: The House Built on Abundance.* University of Michigan Press: Ann Arbor MI. 2006. P. 142.

[24] Paul Brewbaker "Hawai`i Economic Trends." Bank of Hawai`i. https://www.boh.com/econ/. P. 9.

> Supply subsidies have generally declined in importance relative to demand subsidies, largely as a reaction to changing perceptions of the housing problem that is being addressed. The more housing has been seen as a problem of distribution and low incomes (rather than as a problem of production), the more the emphasis has been on housing allowances and the less the emphasis has been on object subsidies.[25]

At the statewide level in Hawai`i, there have been growing discussions of the housing problem in terms of being an "income problem," along with debates about the fairness of cut-off points for HUD subsidies. However, at the county level, budgets and authorized powers largely restrict policy options to the supply issues … which brings us back to the impacts of the regulatory system and – Mackin's observation to the side – developer complaints about its role in affecting prices.

A small but growing body of economic literature supports the idea that tighter regulation comes at the price of higher housing costs *and* lower "elasticity" – i.e., the ability of housing producers to respond quickly to economic cycles that produce a surge in demand. For example, economists from Harvard and the University of Pennsylvania explored data that showed far less new construction occurring in American cities with tight regulatory frameworks, as well as a decline in percentage of home values related to construction costs. They hypothesized that increased influence of regulation could be attributed among other factors to improved ability of homeowners to protect existing property value by opposing new supply, more support for these efforts from the courts, and landowners' or builders' "decreasing ability to bribe regulators." At the same time, the authors acknowledged there has been too little research and still much to learn:

> Changes in housing supply regulations may be the most important transformation that has happened in the American housing market since the development of the automobile, but they are both under-studied and under-debated … The costs appear to include higher prices and a misallocation of labor, while the benefits include internalization of construction-related externalities. Given the implications of this regulator shift, the economics profession could make a major contribution by analyzing the welfare effects of regulation on the rise in housing prices.[26]

California cities have a wide variety of regulatory systems relative to housing development. Analysis of outcomes for 407 California towns found a strong relationship between degree of regulation and both cost levels at any one time and cost increases over time, for both owners and renters, after holding other factors constant. Provision of new supply was also affected, both absolutely (cumulative over time) and in terms of elasticity (in response to spikes in demand as the economic cycle changed):

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[25] Michael Oxley. *Economics, Planning and Housing.* Palgrave MacMillan: United Kingdom and New York. 2004. P. 196.

[26] Edward L. Glaeser, Joseph Gyourko, and Raven E. Saks. "Why Have Housing Prices Gone Up?" Harvard Institute of Economic Research, Discussion Paper 2061. http://post.economics.harvard.edu/hier/2005papers/2005list.html

> Thus, those cities with the greatest increases in housing demand experienced the lowest increases in new housing supply. The strongest evidence of the impact of regulation on housing costs comes from the estimates of the supply elasticity of housing for regulated and unregulated jurisdictions. Using an endogenous predictor of changes in housing demand, we find that the responsiveness of the housing stock via new construction is weaker in more regulated cities, relative to less regulated cities. Moreover, the difference in responsiveness is greatest for the supply of multi-family housing units, the source of supply that is most frequently the target of regulation.[27]

A similar study of 45 cities at the national level found that, under conditions of high demand, a rough index of regulatory "stringency" – based on factors such as approval time for residential projects, percentage of zoning changes, etc. – was able to predict which towns were able to add housing supply when needed. They also found that, as urban density increased, elasticity decreased:

> Metropolitan areas that were heavily regulated … always exhibited low elasticities. … We do find it remarkable that, in spite of the crudeness of our index of regulatory stringency, it helps predict supply elasticity in a statistically significant and economically important manner. We also find that an important characteristic of urban form (population density) is also an important predictor of supply elasticity. Regardless of how it is specified, higher densities produce lower elasticities.[28]

Local economist Paul Brewbaker has pointed out that tighter regulatory regimes are more common in places with limited supply of land – coastal parts of America and, of course, Hawai`i. He has charted the intensity with which the economic cycle varies (combination of price and elasticity) for high-regulation states such as Hawai`i, California, and Massachusetts, vs. low-regulation states such as Iowa, where an unfettered land supply equates to low regulation. In the results shown in Exhibit 2.3 (following page), he also includes Colorado:

> Colorado has a price trajectory of comparatively low amplitude that is a mix of the two worlds, highly-restrictive and unrestrictive. Greeley, in Weld County, CO, is one of the fastest growing communities in the United States, while right next door Boulder County, CO, with its back to the Front Range of the Rocky Mountains, has a notoriously restrictive regulatory posture towards development. Colorado is a blend of Iowa and Hawai`i, so to speak, from regulatory and geographic perspectives. As such, Colorado experiences cyclical variation in home prices over time somewhere between those of the coastal communities and Hawai`i, on the one hand, and of Iowa, on the other. *(Paul Brewbaker, personal communication, Aug. 18, 2006)*

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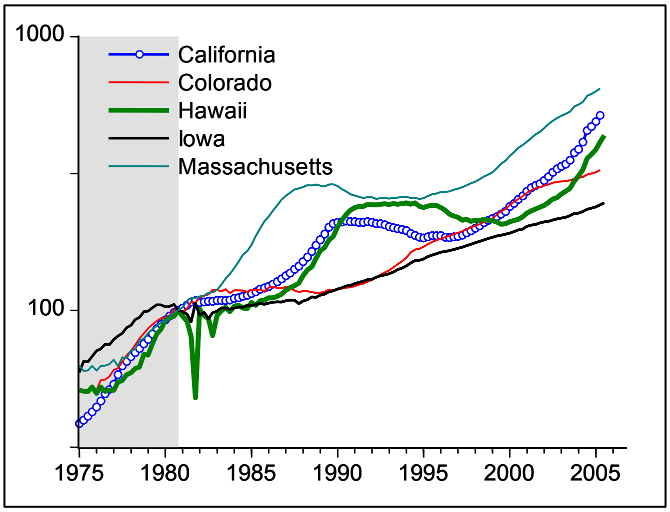
[27] John M. Quigley and Steven Raphael. "Regulation and the High Cost of Housing in California." *American Economic Review*, Vol. 95 (2), 2005. Pp. 323-328. Quote from P. 328.

[28] Richard K. Green, Stephen Malpezzi, and Stephen K. Mayo. "Metropolitan-Specific Estimates of the Price Elasticity of Supply of Housing, and Their Sources." *American Economic Review*, Vol. 95 (2), 2005. Pp. 334-339. Quote from P. 338.

Exhibit 2.3: Differences in State Housing Cycles by Regulation / Land Supply



Office of Federal Housing Enterprise Oversight (OFHEO) single-family same home sales price indexes (*base period 1980q4 = 100, logarithmic scale*)

Source: Paul Brewbaker, Senior Vice President and Chief Economist, Bank of Hawai`i. "Aspects of Maui Residential Investment." Presented to Realtors® Association of Maui, July 21, 2006.

Brewbaker points out that all of the states in the charts above show about the same *annual average over time* in housing price appreciation (approximately four percent per year). The difference is that Iowa tends to see roughly that same percentage increase each and every year, whereas Hawai`i, California, and Massachusetts have periods of stagnation or even decline, followed by painful rapid "catch-up" times. These states, with geographic constraints and associated regulation to control precious open space, have higher values than Iowa due to greater demand, but the long-term growth in value is about the same. This key difference is due to the volatility of the cycle – the political shock and awe that accompanies the catch-up periods for Hawai`i and similar states.

There is of course a reason that regulation has become more stringent in Maui and other places with heavy population pressures and limited land supply. Part of that reason is to protect the investment made by residents who have chosen to live here because of the present conditions – not just the financial investment of homeowners, but also the psychic investment of people who choose to forego economic opportunity elsewhere in exchange for lifestyle benefits here. But even more fundamentally, regulation protects (or is intended to protect) the scenic and open qualities on which much of Hawai`i's economy is based.

Thus, the purpose of this discussion is not to urge total abandonment of Maui's planning framework, but rather to:

(1) Seek acknowledgement that regulation does have costs, which Hawai`i residents have generally been willing to pay for many decades;

(2) Urge exploration either of much more accelerated reviews at times when the cycle is obviously beginning to heat up (to permit more elasticity at critical times) … and/or minimize the extent of political negotiation of development conditions and maximize the degree of clarity and specificity about what is required of developers.

In his book on the interaction of planning and housing economics, Michael Oxley begins by rejecting the idea that market forces free of government "interference" can achieve ideal solutions, because markets cannot exist without a governmental presence to protect the exchange of property rights. However, he also argues that regulatory systems with long approval processes and unpredictable permit conditions add substantial risk to housing producers' already risky business. And more risk translates into a desire for more return … which is harder to achieve when building low-end housing than high-end housing. Under those conditions, as Maui developers told us for this study, it feels as though the government is saying one thing ("we want more affordable housing") and doing another (setting standards and barriers most suited to upscale homes).

Oxley further believes that planning goals will be helped, not hindered, by reducing the level of uncertainty historically (but not necessarily logically) associated with tight regulatory regimes. He argues this would strengthen planners' hands against the pesky preference of consumers for suburban types of homes that add to sprawl and traffic congestion:

> High degrees of consistency will increase certainty. Strong degrees of prescription in planning may also simplify the demands to which developers respond. In a loosely planned environment, consumer preferences with respect to items such as density and location will be of more importance than in a strongly planned environment where decisions on such items are determined by planning. Developers may find that responding to planners' demands is simpler than responding to consumer demand.[29]

Of course, Oxley here is envisioning actual *planning*, not simply regulation of private-sector proposals. But it is also planning based on *economic reality* of which he speaks. For that to occur, county planners and housing producers must set aside some of their traditional adversarial relationship and agree to hammer out common goals and compromises.

2.5 Economic Post-Script

A fundamental difference in the way that some economists and some planners (as well as many members of the public) view housing is that economists see housing values as having two components: "*consumption value*" (the same value we assign to owning cars or clothes) and "*asset value*" (the sort of investment perspective associated with stocks or bonds). Many people – and certainly all who buy real estate as investments –are keenly aware that their house is likely to appreciate in value. Others pay much less attention to this, placing more emphasis on the security of having their own "territory," and may even be annoyed by increases in value reflected in rising property tax bills.

[29] Oxley, *op. cit.* P. 213.

This philosophical value difference is likely to become increasingly important as government begins to place limits on the possible total appreciation in value that purchasers of subsidized housing are allowed to enjoy, in an attempt to "ensure that affordable housing remains affordable." This is usually done by capping a homeowner's permissible return to the local Consumer Price Index (CPI) – i.e., allowing inflation and no more to figure into future resale prices.

For those who perceive that housing is and ought to be an investment – a safeguard against the possible ravages of disease and/or a legitimate increase in wealth for themselves or their heirs – this sort of constraint seems unreasonable and tyrannical, a way of keeping (relatively) poor people poor. However, for those who fear they or their children will not have the chance to enjoy even the "consumption value" of housing, the insistence on protecting "asset value" can seem to reflect only the perspective of the privileged – a giant national Ponzi scheme in which Americans' investment in housing is based on the irrational expectation of more and more investors, until the bubble bursts.

The truth is likely somewhere in between: Even ignoring short-term imbalances between demand and supply, growth in housing values will *and should* outstrip inflation to the extent that (1) overall national growth in income continues to exceed inflation (the fundamental basis for stock market appreciation); and (2) Americans continue to expect housing to be ever larger and/or of higher quality than their own childhood homes, and are willing to pay ever increasing percentages of their incomes to meet those expectations. The first is a desirable reason for increased housing values; the second, more open to debate.

We encourage Maui planners and housing stakeholders to explicitly surface this issue of asset value as policy decisions are made, and to assure that buy-back provisions or other caps on values are neither moving Maui more toward a two-class society nor opening the door to taxpayer-subsidized windfalls in housing speculation. A middle ground, based on advances in real income rather than CPI, should be attainable.

III. RECOMMENDATIONS

3.1 Introduction

Recommendations in this Part A paper are limited to the data quality concerns and the very broad economic cause-effect issues previously discussed. More specific housing policy recommendations are contained in the Part B companion paper.

The first overall recommendation, set forth in Section 3.2, is for ***better data and policy research*** on which to base policy decisions. The second overall recommendation (Section 3.3) is to seek to ***make housing policies more sensitive to economic cycles*** that are bound to occur in the future as they have in the past.

3.2 Improve Housing Data, Research, and/or Measurement

Get Better Data on Residential (Vs. Resort) Housing: As discussed in Section I, currently available data on housing sale prices and volume confound resort-zoned homes (never intended for the local market) with properties elsewhere on the island. Also, resale data are readily available, but new housing data are not.

We recommend the County work with data providers for both resales and new homes – e.g., Title Guaranty, Realtors Association of Maui, Rick Cassiday – to explore the costs and feasibility of developing a reporting system which gives a more complete and accurate picture of the housing market on Maui.

Additionally, the "KIVA" software which the County now uses for permitting and community access to County information on the Web could be better utilized to track all housing sales and permit information related to real property transfers, taxes, and building permits. The County should explore the potential it already has in house to develop a database for affordable housing statistics.

Track Offshore Housing Uses (Not Just Purchases): Offshore housing purchases (especially outside resort areas) constitute an important part of the Maui real estate market. However, no direct study has yet been done that carefully tracks how much of the purchased housing stock actually remains available to the pre-existing residential population (i.e., as long-term rental) vs. how much is diverted for other uses – vacation homes and/or transient rentals, full-time housing for new residents not involved in the local economy (e.g., retirees), etc.

Such study needs to be longitudinal, as changes in the housing cycle or changes in County policies (or enforcement of policies) may cause offshore investors not occupying their homes to switch back and forth among long-term rental use, short-term rental use, or leaving the homes mostly vacant. Conceivably, it might be done in partnership with other Neighbor Island counties facing similar issues.

Lobby the Census for Better Measures: The fallback method for measuring or estimating non-residential use (as opposed to ownership) includes the Census American Community Survey (ACS) questions about "seasonal, recreational and occasional use" (SROU) and "current residence elsewhere" discussed in Section II. The ACS will not have data below the county level until 2010, and that will be based on three-year averages.

Thus, the ACS data on this subject are inherently "fuzzy." Maui County (as well as Kaua`i and possibly the Big Island) has a strong interest in working with the Census Bureau to make improvements. For example, timeshare might be made a separate category rather than being included with the SROU category. Census staff with whom we spoke suggested a potential ally on such data issues, one with a strong lobbying presence in Washington D.C., might be the National Association of Home Builders.

Develop Housing Policy Research Expertise: The entire state of Hawai`i has had a recurrent housing problem for decades, yet no organized and continuous focus on housing issues has been organized at the University of Hawai`i or similar research institution. Maui County should work with the State to encourage development of multi-disciplinary expertise that includes economics, planning, business, real estate, and public policy development.

One possible home for such an effort could be in the University's new Public Policy Center at Mānoa. The private Hawai`i Institute for Public Affairs is another option. Either would probably require seed money from the Legislature to begin.

3.3 Making Housing Policy More Sensitive to Economic Cycles

Not only Maui, but all of Hawai`i, has a history of paying attention to housing supply issues only at the peak of the cycle, when prices have reached high points and sales volumes have reached low points. The problem is that the policies enacted at those times have more often stopped production of new mid- to high-end supply than started production of affordable units. For example, in the early 1990s, the State Land Use Commission required 60% of all new units to meet various categories of being "affordable housing units." But the cycle had peaked … developers saw no market for the affordable units … and the effect was to stop production of virtually any housing. Even the possibility of "trickle down" from new supply, arguable as that might be, was eliminated.

As previously noted, much of Hawai`i's housing pain is associated not just with our higher price levels (which are likely to continue so long as Hawai`i is desirable enough to generate high demand and investment), but with the greater volatility of our cycle. Instead of fairly constant appreciation of prices, our markets plateau and stagnate for years, then play "catch-up" in ways that squeeze unlucky homebuyers and generate sticker shock for property taxpayers who had grown complacent during the plateau.

Realistically, our challenge cannot be to bring Maui's home prices down to the level of, say, Iowa. Rather, it is to somewhat smooth out our stop-start housing supply pattern and allow housing values to appreciate in a somewhat more steady and predictable manner. There will still be cycles, but perhaps they need not be so extreme.

The general strategy[30] for accomplishing this would have to include:

- The political will to take a long-term perspective, and to learn from history that the time to stimulate affordable housing supply is in advance of a "boom," not during it.
- As suggested above, increased investment in homebuyer education and financial literacy … not just for those hoping to buy right away, but also using schools, banks, and credit lines to prepare people (especially younger people) to plan ahead as much as a decade. Unless younger Maui residents understand they need to steadily accumulate a down payment, perhaps for a small starter townhouse, their chances of owning a family home may grow much smaller in the future.
- During peak or immediate post-peak periods such as the present, focus on working with nonprofit housing developers, moderate expansion of the rental supply, and use of "good times" tax revenues for infrastructure development.
- Clearly designate preferred land for future new housing, so that it can be made quickly available when the economic cycle turns upward.
- Implement fast tracking or any other incentives from the "tool kit" (discussed in Part B companion paper) for affordable housing projects at times when the cycle appears likely to turn. Research and experience are needed to determine when this will be, but possibilities include:
    - Upticks in the employment situation – as was noted in Section I, the unemployment rate has been a good leading indicator of the economic cycle.
    - The point in the cycle when the volume of sales begins to rise, but prices are not yet much increasing.[31] History indicates the cycle for Hawai`i housing sales

[30] It must be "general" at this point, because we are unaware of other jurisdictions that have sufficient experience to provide guidance about specifics. Other areas with similar sharp cycles – such as California and Massachusetts – have apparently accepted high volatility as the price to pay for the perceived benefits of high regulation. But Maui's situation has become more extreme, and so Maui may need to be a pioneer in attempting to reduce the level of volatility.

[31] This is the trigger point recommended by Bank of Hawai`i economist Paul Brewbaker, who has given substantial input to this section.

volumes moves up before prices rise and also moves down before prices stabilize or fall.

It is at this latter point in the cycle that developers may see the most likelihood of actually making a profit from regular residential housing development – not reluctantly providing such housing stock as the price to pay for the "real action" of luxury homes.

Additionally, we would note that this broad strategy probably has more chance of developing into something specific and tangible if combined with some of the lessons learned from the Section II review of economic literature on housing, especially:

(4) Housing producers and their lenders consider factors such as time and certainty when setting a desired level of return, which in turn influences what type of housing they are willing to develop.

(5) Long and uncertain approval processes are tolerable for luxury home projects with potential large profits.

(6) Market-level, including affordable units, projects become much more attractive with shorter and more transparent approval processes.

In short, the length and complexity of housing approval processes should correlate with the price level, with quicker and simpler reviews for affordable products – so long as there is a clear County predetermination of where appropriate residential development is to take place and when/how infrastructure is to be provided.

APPENDIX: AFFORDABLE HOUSING DEMAND AND SUPPLY PROJECTIONS AS OF SUMMER 2006

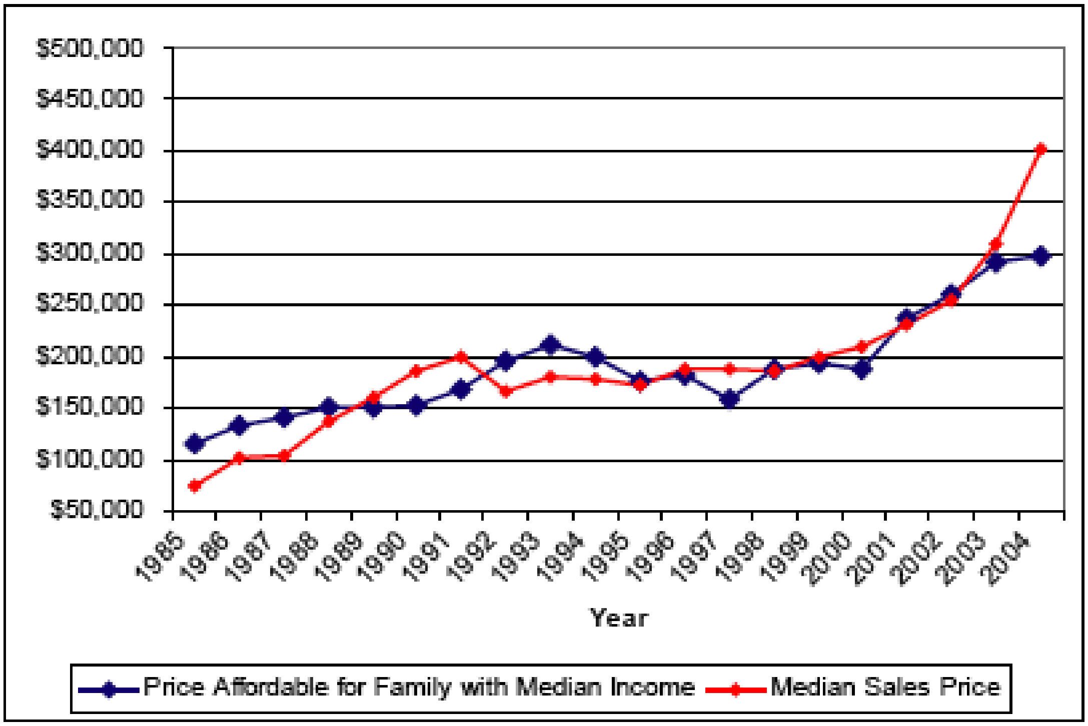
With the permission of the Kīhei Community Association, the following information has been extracted from a July 19, 2006 report for that organization entitled "Maui Affordable Residential Housing Study." Information is current as of that time.

Table of Contents

A.1 Context of Analysis

Escalating Housing Prices: According to the Maui County data of a recent comprehensive study on affordable housing, "Since 2002, prices have tended to be well above levels most residents could afford. In 2004, the median sales price was 174% of the amount affordable to moderate-income residents.... " (p. 41, full citation below following chart)

Exhibit 3-E: ANNUAL AFFORDABLE AND MEDIAN PRICES, MAUI



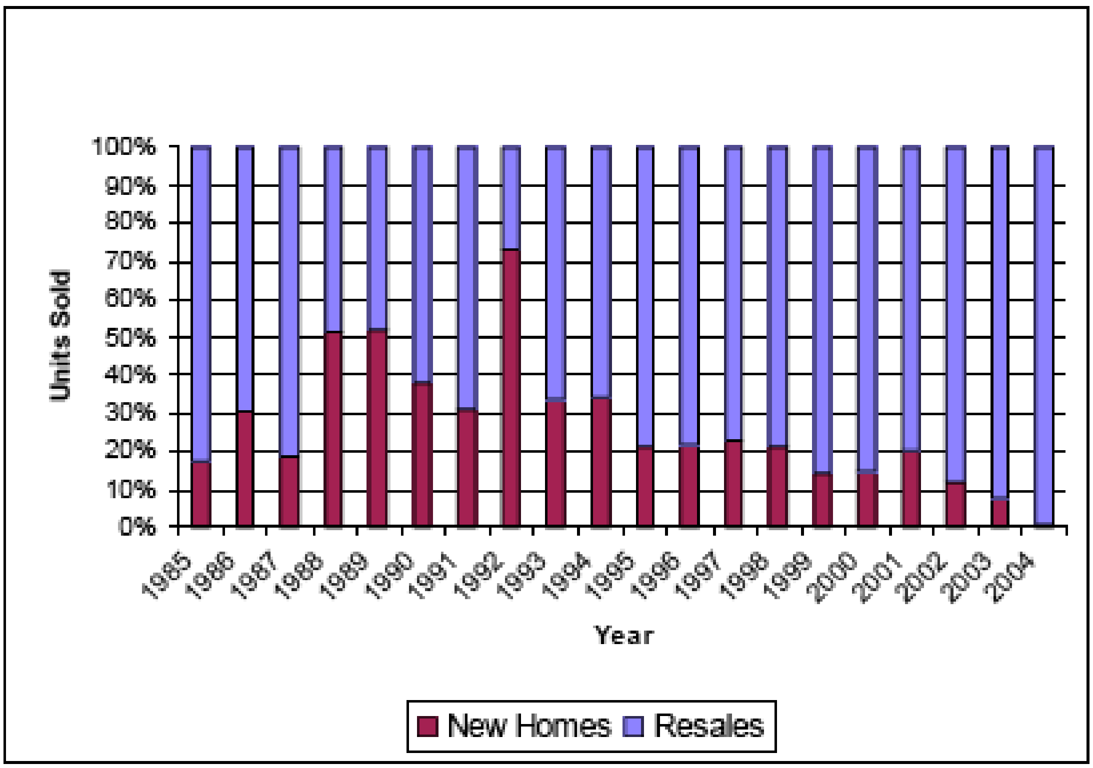
Source: SMS Research & Marketing Services, Inc. *Affordable Housing Policy and Hawai`i's For-Sale Housing Markets*, Prepared for Land Use Research Foundation of Hawai`i. Honolulu Hawai`i, October 2005. "Exhibit 3-E: Annual Affordable and Median Prices, Maui."

New Homes Vs. Resales: Although house prices have risen dramatically, the production and sale of new homes remains a relatively small portion of the total real estate market, as the charts on the next page demonstrate. There are two obvious implications:

- Removing barriers to new housing supply is a critical priority; and

- Unless and until that is achieved, attaching inclusionary housing requirements to new housing projects – which, as our study demonstrates, can sometimes *suppress* new supply – will have little impact on housing prices and production.

  As the SMS study concluded: ***"Affordable housing regulations affect only a small part of the housing supply, and do little to affect prices of resales, the great majority of the market."*** (p. ii)



Source: *Ibid.,* "Exhibit 3-B: New Home Production and Resales, Maui" and "Exhibit 3-C: New Home Share of Market, Maui."

This section provides background information about affordable housing issues generally and in Maui County specifically. We include data about estimated demand and upcoming supply of such housing, and also discuss potential long-term solutions through a Community Land Trust.

A.2 The Current Status of Affordable Housing on Maui

A.2.1 Estimated Demand

Alice Lee, Director of Housing and Human Concerns for the County of Maui, cited estimates from a State-commissioned study that Maui needed 1,390 affordable units for sale during the 2003-2007 period or 278 per year for first-time homebuyers. She also estimated that for the same period Maui needed 2,570 affordable rental units, or 514 per year.[32]

Ms. Lee's data were derived from SMS Research and Marketing Services Inc., Final Report, *Hawai`i Housing Policy Study*, 2003, December 2003, Table 1A-Maui-4, page 86. The table displays data from the Effective Demand Model (HUD) for the County of Maui. The table displays all those households from 30% of median income and under to 80% of median income as renters. All of those households at 80% of median income or above are listed as purchasers of homes. In estimating the number of household requiring affordable for-sale units, Ms. Lee employed the 80% to 140% of annual median income (AMI) range.

In reality, some people in the higher income ranges would not actually quality for mortgages due to lack of credit. FICO's standard figure is that just 85% will qualify.[33] The first exhibit on the next page is based on SMS numbers for a different time range, 2006 - 2010. NOTE: In this analysis, we assume those qualifying for mortgages will be in the *100% to 160% AMI range*, which is the way that the current Maui draft affordable workforce housing policy is written. [Note: The ordinance as eventually adopted had a different range, of 80% to 160%.]

The second set of numbers on the next page shows the total estimated demand following the FICO adjustment. It brings the total five-year demand to less than 1,000 for-sale units, or about 200 a year. This number may seem low and – as discussed in the following Sec. A.3 – it may increase if the existing forecast model were recalibrated to reflect continuing increases in Maui housing costs. The key point is simply that demand for-sale units must be tempered by the reality of qualifications for mortgage.

Note that, even before the FICO adjustment, the demand for rentals exceeds demand for-sale units by a three-to-one margin. After the FICO adjustment, it would be even greater.

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[32] Statement of Alice Lee, Director of Housing and Human Concerns, County of Maui, at the December 8, 2005 Maui Public Hearing summarized in the Report of the Joint Legislative Housing and Homeless Task Force, Hawai`i State Legislature, January 2006. SMS Housing Policy Study may be downloaded from: www.hcdch.Hawai`i.gov/03policystudy.pdf.

[33] www.myfico.com.

	RENTAL	RENTAL	RENTAL	RENTAL	FOR SALE	FOR SALE	FOR SALE
	30% OR LESS	**30%-50%**	**50%-80%**	**80%-100%**	**100%-120%**	**120%-140%**	**140%-160%**
2006	120	170	280	110	140	60	35
2007	100	150	240	90	120	50	30
2008	130	190	300	120	150	70	35
2009	110	160	260	100	120	60	30
2010	110	160	250	100	120	60	30
	570	830	1330	520	650	300	160
	13.1%	19.0%	30.5%	11.9%	13.3%	6.1%	3.3%
		74.5% RENTAL				**22.7% FOR SALE**	

Total Demand: For-Sale Units, 2006 - 2010, with FICO Qualification Adjustment

AMI	100%-120%	120%-140%	140%-160%	Totals
100% Applicants (per above)	650	300	160	1,110
85% Approved for mortgage	**553**	**255**	**136**	**944**

A.2.2 Estimated Near-Term Future Supply

Although there are conflicting supply estimates and there are questions about which projects are truly "ready to roll," the fundamental conclusion from County data is that demand can be satisfied if and when currently planned affordable housing projects can be administratively processed and brought to fruition.

Current published information on affordable housing in Maui County consists of detailed lists of projects in various stages of development, from conceptual to completed. One of those lists, prepared by the Maui County Department of Housing and Human Concerns (HHC), dated December 7, 2005, appears as an exhibit on the following page.

The exhibit provides data on each developer, the name of each project, the total number of units, the number of affordable units, multi or single family designations, the location of each, the percent of each project completed, the start and completion dates for each, and the zoning and the project status of each project.

Of the 31 projects listed, 16 are exclusively affordable housing projects while eight are mixed-income investments. Comparable data on the remaining seven has not yet been made available. Six of the projects on the HHC list belong to the Department of Hawaiian Home Lands (DHHL). Among the target populations are those without homes, the disabled, and the elderly. The list includes single family as well as multi-family projects. Both for-sale and rental units are included.

Affordable Housing Projects

Source: Maui County Department of Housing and Human Concerns (12/2005)

Developer	Name	No. of Units	Aff. Hsg.	Single/Multi-Family	Rent/Sale	Location	% Complete	Start Date	Complete Date
A&B	Haliimaile	149	25	Single	Sale	Haliimaile	0%	2007	
A&B	Wailale Project	680-1360		Single/Multi		Wailuku			
Bettsill Brothers	Kamali`i Akayna Estates	92	46	Single	Sale	Kihei	0%	Sep-04	
Bettsill Brothers	Villas at Kahama Ridge	117	117	Multi	Sale	Kahana	47%	2004	Feb-06
County of Maui	Central Maui Senior Housing	40	39	Multi	Rent	Kahului	0%	Sep-07	1-Aug
Department of Hawaiian Homelands	Honokowai Project					Honokowai	0%		
Department of Hawaiian Homelands	Kula Residence Lots II	99	99	Single	Sale	Kula	0%	Dec-05	Dec-06
Department of Hawaiian Homelands	Lanai Residence Lots I	45	45	Single	Sale	Lanai City	60%	Feb-04	Sep-06
Department of Hawaiian Homelands	Villages of Leah`i 1A & 1B	104	104	Single	Sale	Lahaina	0%	Oct-05	Dec-06
Department of Hawaiian Homelands	Waiehu Kou III	115	115	Single	Sale	Waiehu	75%	Aug-03	Sep-05
Department of Hawaiian Homelands	Keokea	320	320	Single	Sale	Kula	0%	Feb-06	Feb-10
Hale Mahaolu	Hale Mahaolu Ehiku - Phase I	54	54		Rent	Kihei	0%	Jun-05	Oct-06
Hale Mahaolu	Hale Mahaolu Ehiku - Phase II	58	58		Rent	Kihei	0%		
Hale Mua Properties, LLC	Hale Moa	441	225	Single	Sale	Waiehu	0%		
Kaanapali Development Corp.	Waimee Affordable Housing	800	408	Mix	Mix	Lahaina	0%	2006	2010
Kaanapali Development Corp.	Ka`anapali 2020 Dev. Pu`ukolii Villages	2810	562	Mix	Mix	Kaanapali		2007	2027
Agora Realty	Kane Street Commercial Mix Use Project	90		Multi	Mix	Kahului	0%	2005	
Lokahi Pacific	Hale O Manao Hana Hou II	15	15			Wailuku	100%	2003	2004
Lokahi Pacific	Lokahi Kuhna	12	12	Single	Sale	Lahaina	0%	Nov-04	2005
Agora Realty	Kahului Town Center Student Housing Project	104	104		Rent	Kahului	0%	2005	
Maui Economic Concerns of the Community Inc.	South Maui Resource Center		120			Kihei	0%		
Maui Economic Concerns of the Community Inc.	West Maui Resource Center Phase II					Lahaina	0%	Nov-04	Jul-05
Maui Economic Concerns of the Community Inc.	West Maui Resource Center Phase I	120	120			Lahaina	100%	2003	2004
Maui Lani Partners	Village Mix Use	640	320	Mix	Mix	Kahului	0%	Aug-05	Aug-06
Maui Land and Pineapple	Kapua Village	45	45	Single	Sale	Mahinahina	70%	2002	2003
Maui Land and Pineapple	Pulelehua	895	456	Mix	Mix	Kahana	0%	2005	2006
Ooka Super Market	Lokenami Hale	62	62	Multi		Wailuku	0%	Jul-04	Jul-05
Self Help Housing Corperation of Hawai`i	Halani Gardens II	14	14	Single	Sale	Hana	0%		
Hana Ranch	Hana Project			Single	Sale	Hana	0%		
Spencer Homes	Waikapu Affordable Housing	410	205	Single	Sale	Waikapu	0%	Dec-04	Dec-08
West Maui Condos	Mami Breakers	90	52	Multi	Sale	Honokowai	0%	Dec-04	Dec-05

The list includes a total of 3,742 proposed affordable housing units. (It does not include the Leiali`i Villages development proposed by Housing and Community Development Corporation of Hawai`i (HCDCH) discussed below.) Of the 3,742 proposed units, 1,424 are for sale, 572 are for rentals, and 1,746 are listed as mixed without any indication of the split between units for sale and rentals.

If one allocates the mixed uses using a 2.5 ratio (approximately the ratio of 1424:572) between for-sale and rentals, then the total would be approximately 2,670 for-sale units and 1070 rentals (rounding to the nearest ten).

There is a second available list of affordable housing projects on the Island of Maui, shown on the following page. It was recently published by the Long-Range Planning Division of the Maui County Planning Department in April 2006. It is available in both tabular and map form, and the tabular form appears below. The map form – which is shown as the final appendix to this report – differentiates among affordable housing projects that are: (1) planned and committed; (2) planned and designated (the fate of these projects, according to the Department, is uncertain); and (3) proposed (there had been no formal submission of these projects to the Department).

This Planning Department list consists of 31 projects on the Island of Maui. This listing and the one from the Department of Housing and Human Concerns are not strictly identical, even though the total number of projects is the same. The total numbers of affordable units on the two lists are vastly different. No attempt has been made to reconcile the two listings.

Of the 31 projects listed by the Planning Department, 14 are mixed income and 17 are exclusively affordable housing. Overall, the Department calculates that 44% of the total units included in its compilation are intended to be affordable. The Department's total of affordable housing units in its compilation is 9,441. Recalculating the total for this Report yielded a figure of 9,480 affordable units. This is the figure used in the following paragraph.

Of the 9,480 units, 5,328 or 56% fall in the planned and committed class; 688 or 7% are in the planned and designated class, but whose future is uncertain, and 3,464 are in the proposed category in which instance no formal submission has been made to the Department as of April 2006. No specific data are available on the division between for-sale and rental affordable units. Nonetheless, if all 5,328 of the affordable units in the planned and committed class are built during the next five years, the aggregate number of affordable workforce housing units will clearly exceed the 3,960 units the Director Housing and Human Concerns has indicated are needed for the 2003-2007 period.

Conclusion: *The crucial and immediate need in Maui County is not so much to develop additional sites or stratagems for the creation of affordable housing as it is to expedite the administration of plans currently planned and committed.*

A.2.3 Update and Analysis of Supply Vs. Demand

In order to look more closely at supply vs. demand, we conducted an update of current status of projects including affordable housing.

The table on the second following page shows a list of projects prepared by the Long Range Planning Division of the Maui Department of Planning supplemented by data drawn from the list of projects prepared by the Maui County Department Housing and Human Concerns.

Maui County Planning Department List of Affordable Housing Projects

Affordable Housing Statistics

The following table provides statistics for affordable units within Proposed Projects that have an Affordable Housing Component.

Community Plan Area	Project Name	Number of Affordable Units	Total Units in Project	Percentage Affordable
Central	Central Maui Senior Housing	39	39	100
Central	Hale Mua	238	694	35
Central	Kahului Town Center Student Housing	404	404	100
Central	Kane Street Project	90	90	100
Central	Kehalani	126	2232	6
Central	Lokenani Hale	62	62	100
Central	Maui Lani	895	3700	24
Central	Pi'ihana	400	600	67
Central	Wai'ale	1890	3780	50
Central	Waiehu Kou DHHL	211	211	100
Central	Waikapu Affordable Housing	205	410	50
East	Halani Gardens	14	14	100
East	Hana Ranch Aff. Housing	288	288	100
East	Wakiu - DHHL	102	102	100
South	Hale Mahaolu Ehiku	112	112	100
South	Kamali'i Alayna Estates	46	92	50
South	Wailea 670 (Honua'ula)	450	1400	32
UpCountry	Hali'imaile	22	148	15
UpCountry	Kula Ridge Affordable Homes	59	116	51
UpCountry	Kula Senior Housing	36	36	100
UpCountry	Keokea/Waiohuli DHHL	502	502	100
West	Honokowai - DHHL	1250	1250	100
West	Ka'anapali 2020	562	2810	20
West	Kahana Ridge Villas	117	117	100
West	Kapua Village	45	45	100
West	Lokahi Kuhua	12	12	100
West	Na Hale O Waine'e	30	30	100
West	Pulelehua	456	882	52
West	Villages of Leiali'i	357	357	100
West	Waine'e Villages	408	800	51
West	West Maui Breakers	52	90	58
	Totals	9441	21425	44

Total Number of Units for all Proposed Projects: **43690**
Total Number of Affordable Units in all Proposed Projects: **9441**
Percentage of Affordable Units in all Proposed Projects: **22%**

Community Plan Area	**Project Name**	**Developer**	**Number of Aff. Units**	**Total Units in Project**
West	Honokowai – DHHL	DHHL	1250	1250
UpCountry	Keokea/Waiohuli – DHHL	DHLL	502	502
Central	Kahului Town Ctr. Student H.	Agora Realty	404	404
West	Villages of Leiall'i	DHHL (Dowling)	357	357
East	Hana Ranch Affordable Housing	Hana Ranch	288	288
Central	Waiehu Kou – DHHL	DHHL (Dowling)	211	211
West	Kahana Ridge Villas	Betsill Brothers	117	117
South	Hale Mahaolu Ehiku	Hale Mahaolu	112	112
East	Waikiu – DHHL	DHHL	102	102
Central	Kane Street Project	Agora Realty	90	90
Central	Lokenani Hale	Oaka Super Market	62	62
West	Kapua Village	Maui Land and Pine	45	45
West	Na Hale O Waine'e	Maui Ec Concerns Comm	30	30
West	Lokahi Kuhua	Lokahi Pacific	12	12
Central	Pi'ihana	Sanford Carr	400	600
West	West Maui Breakers	West Maui Condos	52	90
Central	Waikapu Affordable Housing	Spencer Homes	205	410
South	Kamali'i Alayna Estates	Betsill Brothers	46	92
Central	Maui Lani	Maui Lani Partners (Mills)	895	3700
UpCountry	Haii'imaile	A&B	22	148
Central	Kehalani	Sanford Carr	126	2232
Central	Hale Mua	Hale Mua Properties LLC	238	694
South	Wailea 670 (Honua'ula)	Wailea 670 (Jenks)	450	1400
Central	Central Maui Senior Housing	County of Maui	39	39
UpCountry	Kula Senior Housing	Kula Comm Fed Credit U	36	36
East	Halani Gardens	Self-Help Housing Corp.	14	14
UpCountry	Kula Ridge Affordable Homes	Unknown	59	116
West	Pulelehua	Maui Land and Pine	456	882
West	Waine'e Villages	Ka'anapali Devel. Corp	408	800
Central	Wai'ale	A&B	1890	3780
West	Ka'anapali 2020	Ka'anapali Devel. Corp	562	2810

This list was compared with a map provided by the Maui County Planning Department dated April 1, 2006, which indicated project status in terms of three categories:

- planned/ committed
- planned / designated
- projected

Project were grouped according to these designations and listed in order of the percentage of affordable units provided. The status of each project was investigated by phone calls to the developers and other involved. If no phone contact was successfully made, an internet search of available news articles and other sources of information about the project's status was made. In some cases, as indicated in the tables on the next page, no reliable information was available in the time allowed for the research.

Information about start and completion dates varied widely. Some news articles contradicted one another. However, in the interest of getting an approximate picture of these projects overall, it was decided to make an attempt to fit each project's status into the following framework:

Estimated Percent Complete	Remarks on Current Status As indicated by avail. information (7/15/2006)
?	*No calls returned; status unclear*
5%	Preliminary conceptual plans only
10%	Early planning stages (or on hold)
20%	EIS and/or zoning change in process
40%	Preliminary approvals
60%	Entitlements complete
80%	Under construction
100%	Completed

With apologies in advance for any mischaracterization of the status of any given project, the following table shows which proposed projects are currently in progress:

Percentage Affordable	Project Name	Planniing Department Status(4/06	Estimated Percent Complete	Current Status As Indicated By Public Information Available (7/06)
100%	Honokowai – DHHL	Committed	20%	EIS in process
100%	Keokea/Waiohuli – DHHL	Committed	100%	Completed
100%	Kahului Town Ctr. Student H.	Committed	80%	Under construction
100%	Villages of Leiall'i	Committed	80%	Under construction
100%	Hana Ranch Affordable Housing	Committed	10%	(On hold)
100%	Waiehu Kou – DHHL	Committed	80%	Under construction
100%	Kahana Ridge Villas	Committed	80%	Under construction
100%	Hale Mahaolu Ehiku	Committed	100%	Completed
100%	Waikiu – DHHL	Committed	100%	Completed
100%	Kane Street Project	Committed	80%	Under construction
100%	Lokenani	Committed	80%	Under construction
100%	Kapua Village	Committed	100%	Completed
100%	Na Hale O Waine'e	Committed	100%	Completed
100%	Lokahi Kuhua	Committed	80%	Under construction
67%	Pi'ihana	Committed	10%	(On hold)
58%	West Maui Breakers	Committed	80%	Under construction
50%	Waikapu Affordable Housing	Committed	60%	Entitlements complete
50%	Kamali'i Alayna Estates	Committed	80%	Under construction
24%	Maui Lani	Committed	10%	(On hold)
15%	Hali'imaile	Committed	60%	Entitlements complete
6%	Kehalani	Committed	100%	Completed
35%	Hale Mua	Designated	20%	Zoning change in process
32%	Wailea 670 (Honua'ula)	Designated	10%	Early planning stages
100%	***Central Maui Senior Housing***	***Proposed***	***?***	*No calls returned; status unclear*
100%	***Kula Senior Housing***	***Proposed***	***?***	*No calls returned; status unclear*
100%	***Halani Gardens***	***Proposed***	***?***	*No calls returned; status unclear*
51%	***Kula Ridge Affordable Homes***	***Proposed***	***?***	*No calls returned; status unclear*
52%	Pulelehua	Proposed	40%	Preliminary approvals
51%	Waine'e Villages	Proposed	10%	Early planning stages
50%	Wai'ale	Proposed	5%	Preliminary conceptual plans only
20%	Ka'anapali 2020	Proposed	5%	Preliminary conceptual plans only

These projects were then regrouped according to estimated percentage of completion:

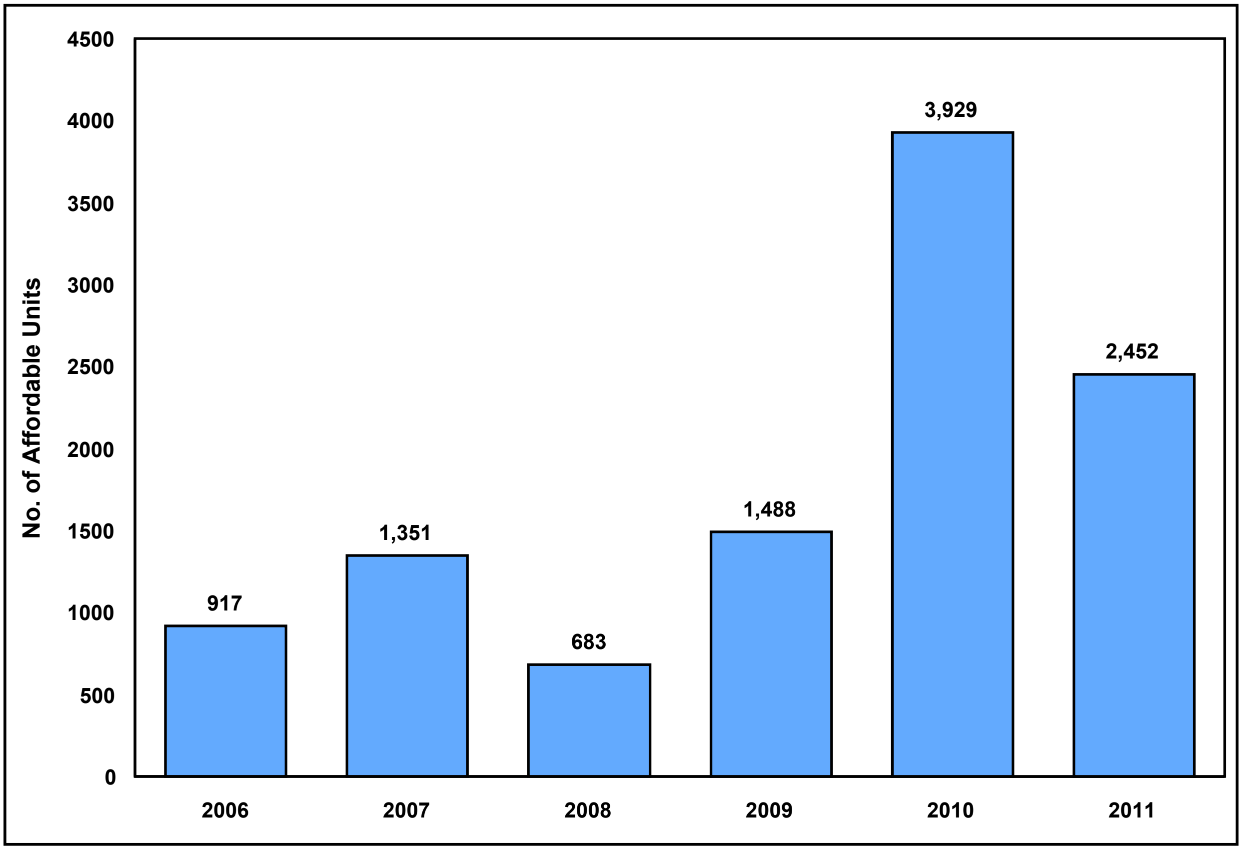
Percentage Affordable	Project Name	Planniing Department Status(4/06	Estimated Percent Complete	Current Status As Indicated By Public Information Available (7/06)
100%	Keokea/Waiohuli – DHHL	**Committed**	100%	Completed
100%	Hale Mahaolu Ehiku	**Committed**	100%	Completed
100%	Waikiu – DHHL	**Committed**	100%	Completed
100%	Kapua Village	**Committed**	100%	Completed
100%	Na Hale O Waine'e	**Committed**	100%	Completed
6%	Kehalani	**Committed**	100%	Completed
100%	Kahului Town Ctr. Student H.	**Committed**	80%	Under construction
100%	Villages of Leiall'i	**Committed**	80%	Under construction
100%	Waiehu Kou – DHHL	**Committed**	80%	Under construction
100%	Kahana Ridge Villas	**Committed**	80%	Under construction
100%	Kane Street Project	**Committed**	80%	Under construction
100%	Lokenani	**Committed**	80%	Under construction
100%	Lokahi Kuhua	**Committed**	80%	Under construction
58%	West Maui Breakers	**Committed**	80%	Under construction
50%	Kamali'i Alayna Estates	**Committed**	80%	Under construction
50%	Waikapu Affordable Housing	**Committed**	60%	Entitlements complete
15%	Hali'imaile	**Committed**	60%	Entitlements complete
100%	Honokowai – DHHL	**Committed**	20%	EIS in process
100%	Hana Ranch Affordable Housing	**Committed**	10%	(On hold)
67%	Pi'ihana	**Committed**	10%	(On hold)
24%	Maui Lani	**Committed**	10%	(On hold)
35%	Hale Mua	**Designated**	20%	Zoning change in process
32%	Wailea 670 (Honua'ula)	**Designated**	10%	Early planning stages
52%	Pulelehua	**Proposed**	40%	Preliminary approvals
51%	Waine'e Villages	**Proposed**	10%	Early planning stages
50%	Wai'ale	**Proposed**	5%	Preliminary conceptual plans only
20%	Ka'anapali 2020	**Proposed**	5%	Preliminary conceptual plans only
100%	***Central Maui Senior Housing***	***Proposed***	***?***	*No calls returned; status unclear*
100%	***Kula Senior Housing***	***Proposed***	***?***	*No calls returned; status unclear*
100%	***Halani Gardens***	***Proposed***	***?***	*No calls returned; status unclear*
51%	***Kula Ridge Affordable Homes***	***Proposed***	***?***	*No calls returned; status unclear*

After grouping according to degree of completion, projects were assigned an earliest possible time of completion, with 2007 being assigned to any project under construction and 2011 (five years away) being assigned to any project still in the early conceptual planning stage. Projects that were reported as being substantially complete were assigned to year 2006:

Estimated Year Complete	Number of Aff. Units
2006	502
2006	112
2006	102
2006	45
2006	30
2006	126
2007	404
2007	357
2007	211
2007	117
2007	90
2007	62
2007	12
2007	52
2007	46
2008	205
2008	22
2008	456
2009	1250
2009	238
2010	288
2010	400
2010	895
2010	450
2010	408
2011	1890
2011	562

From this rather arbitrary assignment of the (earliest) year of completion, it was possible to create an admittedly optimistic chart of potential supplies of affordable units, assuming all projects were expedited through the permitting process and built at the earliest possible date.

The following bar chart shows the maximum possible number of affordable units that could become available over the next five years:



In practical terms, it is highly unlikely that all developers would choose to move this quickly, even it they were allowed to do so. Nevertheless, this chart gives an indication of what is possible in terms of currently proposed affordable projects.

Our final exhibit, below, compares supply with demand (as previously calculated, adjusting for mortgage qualification). ***Clearly, potential Maui County supply far exceeds demand for fee-simple affordable units.***

Demand Vs. Supply: For-Sale Units

Year	Affordable Unit Supply*	Affordable Unit Demand**
2006	367	170
2007	540	145
2008	273	187
2009	595	153
2010	1,572	153
2011	981	224

* Excludes rental (approx. 60%)
**Based on the assumption that household with 80%-160% of Annual Median Income with FICO scores of 600 or better would be buyers instead of renters.

A.3 Technical Information on the SMS Housing Demand Model for County of Maui

SMS Research conducted the most complete study of housing demand available for the County of Maui in 2003 as part of its statewide policy study.[34] SMS developed a predictive housing demand model based on multiple data sources including its own extensive housing demand survey. ***This section reports original SMS estimates and forecasts, not subject to the adjustments in the previous sub-section.***

The SMS Housing Model calculations indicated that Maui County would have a population of 138,204 in 2005.[35] According to the U.S. Census Bureau[36] the estimated 2005 population for Maui County was 139,984. SMS's housing unit count for 2004 was 60,736; the Census Bureau figure for the same year was 60,774. SMS's median household income for 2003 was $44,713; the comparable Census Bureau figure for the same year was $46,936. The major difference between the values in the Model and those on the ground has occurred in terms of real estate values. The Model indicated an actual dwelling unit price of $263,389; the Maui median price for the first six months of 2007 was $710,000 for single-family homes and $520,000 for condominium units.[37]

It is difficult to estimate the impact of the drastic rise in real estate prices on Maui and the Housing Model calculations without recalibrating the Model and running the printouts anew. The 2003 calculation sheet, using input from the Economic Model, the Real Estate Model and the Economic Demand Model, shows that if there were an increase of 2,740 in the supply of residential housing units in 2003 through 2005, then with an annual addition of 500 to 600 units per year the pent-up demand for housing would be reduced over time though not eliminated.[38]

The Effective Demand Model (Survey): The SMS Effective Demand Model[39] by price range based on its survey data[40], assumes that those households earning 80% or less of median income will be renters and those earning more than 80% will be purchasers of homes. In the decade from 2003 through 2012 there will be an increase of 20 to 30 households per year earning 30% or less of median income seeking housing that rents for between $340 and $370 per month. In the 30% to 50% of median income range there will be an increase of 120 to 160 households per year that can afford a maximum of $610 to $690 per month in rent. In the 50% to 80% of median income, the number of households will range from 170 to 220 and they can afford to pay $560 to $990 in monthly rent.

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[34] SMS Research and Marketing Services, Inc., Final Report, Hawai\`i Housing Policy Study, 2003, Honolulu, Hawai\`i, December 2003, 821 pp. The Study was prepared for the Housing and Community Development Corporation of Hawai\`i, the Department of Hawaiian Home Lands, the Executive Office of Aging, the County Housing Agencies, and the Hawai\`i Community Reinvestment Corporation. The Study is available on the web at: <http://www.hcdch.state.hi.us/03policystudy.pdf>.

[35] *Ibid*., Table 1A-Maui-2.

[36] U.S. Census Bureau: State and County QuickFacts at <http://quickfacts.census.gov/qfd/states/15/15009.html.

[37] See "Facts and Figures on the website of the Realtors Association of Maui, Inc., at <www.mauiboard.com>.

[38] Final Report, Hawai\`i Housing Policy Study, 2003, Table 1A-Maui-2.

[39] *Ibid*., Table 1A-Maui-3: Effective demand Model (Survey).

[40] *Ibid*., Table IV-1, Demand Survey Sample Design, 2003, shows that the total statewide sample of households was 3,022 (margin of error 3.00) and the Maui County sample was 1,148

The total demand for additions to the rental stock for the 2003-1012 decade is projected to be 3,060 units or an average of 300 units per year (rounded).

In the decade from 2003 through 2012 there will be an increase of 130 to 160 households per year earning 80% to 100% of median income seeking to purchase housing for between $125,000 and $189,000. In the 100% to 120% of median income there be an increase of 60 to 90 households per year that can afford to pay from $157,000 to $226,000 for a home. In the 120% to 140% of median income bracket, the number of households ranges from 60 to 70 and they can afford to pay $188,000 to $264,000 for a home.

The total demand for additions to the for-sale housing stock for the 2003-2012 decade according to this Model is 2,680 units or an average of 270 units per year (rounded).

The Effective Demand Model (HUD): The SMS Effective Demand Model by price range based on the HUD Income Guidelines (2003)[41] again assumes that those households earning 80% or less of median income will be renters and those earning more than 80% will be purchasers of homes. In the decade from 2003 through 2012, the model says there will be an increase of 90 to 130 households per year earning 30% or less of median income seeking housing that rents for between $460 and $850 per month. In the 30% to 50% of median income there will be an increase of 140 to 190 households per year that can afford a maximum of $770 to $850 per month in rent. In the 50% to 80% of median income, the number of households range from 220 to 300 that can afford to pay $770 to $1,360 in monthly rent.

The total demand for additions to the rental stock for the 2003-1012 decade, according to this HUD Model, is 5,099 units or an average of 510 units per year (rounded). This is a much larger figure than that generated by the Survey Model.

In the decade from 2003 through 2012, there will be an increase of 90 to 120 households per year earning 80% to 100% of median income seeking to purchase housing for between $172,000 and $259,000. In the 100% to 120% of median income bracket, there will be an increase of 110 to 150 households per year that can afford to pay from $157,000 to $226,000 for a home. In the 120% to 140% of median income bracket, the number of households ranges from 60 to 70 that can afford to pay $215,000 to $310,000 for a home.

The total demand for additions to the for-sale housing stock for the 2003-2012 decade is 2,790 units or an average of 280 units per year (rounded). The Survey Model's figure for for-sale housing units required is very close to that generated using the HUD Model, though the prices to be paid for the housing are higher in the HUD calculations.

The Effective Demand Models (Survey and HUD): Using both the Survey and HUD Models for Effective Demand yield a requirement for between 300 and 510 additional rental units per year and approximately 275 units of for-sale per year.

The difference between the Survey and HUD Models is primarily a function of the manner in which median income and income distribution are established. The Survey Model utilizes the "income median and distribution taken from the 2003 Demand Survey." The HUD Model utilized the "income median and distribution based on HUD Income Guidelines for 2003 published in 2003."

[41] *Ibid*., Table 1A-Maui-4: Effective Demand Model (HUD).

Given the rapid increase in the cost of housing, both the projected sales prices and rental rates using the Survey and HUD Models appear to be unrealistic. This is especially true of the Survey Model data. The possible conclusion is that much of the projected demand, especially for rental housing, in the absence of substantive intervention, will not be met and will be converted into pent-up demand. If pent-up demand increases, this will result in the resident housing unit deficit, as displayed in the Housing Model calculations, increasing.[42]

The data, as reported by SMS, confirm that a large proportion of residents are being priced out of the for-sale market and that homes that were affordable to those with median or somewhat above median incomes six or seven years ago no longer falls in that class.

It is likely that the attraction of Maui to overseas buyers is resulting in a portion of scarce resources, namely, skilled, labor, land, and capital, being devoted to meeting their housing desires that might otherwise be employed to meet resident needs.

It is also clear that requiring a portion of new construction to be affordable will have a fractional impact on the availability of affordable housing since sales of new units makes up only a limited portion of real estate transactions as compared to resales.

[42] *Ibid*. See Table 1A-Maui-2, Housing Model Calculations. The Resident Housing Unit (RHU) deficit, as shown in the last column to the right of the Housing demand Model, would increase.

J·M·K JOHN M. KNOX & ASSOCIATES, INC.

MAUI ISLAND HOUSING ISSUE PAPER

A Discussion Paper for the Maui County General Plan Update

Part B: Assessing Potential Actions

December 2006

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PURPOSE AND OBJECTIVES

This "Maui Island Housing Issue Paper" was commissioned by PlanPacific, Inc. as part of its General Plan Update effort for the Maui County Planning Department. The paper was essentially completed in November 2006. Subsequent to that time, a new Maui County Council and Administration took office, and a finalized "Workforce Housing Ordinance" was adopted. Minor updates and revisions were accordingly made in December, although some language in the paper may still reflect the timeframe in which the great majority of the research and writing took place (August – November 2006).

The study objectives included:

- Define the Maui Island "housing problem" (addressed in separate Part A).
- Define the County's role and resources (addressed in this Part B).
- Develop clear policy option statements (also addressed in this Part B).

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Hawai`i Housing Finance and Development Corporation: Janice Takahashi

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(Part B)

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EXHIBITS

No. Title Page

I. INTRODUCTION

1.1 Limitations of Study

It is a fundamental principle of economics that human desires exceed their resources. Not all Maui residents can live in their dream houses. Similarly, we can't do everything we'd like to do in this report, because of time and resource constraints. We will necessarily cover certain points fairly thoroughly, others less so, and still others will simply be acknowledged and recommended for further study.

Below are some broad elements that would characterize an ideal analysis, along with comments about our current abilities to address them.

1.2 Some Broad Elements of an (Ideal) Analysis

(1) *Identify which aspects of the housing situation are unique to Maui and/or subject to some local control through county-level policy as contrasted with statewide or national/inter-national conditions.*

We will make passing observations about this, but will not attempt a detailed or systematic analysis. We recommend that such a carefully structured analysis be undertaken as part of future Maui or Hawai`i housing studies, in order to be sure that local policy actions are properly directed at aspects actually subject to some degree of local control.

(2) *Recognize the reality and nature of economic cycles – current peak conditions are likely to ease, but this is a recurring situation. Policies appropriate for one phase of a cycle may not be appropriate for another.*

To the extent possible, we will present data over time (see Part A), not just measure "how bad it is right now" (although doing some of the latter is part of our scope).

(3) *Accept and identify competing policy objectives with housing cost implications. It is not wrong for a society to decide to pay higher housing costs as a trade-off for other objectives such as open space, but it is foolish not to acknowledge and calculate the costs.*

We will make some observations about this, though a detailed analysis definitely exceeds our current scope. This is a critical task, which also deserves attention in any future studies. It needs to be made explicit as government increasingly finds itself in a position of mediating between housing advocacy groups and other stakeholders.

(4) *Define the problem from the perspective not only of the "demanders" (residents wanting housing), but also of the "suppliers" (landowners and developers). Unless Hawai`i government reverses past decisions to get out of the direct housing production role, it must view private-sector housing producers as partners, not as adversaries.*

This arguably also exceeds our current scope, but we have interviewed a number of landowners and developers anyway. We believe that improved dialogue among government, housing producers, and the general community is critical to long-term progress in addressing housing issues on Maui.

1.3 Observations About Conflicting Interests and Goals

Part of our scope for this report is to define the housing "problem," but it is important to note that different interest groups may see the "problem" very differently – complicating the policy response analysis. For some homeowners, high housing values are unwelcome because they never intend to move and see only the disadvantage of increasing property taxes. But for others, the value of their home and land is their single greatest asset, a critical hedge against the vicissitudes of life, illness, or old age.

Realtors and/or investors can certainly benefit from escalating prices. Standard economic theories of oligopoly accept that it is rational behavior for a few large landowners to "dribble out" limited amounts of developable land in order to maintain value for shareholders – yet these same landowners are also large employers with an interest in assuring adequate workforce housing.

We believe the overwhelming majority of Maui residents and businesses would like to do something about the current dearth of affordable housing on the island. But there are also rational interest groups who do not want to see any sudden reversal, any huge drop in prices or shrinkage of existing markets. The "problem" is something that most people want eased … but not necessarily totally reversed.

The following Exhibit 1.1 is a "tentative" assessment of different stakeholder attitudes because interests are highly subjective, and anyone can rightly argue their group should not be pigeon-holed. The larger point is simply that different interests do exist, that shades of gray (or orange in our color coding!) are abundant.

Another distinction not necessarily made in the following exhibit is between longtime residents – say, those whose families were around 50 years ago – and relative newcomers or future residents. If low wages and high housing costs were to gradually force more and more kama`aina from the islands, this would surely be a miserable outcome for Maui. And yet, what if proceeds from high housing values allow the next generation to have a better life somewhere else of their own choosing?

Policies designed to provide housing relief to the kama`aina at the expense of the newcomer – for example, barracks-style employee rental units – might not face much opposition if those newcomers are young Mainlanders drifting through a certain phase of life. But there certainly would be uncomfortable echoes of racial inequality if there were "camps" for immigrants from Mexico or the Philippines. The social politics of housing solutions will also not be simple for policy makers.

Exhibit 1.1: Tentative Assessment of Stakeholder Attitudes on Affordable Housing

Group	Interests Attuned to …		Notes/Comments
	More Affordable Housing	Maintaining Higher Values	
Current homeowners sure they'll never sell			
Current homeowners who feel they'll probably sell someday			
Current homeowners not certain about whether they will sell in future			Likely the majority
Children of above who are sure they want to stay on Maui			Most concerned about affordability; some might inherit valuable asset
Children of above likely to move off-island			
Current renters			
Part-time Maui residents			As with full-time, depends on perceived likelihood of selling
Investors (local or off-shore)			
Realtors			Some are also investors; get high commissions on higher-priced housing, but as volume drops, they become more attuned to increased supply
Developers, builders (businesses)			Higher prices = more profit, but volume/supply also critical
Construction workers (individuals)			Often more work on upscale projects, but need to buy homes, too
Large landowners			But these are also in next category
Employers			Workforce housing concerns
Environmentalists			Typically concerned about existing population but wary of much more supply, building on open space
LEGEND:			*Interest is more affordable housing*
			Interest is maintaining higher values
			Mixed or both

II. THE AFFORDABLE HOUSING POLICY TOOL KIT

2.1 Introduction

There are a slew of policy options available for increasing the supply of affordable housing on the Island of Maui. It is like walking along the cafeteria line and selecting the items that best satisfy your needs. Every item has it benefits (e.g., pleasurable taste, nutritious) and its costs (e.g., price, excessive calories). One selects the items that best meet one's dietary needs that fit within one's budgetary limits.

And so it is with designing an affordable housing policy. One hardly ever employs just a single policy tool. There is no magic bullet. Rather, one designs a policy selecting the tools that have the greatest likelihood of allowing the jurisdiction to achieve its goals. There is no one policy that fits all. Each jurisdiction has its own particular needs, its own specific resources, its own opportunities, and its own unique constraints. The two common characteristics of successful workforce housing policies have been the employment of creative imagination and cooperation across jurisdictional and sector lines.[43]

There are two classes of subsidies that can be employed to make housing more affordable: demand subsidies and supply subsidies.[44] Demand subsidies are designed to increase the amount of income members of a household have that they can devote to meeting their housing needs or reducing the cost of their housing. The lack of affordable housing, in this perspective, is an income and not a supply problem. Perhaps the most important demand subsidy is the federal tax deduction allowed for interest payments on mortgages, properly termed a tax expenditure. Other demand subsidies include the earned income tax credit, Section 8 and similar housing vouchers, and housing allowances.

Supply subsidies are designed to provide housing to specific populations. The most significant supply subsidy from the mid-thirties to the late fifties was public housing. Public jurisdictions that rely on the subsidy approach today are generally not in a position to impact income distribution to any great degree. Examples of current supply subsidies include inclusionary zoning, in which a developer is required to provide a designated quantity of affordable housing, often in return for an allowance to build a larger number of unit than allowed under current zoning, or the waiver of fees or the construction of infrastructure or the provision of public lands for housing developments.

[43] Urban Land Institute. *Workforce Housing: Innovative Strategies and Best Practices*. Washington, DC: author, 2006. All of the examples cited in this chapter are drawn from *Workforce Housing*, unless otherwise indicated.

[44] This topic is discussed briefly in section 2.2.4 of Part A.

Maui County is not in a financial position that would allow it to offer demand subsidies to any significant degree. Its tax policies, for instance, impact the distribution of income to only a limited degree. Therefore, Maui County and other similar jurisdictions tend to rely most heavily on supply subsidies to increase their stock of affordable housing. For that reason, the tools presented in this section are predominantly of the supply subsidy type and thus ones that are available to Maui County.

This section lays out "the cafeteria line" of policies that are designed to increase the supply of affordable housing. No one employs all these tools. One selects the policies that have the most benefits in terms of increasing the supply of affordable housing and imposing the least costs, including unintended negative consequences. Designing the policies is a tough endeavor. For instance, on what groups do you impose costs and how high are those costs? Who pays what portion of the bill at the check out cashier at the end of the cafeteria line?

The Urban Land Institute (ULI) lists these "principles of successful affordable housing programs and developments" in its 2006 study of workforce housing:[45]

- Take a comprehensive and flexible approach to affordable housing policies and programs;
- Use public policies, programs, land and money to leverage private investment in affordable housing;
- When appropriate, create public/private partnerships to develop affordable housing;
- Make it easier to develop affordable housing by waving fees, and expediting the entitlement and permitting process;
- Support and build mixed-income communities including market-rate units, when possible;
- Provide opportunities for affordable home ownership and provide homebuyer education; and
- Develop affordable housing that is consistent with smart growth, green building standards, and transit-oriented development principles.

The ULI list of principles and the case studies it cites make clear that there is not one tool that is the key to success in creating affordable housing, but rather the crafting of a policy that utilizes a mix of tools.

This section is concerned, then, with describing the tools, listed below, that are available for increasing the supply of affordable housing, citing examples from other places where appropriate, and briefly assessing their utility and impact:[46]

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[45] *Ibid.* Quotes from pages 9-15.

[46] Perhaps the largest provider of affordable housing on Maui is the Department of Hawaiian Home Lands. See Section III for a brief discussion of the Hawaiian Home Lands program on Maui.

- Development Incentives
- Inclusionary Zoning
- Streamlining the Permitting Process and Waiving Fees
- The Community Land Trust
- The `Ohana Option
- Public-Private Partnerships Utilizing Public Lands and Facilities
- Workforce Housing in the Rural District
- Available Financial Assistance Programs
- Revenue Producing Tools
- Tax Increment Financing
- Implementing Smart Growth through Higher Density Development
- Utilizing the Property Tax

2.2 Development Incentives

There are a series of incentives that can serve as an inducement to developers to increase the supply of affordable housing. The County can offer to increase the density allowance in exchange for the construction of affordable housing. Zoning might permit four dwellings per acre, which could be increased to six if the additional two dwelling were to be affordable for-sale or rental units.

Lack of available and adequate infrastructure is frequently a hindrance to development. The County can commit itself to providing required off-site road or sewer line or storm water drainage or, perhaps, most importantly, a water line. It can do so in its appropriation ordinance, which implements its capital improvements program in return for the developer formally or informally agreeing to provide a specified number of affordable for-sale or rental units.

The $60 million St. Louis Murphy Park Project, built on the site of a demolished public housing complex, included a City contribution of almost $5 million in the form of upgrades to such infrastructure elements as utilities, parks, and drainage systems.

Every development project requires a host of permits and the granting of each such permit necessitates an administrative review. To the developer and his/her investors, time is money. The faster the permit process, the less costly it is to the developer and, hopefully, to the consumers. The County policy can specify that development proposals providing for a specified percentage of affordable for-sale or rental units will be fast tracked. They will go to the head of the line for processing and the granting of permits.

Wherever County ordinances include design requirements not related to public health and safety, the County can offer to waive these in return for a prescribed number of affordable for-sale or rental units.

Often these development incentives can be included in what is termed a "Unilateral Agreement" whereby the political jurisdiction specifies what zoning or other incentives will be furnished and what the developer will provide in return, such as a specific number of affordable housing units. It should be noted, however, that some legal commentators view unilateral agreements as a constitutionally flawed approach.

Development incentives are a useful means of inducing a developer to provide a specified number of affordable housing units in return for higher densities or expedited processing or some other benefit. The difficulty, of course, is that these are ad hoc arrangements, made on a project-by-project basis, and are not necessarily reflective of a uniform municipal policy applied evenly across the board. Furthermore, in providing such incentives a great deal of thought may not have been devoted to how to retain the affordable units in that classification for the long term. Finally, in the ad hoc approach, questions will always be raised about whether this was a "sweetheart" deal for the developer – or, put another way, did the public really get its money's worth in return for what it gave up?

2.3 Inclusionary Zoning

One of the most widely employed development controls employed to expand the supply of affordable housing is inclusionary zoning – namely, a requirement that in new developments a certain portion of the units must be affordable to households earning low to moderate incomes.[47] The requirement is typically accompanied by the granting of a density bonus to the developer. Today, there are over 200 local governments employing inclusionary zoning strategies.[48]

There are multiple variables in inclusionary zoning (IZ) ordinances relating to:

- The size of the developments subject to the IZ requirement, e.g. 5, 10, 25, or 50 or more units.
- The size of the density bonus, e.g., 10%, 20%.
- The percentage of affordable units required, e.g., 10%, 20%, 30%.
- The conditions under which buy out options, such as donation of land in another area or contribution to an affordable housing fund, are allowed.

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[47] In some jurisdictions, compliance with an inclusionary zoning requirement may be voluntary. The conclusion of experts in the field, however, is that inclusionary zoning that is mandatory is much more successful in producing affordable housing units than the voluntary approach.

[48] See Nicolas Brunick. "Easing the Affordability Crunch: The Inclusionary Housing Option," *Housing Facts and Findings*, Volume 8, Issue 1, 2006, at www.Fanniemaefoundation.org/program/hff/v8i1-inclusionary.shtml.

- The income level of the households qualifying for the affordable units, e.g., 80% of median income or less.

- The specified time the unit must remain affordable, which generally differs for rental versus for-sale units. Rentals, for the most part, remain affordable for 20 to 30 years; sales, for 10 to 15 years.

- The split of the incremental gain in sales price, if the unit is sold prior to the expiration of the affordability period, between the owner and the public jurisdiction or nonprofit owner.

- The entity with the right of first purchase or repurchase, e.g., the local housing authority or perhaps a nonprofit housing corporation.

- The types of developments that are excluded from the IZ requirement, e.g., large-lot subdivisions, multi-story housing.

Generally, the intent of IZ ordinances is to increase the supply of affordable housing for low and moderate-income households in economically integrated communities. Thus some jurisdictions are very reluctant to allow developers to pursue the opt-out options. The desire is to avoid the concentration of low-income families in economically segregated areas, such as occurred with public housing projects in St. Louis, Chicago, and other cities. Illinois has, in fact, adopted an “Affordable Housing Planning and Appeal Act” to assure that communities with 10% affordable housing or less increase their stock of such units.[49]

Montgomery County, Maryland, has one of the oldest and most productive IZ systems in the country, entitled the Moderately Priced Dwelling Unit (MDPU) Program. The fact that the ordinance has been amended over 20 times since its initial passage in 1976 is an indication of how continuously a jurisdiction must work to keep its system up-to-date, taking into account current market conditions. At present, any development containing over 35 units on lots of a half acre or less must designate 15% of them as MDPU units. A mix of affordable and market units is required and their external appearance must be similar. Forty percent of the for-sale units must be offered for-sale to the county public housing program. The density bonus can run as high as 22% over what the zoning ordinance allows, and in single-family zones up to 60% of the units can be attached. The period during which the appreciated value is divided between the owner and the county is ten years. Rental homes are kept under price controls from 10 to 20 years.

In Fairfax County, Virginia, which has an Affordable Dwelling Unit Ordinance, eight affordable units were included in a 107 luxury unit project. The usual design solution had been to build townhouses to the side of the single-family homes, thus resulting in a segregated situation. In the Edgemoore at Carrington Development, according to ULI, this outcome was avoided by building two great houses, each containing four affordable

[49] *Ibid.*

townhouses. The exterior design of each great house blends with those of the luxury single-family homes in the surrounding area.

Such developments aside, the fundamental question of whether IZ requirements lead to lower production of housing was scrutinized in the inclusionary housing study prepared for the City of Los Angeles by David Paul Rosen & Associates. Rosen & Associates examined housing starts and other data (i.e., the 1986 Tax Reform Act, the prime rate, the 30 year mortgage rate, the unemployment rate, and area median home price) for 28 California cities, some with IZ ordinances and some without, over a 20-year period. The study concluded:

> An analysis of these data shows that for jurisdictions surveyed, adoption of an inclusionary housing program is not associated with a negative effect on housing production. In fact, in most jurisdictions as diverse as San Diego, Carlsbad, and Sacramento, housing production increased, sometimes dramatically, after adoption of inclusionary housing ordinances. Rather, increases and decreases in housing starts most closely tracked the unemployment rate. While in no case did the adoption of an inclusionary housing program slow housing production, the 1986 Tax Reform Act clearly was associated with a sharp decline in housing starts in most California communities.[50]

Karen Destorel Brown, an analyst at The Brookings Institution, studied four IZ counties in the Washington Metropolitan Area – including Montgomery County, noted above, perhaps the oldest and certainly one of the most productive IZ communities in the country. At the conclusion of her study she made a number of recommendations for the future.[51]

Brown recommends that IZ jurisdictions establish policies that allow nonprofit agencies and housing authorities to purchase affordable for-sale homes or apartments when they first go on the market, at foreclosure, and prior to or at the expiration of the restricted sale period in order to keep these units in the affordable housing stock. Brown also favors reducing the number of developments that are exempt from the IZ ordinance, holding developers of high rise structures to the same standard as those who develop single-family homes, and providing additional incentives, such as tax abatements, when density bonuses prove insufficient. Finally Brown recommends that a jurisdiction review the compatibility of all its plans, codes, and ordinances to assure that they work in synch to lead to the production of affordable housing.

Maui County adopted an IZ ordinance, entitled the Residential Workforce Housing Policy on December 5, 2006.[52] In brief, the policy:

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[50] See City of Los Angeles, Inclusionary Housing Study, Prepared for Los Angeles Housing Department by David Paul Rosen & Associates, September 2002, 324 pp, at www.lacity.org/LAHD/DRAreprt.pdf.

[51] See Karen Destorel Brown, "Expanding Affordable Housing Through Inclusionary Zoning: Lessons from the Washington Metropolitan Area." The Brookings Institution Center on Urban and Metropolitan Policy, October 2001, at www.brook.edu/es/urban/publications/inclusionary.pdf.

[52] Ordinance No. 3418 Establishing A Residential Workforce Housing Policy, County of Maui, Hawai`i, December 5, 2006

- applies to all residential developments of five or more units;
- applies to hotel or other lodging units;
- requires that 40% (when 50% or more of the units are offered for sale for less than $600,000) to 50% of the units (when 50% or more of the units are offered for sale of $600,000 or more) be affordable;
- makes ownership units subject to the Policy for a period of 25 years;
- has the selling price of the affordable units (new and resale) set by the Department of Housing and Human Concerns in accordance with guidelines specified in the ordinance;
- provides that rental units are subject to the Policy for their entire life;
- restricts eligibility to county residents;
- establishes refined waitlist and selection procedures for both sale and rental units;
- provides for expedited processing; and
- establishes an affordable housing fund.

Prior to final subdivision approval or issuance of any building permit, the developer is to execute a residential workforce housing agreement with the County. The Policy is designed to provide for-sale housing to households from below moderate-income (80% to 100% of the area median family income [MFI] as established by HUD) to above moderate-income households (140% to 160% of MFI) and rental housing to very low-income households (50% or less of MFI) to moderate-income families (100% to 120% of MFI).

The affordable units are to be located in the same community plan area as the development. Provision is made for a developer to partner with a nonprofit agency to construct a multi-unit development, again to be located in the same community plan area. Finally, provision is made for an in-lieu fee (or improved or unimproved land), subject to Council approval, to be deposited in the affordable housing fund, the amount of the fee to be based on the price of the for-sale market units. Provision is made for exempting certain specified projects from the requirements of the ordinance.

A developer may appeal to the County for a reduction or waiver of the requirement "…based upon the absence of any reasonable relationship or nexus between the impact of the development and either the number of residential workforce housing units required or the amount of the in-lieu fee."[53]

IZ ordinances are probably the most widely employed tool to increase the supply of affordable housing. Such ordinances, subject to certain standards, have been upheld in the courts. The advantage to the municipality is that they are a no-cost-to-the-public jurisdiction approach to obtaining affordable housing. For allowing a somewhat higher density, the community gains affordable housing units. The Rosen & Associates study indicates that such ordinances do not inhibit housing production, though it is likely that few, if any, of the municipalities Rosen studied had as high affordable housing

[53] *Ibid.* Section 2.96.030C1.

requirement percentages as are mandated in the Maui Residential Workforce Housing Policy ordinance.

The old adage is that "The devil is in the details."[54] At the start of this section on IZ, nine different areas were listed in which the provisions of an IZ ordinance could vary from minimal to very substantial. The important decision is not whether to have IZ or not, but what are the specific provisos to be included in an IZ ordinance and what are the likely consequences of each such provision.[55]

For example, there is a danger in IZ ordinances that, ***unless there is a requirement for mixed-income developments*** (with the probable exception of resort housing projects), ***one of the unintended consequences will be to concentrate low-income families in de facto segregated communities***. The socio-economic consequences of such arrangements have been made abundantly evident in the major urban public housing complexes of earlier years. At the same time, we would acknowledge that luxury vacation home communities may present a special case – because these units often remain vacant for much of the year, it could be difficult to market them without recognizing the security issues raised by a requirement to integrate affordable full-time residential units.

2.4 Streamlining the Permitting Process and Waiving of Fees

Developers often complain that it takes years to get all the necessary permits for a major project and that in the process they have to deal with multiple jurisdictions – local, state, and federal – each with its own a slew of regulations and its own permitting and review processes. Getting through this maze takes time and money. There is even now a field of professional expeditors who assist developers to work their way through what most developers consider to be a regulatory labyrinth. Each of the regulations is put in place with the best of intentions to achieve a desired public policy objective, but the cumulative impact can be overwhelming. Thus, the frequent call for "streamlining," coordinated permitting, and concurrent and expedited processing.

Furthermore, the fees on affordable housing projects can be substantial and significantly increase the costs of each unit in such a development. Waiving of fees

[54] See companion Part A paper for a discussion of economic studies that suggest regulation in general does restrict housing supply. Also see Section IV below for the comments of Maui housing developers about the proposed workforce housing ordinance.

[55] At least one informed analyst has suggested that the proposed IZO as currently written is in effect a moratorium on residential construction at a time that statements of public officials assert that the County is seeking to increase its stock of affordable housing. Chris Hart, ASLA, a Maui planning consultant and landscape architect, in a nine-page letter to Riki Hokama, Chair, and Members of the Maui County Council, dated October 26, 2006, states that changes to the draft made during the previous two months "…have removed any continuity with existing affordable housing policies and turned the legislation into a vast socio-economic experiment with Maui County as the laboratory." He makes very specific recommendations for revisions to the draft designed "…to provide a lasting solution to the affordable housing problem in Maui County."

obviously reduces the cost to the developer and makes building affordable housing projects a more attractive alternative than they would be without such waivers.

Massachusetts has a comprehensive permit law, initially passed in 1969 and known as Chapter 40B, that permits a developer furnishing affordable housing to bypass the local zoning ordinance in a community that has not met the State's 10% affordable housing stock goal. The state law provided an incentive for local communities to institute their own workforce housing programs. Of the 22,000 affordable units built since 1969, approximately a third was constructed using the Chapter 40B override.

The S.M.A.R.T. (Safe, Mixed-Income/Reasonably Priced, and Transit Oriented) Housing Initiative in Austin, Texas, places heavy emphasis on three incentives: fee waivers, expedited review, and advocacy to resolve development-related issues with other city departments. In the three years before S.M.A.R.T. was adopted, approximately 325 affordable housing units meeting city standards were built; in the three years since, 4,000 such units have been constructed.

Expediting processing for development proposals that include affordable housing elements is an attractive option for governmental jurisdictions to offer. Achieving the necessary coordination within one jurisdiction to make expeditious processing a reality is in itself a challenging endeavor that requires both legislative and executive leadership. Achieving coordination across jurisdictional lines is an even harder objective to realize. The problem, of course, is that successful expedited processing within a county is of little use to a developer if his or her project is hung up, awaiting review, within another independent municipal body or a state or federal agency.

The fear in expedited processing to the reviewer on the line is that some important requirement will be unintentionally bypassed or some deficiency in the developer's proposal will be overlooked because the paperwork on the project was rushed through the review process. The consequence might be an overloaded sewer line or increased traffic contestation or off-site flooding or an unsafe building.

Waiving fees, particularly if such fees are significant, is one way of encouraging developers to undertake affordable housing projects. It is basically a decision on the part of the public jurisdiction that it desires to subsidize the development of affordable rental projects because such projects are in the public interest. The problem of doing so, of course, is that the revenues have to be made up from other sources, such as increasing taxes or reducing expenditures on other programs.

2.5 Community Land Trusts

Community land trusts[56] have grown at a relatively rapid rate in recent years. There are approximately 170 such trusts in the United States,[57] varying widely in terms of mission,

[56] Community land trusts differ from conservation trusts. The latter focuses on preserving open space, agricultural lands, and scenic sites, while the community land trusts are dedicated to the provision of affordable housing.

scope of activities, and size. Basically, however, a community land trust exists to develop affordable for-sale and rental housing for persons with low to moderate income and to assure that such housing remains permanently affordable. The trust is an incorporated, member-based, nonprofit organization.

A trust acquires and owns the land on which the affordable housing is located in perpetuity. It then sells a house to a qualified buyer and leases the land on which the house sits to that buyer for a long term – usually 99 years. "The house is sold, but the land is leased."[58] The owners enjoy all the usual privileges and responsibilities of home ownership <u>except</u> retaining all the appreciation at the time of sale or being able to lease their home for long periods of time. When owners wish to sell, 25% of the appreciation (or thereabouts) goes to the owner and 75% stays with the trust, thus making the home affordable to the next qualified buyer. Further, the low- or moderate-income family is buying the house, not the land, which allows a trust to charge a lower price for the house than would be the case if the family were purchasing both elements. The trust charges a lease rent.[59]

When a community land trust sponsors a rental project, the land ownership remains with the trust in perpetuity, as does the rental structure, thus assuring its continued affordability.

Community land trusts acquire property in a variety of way: purchases on the open market, gifts, and purchases from governmental agencies at a reduced price or without any charge. Frequently the trust will use grants received from foundations or public agencies to finance the acquisition of land.

Community land trusts and local governments are generally noted for working in close cooperation. On one hand, the trust is helping the local jurisdiction to meet its affordable housing goals. On the other, trusts benefit from the access of local governmental units to public funds, which can be used to provide land for affordable housing and the buildings themselves.

There is usually a very close connection between the trust and the community. Community members sit on the board of directors as well as do some lessees. Trusts work closely with the communities in which they are locating developments to assure good neighborly relations. Occasionally a trust will include a mix of market rate houses, which the owners are free to sell as they wish, and affordable homes in which the trust retains an interest. More commonly, however, trusts will build small developments, four

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[57] See Institute for Community Economics at www.iceclt.org.

[58] Madison Area Community Land Trust at www.affordablehome.org/MACLT/Marketing-Outreach.

[59] There is a parallel between the programs of the Department of Hawaiian Homes Lands and the community land trusts in that ownership of the land remains with the Department or the trust, which in turn leases the land to the owner of the improvement. There is a difference, however, in the amount of the lease rent, the Department charging a dollar per year and the trusts, in almost every instance, charging a much higher land lease.

to six homes, in different sections of a local community, thus contributing to the creation and maintenance of mixed income neighborhoods.

The Housing Trust of Santa Clara County, founded in 1998, has received half of its funds from the private sector, especially corporate donations. The Trust operates three programs: (1) a first-time home buyer program, which loans money to such buyers to assist with covering closing costs (1,450 families aided); (2) a Multifamily Program, which makes loans to affordable rental housing developers that leverages other funds (1,275 new housing units); and (3) a Homeless and Special Needs Program (745 units of housing).

Community land trusts have multiple advantages: (1) they are private, nonprofit entities that can receive tax-deductible donations; (2) they can grant preference to residents in securing affordable housing in ways that governmental entities cannot; (3) they can contract with governments, and corporations to provide and administer affordable housing; (4) they can hold land in perpetuity, thus contributing to retaining affordable housing over the long-term; (5) they can build small clusters of affordable housing throughout the urban community, thus simultaneously contributing to Smart Growth and mixed-income neighborhoods; and (6) they can build and administer both for-sale and rental housing units.

2.6 The Accessory Dwelling or `Ohana Option

The County can utilize new approaches as a means of increasing the supply of affordable for-sale or rental units. Rick Holt, recently a Maui Island resident and developer, employed one such approach in building Fairview Village in the Portland, Oregon, Metropolitan area.

Holt incorporated carriage houses into his development. A large proportion of what would have been single-family homes included carriage houses, often located over the garage and built to the same quality standards as the main residences. The owner could then rent the carriage house out to a couple or a small family or a single person who could not possibly afford to buy a home but could afford the rent. No government subsidy was involved. The owner of the home, of course, would assure that his renter was a compatible neighbor who would maintain his/her property whiles he or she, the owner, received a fairly well-assured income stream.

The approach will work well with single-family home developments using other configurations than the carriage house over the garage. The critical essentials are that the primary and secondary units be of equal quality construction and that the two units be part of a single indivisible parcel.

This concept can be extended to multi-family structures. Each unit, for example, would consist of two apartments, the primary apartment and a secondary unit, which would be smaller but built to the same quality standards as the primary unit. The primary and secondary units, which could adjoin each other, would be sold as a package, and would be recorded as a single property not subject to subdivision now or in the future.

The owner could then rent the secondary unit out, which would provide him/her with an income stream, or use it as an `ohana unit for elderly parents or adult children just starting out on their own or perhaps put it to some other use. The management agent can handle the rental for a fee or the owner can do it or an arrangement can be made whereby the owner manages the unit but obtains referrals of qualified renters from the management agent. One added note – only those owning the dual units would be members of the condominium association.[60]

The Carriage House or `Ohana Housing approach has multiple advantages in terms of increasing the supply of affordable rental units or reducing the doubling-up of family households in existing units and all this at no cost to government. It does increase density, but, provided the units are built of equal quality, this should pose no long-term problem. Further, since ownership of the unit is indivisible, the maintenance of both units is fairly well assured.

2.7 Public - Private Partnerships Utilizing Public Land and Facilities

Another creative approach to increasing the supply of affordable for-sale or rental units is through public-private partnerships utilizing publicly owned lands. For example, assume Maui County needs a new fire station in an urban area. The old station occupies an acre of land. The County can enter into a partnership with a private developer to build a new station on the ground floor and affordable for-sale or rental units on the upper stories. The same approach can be used with police stations or administrative officers. Perhaps the most promising possibility is such partnerships in conjunction with public schools, which allows a joint use of athletic facilities, meeting

[60] This approach would result in having families of different income levels, ages and socio-economic classes living in the structure. The presence of an income stream would facilitate owners being able to afford a primary and secondary unit. There would probably have to be some minimum square footage requirements for the secondary unit. For example, the minimum size could be 800 square feet, provided that the size of the secondary unit is equal to at least 75% of the primary unit up to 1800 square feet for the primary unit. Using 75%, this would work out as follows:

Primary unit:	**Secondary unit:**
800 square feet;	800 square feet
1,000 sq ft	800 sq ft
1,200 sq ft	900 sq ft
1,500 sq ft	1,125 sq ft
1,800 sq ft and above	1,350 sq ft

This would assure a variety of secondary apartment sizes and not just a bunch of rabbit warrens. Of course, it should be open to the developer to propose a different configuration, which might make more sense for the type of development he/she was proposing, as long as he/she met the established standards and objectives and the responsible agency accepted the modified configuration.

rooms and other facilities and provides some interesting possibilities for tutoring, mentoring, and other educational endeavors.

A variation of this approach was taken by the Santa Clara Unified School District, utilizing a two-acre site it owned adjacent to an existing school. The District, located in a high-priced real estate area, was having difficulty attracting and retaining qualified teachers. It built 40 rental apartments in a garden housing complex utilizing funding from the California School Boards Association Finance Corporation. Rents, which run from $650 to $750 for a one-room apartment, are set to cover debt retirement costs, operating expenses and a small sink fund. The renters are all employees of the District, who have less than three years of service, with first priority given to teachers. Demand for the units greatly outstripped supply. The District is planning on replicating this endeavor in the future.

Among those caught up in the housing crunch are young teachers, police officers, fire fighters, waiters, retail employees, office workers and many others who perform essential functions in the community. Typically, when speaking about utilizing public land for affordable housing, the search is for large parcels of vacant land. Developing affordable housing in mixed income developments on lands already used for other public purposes provides a challenging and potentially rewarding possibility. Again, there will often be a need to involve multiple jurisdictions and agencies, never an easy undertaking. Pursuing this avenue contributes to Smart Growth, including increasing densities in already developed urban centers and engaging in infill.

2.8 Workforce Housing in the State Land Use Rural District

The Rural Land Use District at present, with its State-mandated minimum half-acre lot requirement, is useless as a vehicle for promoting workforce/affordable housing, but that could change in the days ahead. If State law is revised and if State agencies and Maui County subsequently put in place policies governing development in areas designated as Rural, then there will be an opportunity to develop housing that is affordable in mixed income communities. This will be made possible in part by establishing rural infrastructure (e.g., highways, roads, sanitary systems, and storm water systems) that is less elaborate and costly to build and operate than those required in urban areas and in part by utilizing low impact design and off-grid energy and water systems. Furthermore, service level standards in rural area will be lower than in high-density urban areas. Residential developments in rural areas are likely to utilize cluster zoning and other similar approaches that reduce building construction costs and secure open space.

Again, it is important to note that the Rural District is not useable at present as a means for increasing the supply of affordable housing, but it could be an important instrument for doing so in the future. Much work, however, will have to be accomplished before such a possibility becomes a reality. There will also be those that maintain that a Rural

District is not required and that having an Urban District and an Agricultural District is sufficient, provided administration and regulation in the Ag District is tightened up.

2.9 Available Financial Assistance Programs

The good news is that these are multiple sources of federal, state, and even local funds for affordable housing. The bad news is that funding is in short supply.

The federal Department of Housing and Urban Development has three programs designed to expand the supply of affordable housing. The HOME Investment Partnership Program provides grants to states and entitlement localities to acquire, construct, and rehabilitate homes for low and very low-income families.[61] The grants may be used to assist renters, new homebuyers, or existing homeowners. SHOP (Self-Help Ownership Opportunity Program) provides funds for nonprofit organizations to acquire land or improve infrastructure to facilitate the construction of sweat equity homes by low-income families. The Homeownership Zone Program allows local jurisdictions to acquire vacant and blighted properties and create whole new neighborhoods of single-family homes. These new neighborhoods are to be pedestrian friendly, include a mixed income population, have defined boundaries, and provide relatively easy access to jobs via mass transit or similar means. The last funding for this program was in 1997.

The Hawai`i Housing Finance and Development Corporation (HHFDC) may develop new housing on its own or in cooperation with other government agencies or private developers.[62]

HHFDC may exempt a project from the 4% General Excise Tax that is providing lower cost housing units. The agency also administers the Rental Housing Trust Fund, which makes grants or furnishes loans to developers, nonprofit agencies, and governmental entities providing affordable rental housing for low and moderate-income families. The fund receives a portion of the conveyance tax revenues. The Corporation also administers a Rental Assistance Program, which provides qualified owners of rental housing with monthly rental assistance subsidies ranging from $175 to $250. It also provides interim construction financing loans to eligible nonprofit and for-profit entities constructing rental housing for low and moderate-income families. As of June 30, 2006, all Rental Assistance Revolving funds were committed.

The Corporation administers the Hula Mae mortgage loan program, which provides low and moderate-income families with below market interest rate loans through participating financial institutions for purchasing homes. The program is funded through tax-exempt bonds.

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[61] The HHFDC receives approximately $3 million in HOME funds from HUD. It allocates those funds in equal amounts to the counties of Hawai`i, Kauai, and Maui.

[62] The Corporation also may expedite the processing of governmental approvals through the Chapter 201H-38 (HRS) process, discussed in the following sub-section.

The Corporation also administers the Low-Income Housing Credit Program, which provides private developers and nonprofits with federal and state tax credits. These credits may be used to reduce federal and state income taxes for a period of 10 years or they may be syndicated. Basically the 9% federal tax credit and the 4.5% state tax credit (that is, 50% of the federal tax credit) apply to the depreciable cost of the newly constructed or significantly rehabilitated units rented to low-income occupants.[63] Hawai`i anticipates receiving $2.4 million in federal tax credits in 2007.

Low-cost tax exempt financing is designed to encourage the development of affordable rental properties. It is a significant source of funding for rental housing with affordable set-asides. Such financing is available to for-profit and nonprofit corporations, as well as some governmental units, through Fannie Mae, which provides the credit enhancement. As Fannie Mae states: "The 'AAA' credit rating keeps the rates on the bonds low."[64] State housing finance agencies, such as the Wisconsin Housing and Economic Development Authority and HHFDC, also serve as conduits for such funding, as do organizations such as MassDevelopment. In addition, in the City and County of Honolulu a developer can arrange for such funding with a Hula Mae guarantee after obtaining an authorization resolution from the City Council. Thus, it is the City and County, in the case of Honolulu, which facilitates developers securing low-cost tax exempt financing for affordable housing endeavors.

2.10 Revenue-Producing Tools

This past November, the voters of Maui County amended the County Charter to provide that a minimum of two percent of the County's annual property tax revenues will be devoted to providing affordable housing and suitable living environments. The charter amendment will be in effect for the fiscal year 2008 through fiscal year 2011. If a rate of two percent had been in place in 2006, it would have yielded a little less than $4,000,000 to be devoted to a variety of affordable housing needs.[65]

One possible new source of revenue for affordable housing would come into being if the State were to enact legislation enabling a county to levy a surcharge on the conveyance tax applicable to sales of property in that county. The enabling legislation could specify that funds so collected could only be used to increase the stock of affordable housing in the county levying the surtax. The legislation could also authorize a county to turn over funds so obtained to a nonprofit community land trust for the exclusive purpose of providing sites for affordable for-sale or rental housing.

[63] See www.hcdch.state.hi.us/HTML_pages/lihtc.htm.

[64] See Fannie Mae, Tax-Exempt Bond Credit Enhancement, at http://www.efanniemae.com/mf/finsolutions/pdf/TaxExemptBond_5_12_05.pdf.

[65] See "Public to Decide on Affordable Housing Fund." *Maui News*. July 8, 2006.

The advantage to the surcharge approach is that it includes the sellers of existing residences and other real estate in sharing in the costs of financing affordable housing. The surcharge could either be in proportion to the sales price of the unit or a sliding scale with higher percentages applicable to the more expensive units. Under either approach, those selling homes in the million to five million dollar range (often, though not always, nonresidents) would be paying proportionately more than persons selling half million dollar homes. Such a surcharge would impose little extra burden on the County, but it would constitute a new tax. The imposition of such a cost might well elicit opposition from those in the real estate business, among others.

2.11 Tax Increment Financing

Tax increment financing (TIF) is particularly useful in the redevelopment of blighted or undervalued areas. A special district is created and a plan for redevelopment is prepared and adopted. The property tax base is frozen at its level prior to initiation of the plan. Bonds can then be floated to fund redevelopment of the area with the tax increment resulting from increased property assessments due to increased property values going into a fund to pay off the bonds. TIF does not necessarily directly fund affordable housing, but such housing can be part of the plan for redevelopment of the substandard area.

TIF has been employed with great success in funding the redevelopment of the old Stapleton International Airport in Denver. Ten percent of the housing in this project is for low and moderate income families. The master developer, Forest City Enterprises, constructed the local infrastructure utilizing TIF. ULI comments that: “The ability to create TIF from the project is key to funding the $600 million in local and regional infrastructure costs." Approximately 800 affordable for-sale units and an equal number of rental units have already been, or will be, constructed as part of the Stapleton Development.

TIF is an instrument to finance redevelopment of a blighted area. It does not directly fund the building of affordable housing, but it does make possible the construction of such units as part of the overall redevelopment plan.

2.12 Implementing Smart Growth through Higher Density Development

The American Planning Association in its Policy Guide on Smart Growth[66] stated in the section on social equity and community building that:

> “3. The American Planning Association (APA) and its Chapters support federal and state policies and programs that encourage mixed income neighborhoods as the foundation for healthy regions, including

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[66] See American Planning Association, “Policy Guide on Smart Growth,” adopted April 2002, at www.planning.org/policyguides/smartgrowth.htm.

requirements for the provision of affordable housing in all new-growth areas or through the reinvestment in core communities.

Reason to Support the Specific Policy: Affordable housing should be coordinated regionally to limit concentrations of poverty. Growth strategies must specify provisions for production and maintenance of affordable housing through affirmative measures such as inclusionary zoning practices (zoning that includes a variety of housing types for a variety of income levels) that are applied equally and regionally. Advancement of equity means developing a varied housing stock and planning for stable, mixed income neighborhoods."

Smart Growth, in the APA's view, "…means using comprehensive planning to guide, design, develop, revitalize and build communities for all that:

- "have a unique sense of community and place;
- "preserve and enhance valuable natural and cultural resources;
- "equitably distribute the costs and benefits of development;
- "expand the range of transportation, employment and housing choices in a fiscally responsible manner;
- "value long-range, regional considerations of sustainability over short term incremental geographically isolated actions; and
- "promote public health and healthy communities."[67]

In September 2000, a group of Hawai`i citizens attending a local conference rated the following principles (or elements) in order of importance to a successful smart growth strategy for Hawai`i:[68]

- Coordinate state and county infrastructure planning and implementation.
- Preserve open space, rural character, agricultural use of agricultural land, natural beauty, and critical environmental areas.
- Recognize our island setting in planning and development decisions.
- Mix land uses to create vibrant communities.
- Make development decisions predictable, fair, and cost effective.
- Promote meaningful citizen and stakeholder participation in development decisions.
- Provide a range of transportation services.
- Enhance our Hawaiian heritage and the preservation and conservation of archeological, cultural, and historic resources.
- Promote distinctive, attractive communities with a distinct sense of place, including historic buildings.
- Strengthen and encourage growth in existing communities, contributing to compact development.

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[67] *Ibid.*

[68] State of Hawai`i, Smart Growth Workshop, September 22, 2000. The smart growth elements were adapted to Hawai`i from a listing developed by the National Governors' Association.

- Provide a range of housing opportunities and choices.
- Build on existing community assets.
- Provide walkable, close-knit neighborhoods.

If a community with an expanding population is going to preserve open space and agricultural lands, while still providing housing opportunities for its people, then it will be both necessary and desirable to give priority to building in existing communities. Such a strategy is critical to being able to provide transportation choices and to creating walkable, close-knit vibrant communities. The long-term consequence will be increasing density in existing urban areas, while preserving open space, rural character, agricultural lands, and critical environmental areas, especially watersheds.

What does such a smart growth strategy signify for affordable housing? It means that most affordable housing will be built within the bounds of existing urban areas. It is also likely that much of such housing will be located in multi-family structures, some of which will be condominiums and some rental apartments. It is desirable, as the APA states, that the affordable housing be located in mixed-income neighborhoods. All of the evidence to date, as noted earlier, is that concentrating poor people in a ghetto-like area is bad for the poor families, especially the children, and bad for the well-being of the entire community.

2.13 Utilizing The Property Tax

There has been a great deal of concern in Maui and elsewhere that people purchasing high-end real estate and living on Maui Island only a portion of the year, perhaps in a gated community, do not contribute their fair share to paying the costs of operating and maintaining the public sector. Also, such newcomers are perceived as occupying some of the most scenic lands on the Island and causing, or at least contributing to the high cost of housing on the Island.

It may be worth exploring one way of addressing this situation if indeed the above description is accurate. The real property tax rates levied by Hawai`i counties are among the lowest in the nation, though assessed values probably come closer to full sales values than in most mainland communities. The property tax burden per capita in Hawai`i ranked 40 among the 50 states in 1997.[69] If, however, the property tax rate was to be substantially increased (doubled or tripled for example) while simultaneously providing a compensating homestead exemption to full-time residents and a similar compensating exemption to owners of rental housing leasing units to full-time residents, then those who are only living on the Island for four or six months would be assuming a greater share of the costs of providing public infrastructure and services.

[69] See Table 3, “Local Property Tax Collection Per Capita” in Tax Foundation, “Special Report: State and Local Property Taxes,” #106, August 2001.

Any number of questions may need to be asked and answered before implementing such a policy, such as:

(1) Would it be legal or would it be interpreted by the courts as contravening the commerce clause or the equal protection clause of the United States Constitution?

(2) Would it be feasible to administer such a policy?

(3) Would the policy have undesirable unintended consequences?

(4) Would the policy be perceived as being a means for fairly sharing community costs or as a vehicle to unfairly discriminate against part-time residents?

(5) Would the policy contribute to increasing the stock of affordable for-sale and rental housing? and

(6) Would the policy seriously damage Maui's market reputation and appeal as a vacation destination?

III. ASSESSMENT OF CURRENT MAUI POLICIES

3.1 Introduction

The primary tool employed in Maui County up to now to increase the supply of affordable housing has been the Administration's inclusionary zoning policy, supplemented to some extent by affordable housing policies for hotel-related developments and to a minor degree by the State 201(H) expedited processing for affordable housing endeavors. In addition the County has taken advantage of funding available through the Hawai`i Housing Finance and Development Corporation (HHFDC) and has encouraged Smart Growth practices.

Probably the most prolific producer of affordable housing on Maui has been the Department of Hawaiian Home Lands, which in recent years has been quite successful in providing affordable housing for its specific clientele. It may in some ways provide a model for the County and the newly-formed and very promising community land trust, Na Hale `O Maui, which has the potential of being a major player in terms of affordable housing production in Maui in the future.

The "Ordinance Establishing a Residential Workforce Housing Policy" replaces the current "Administrative Affordable Housing Guidelines for Land Use Approvals" and the affordable housing policies for hotel-related developments, but it still will not constitute a comprehensive affordable housing policy. It relies almost exclusively on the inclusionary zoning tool.

The accessory dwelling or `ohana option is an approach that is in all probability currently being used by individual homeowners in a manner that increases the supply of affordable housing to some degree. As Chris Hart points out, in his letter to the Chair of the Maui County Council and its members,[70] this is an option that could be fully embraced as part of the County workforce housing policy.

3.2 Inclusionary Zoning

Maui County's prior "Administrative Affordable Housing Guidelines for Land Use Approvals," as noted above, has been replaced by the residential Workforce Housing Ordinance. According to Alice Lee, former Director of the Department of Housing and Human Concerns, the administrative policy was put in place by the Administration

[70] Letter of Christopher L. Hart, ASLA, to the Honorable Riki Hokama, Chairman, and Members of the Maui County Council, relating to Bill 57, Bill for an Ordinance Establishing a Residential Workforce Housing Policy, dated October 26, 2006.

because there was no ordinance requiring developers to construct affordable housing.[71] The policy applied to applications for changes in various land use and development requirements under which a residential housing project was being developed, excluding projects being processed pursuant to Section 201H-38, Hawai`i Revised Statutes. The percentage of units that were to be affordable, which was increased over time, was generally 30% (with some variations) at the time the policy was superceded by the Ordinance.

The Guidelines allowed a developer to offer affordable units for sale or rent in multi-family or single-family configurations. The units were to be provided in the same community plan region as the basic development, though with the permission of the Director of Housing and Human Concerns they could be provided elsewhere in the County. The units were to be sold or rented at the levels defined in the affordable housing agreement, which the developer entered into with the Department of Housing and Human Concerns.

In lieu of providing affordable units, the applicant was allowed to make a monetary contribution or provide land or in-kind services. Almost all applicants choose to pay the monetary fee. The fee was calculated by multiplying the affordable sales price for a single-family unit at 120% of the County's median income by 30% and for multi-family units at 110% of the County's median income by 30%. The cash fee in lieu of building affordable units was $60,000 per unit, which constituted an increase from the prior $40,000 fee.

Prior to filing for a building permit or the granting of final subdivision approval, the applicant was required to enter into an affordable housing agreement with the County.

The policy, which was fully in effect for two and a half years, resulted in the collection of almost ten million dollars in in-lieu fees. The funds were used primarily for rental housing for low-income families, senior citizens, and human resource centers providing a spectrum of housing from basic shelter and services to people without homes to long-term affordable rental housing. In addition, a portion of the funds has been used to help first-time home buyers acquire single family homes. Among the projects assisted, using the ten million in in-lieu fees, have been the West Maui Resource Center, Hale Maha`olu Senior Housing, and Lōkahi Pacific's endeavors.

The Planning Commission was authorized to recommend to the County Council affordable housing requirements different than those required by the Department of Housing and Human Concerns pursuant to the "Administrative Affordable Housing Guidelines for Land Use Approvals," and the Council could accept such recommendations or impose conditions of its own. This occurred from time to time in the past.

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[71] Personal interview, September 27, 2006. See "Maui County Administrative Affordable Housing Recommended Guidelines for Land Use Approvals," revised 06/07/04.

The prior Administration's affordable housing policy resulted in construction of facilities for populations in need, such as those served by the West Maui Resource Center, which would not have been built in the absence of the policy and availability of in-lieu funds. The question that can be raised about the former policy is whether it went far enough in terms of meeting the need for affordable housing on Maui Island.

The County also had an ordinance, initially adopted in 1992, that required an applicant requesting a permit to build a new hotel or motel (that is, transient vacation rental units other than a bed-and-breakfast) or to add units to an existing hotel or motel to construct one affordable housing unit for every four hotel, apartment-hotel, or motel rooms or fraction thereof.[72] There was no buy-out provision in the ordinance. The Department of Housing and Human Concerns administered the program. While there have been few new hotels built in Maui in recent years, the provision of the ordinance had been applied to transient facilities including timeshare enterprises. The ordinance is reported to have resulted in the construction of a limited number of affordable housing units.

Both the "Administrative Affordable Housing Guidelines for Land Use Approvals" and the "Affordable Housing Policies for Hotel-Related Development" became null and void on December 5, 2006 when the Workforce Housing Ordinance took effect.

A limited number of affordable housing projects, in which all or most of the units are affordable to households with incomes at or below 140% of the median family income, have been processed under State law, now known as 201H-38, providing for expedited processing.[73] Such projects – once the Hawai`i Housing Finance and Development Corporation (HHFDC) has found the project meets the requirements of the law – are exempt from all county charter provisions, ordinances, and other county requirements relating to construction. Furthermore, the County Council has 45 days to approve or disapprove the project once HHFDC has submitted the preliminary plans and specification for the project to the County. Neither the Maui County Administration nor the Council has looked with favor on the 201H-38 process, finding it highly inflexible. There have been a few 201H-38 projects approved and a few disapproved.

Finally, Maui County has used funds from the HOME Investment Partnership Program, administered at the state level by HHFDC, to partially finance the construction of affordable housing projects such as the Central Maui Senior Housing Project, the Keenan Project, also for the elderly, and the Aloha House Affordable Housing Project. Again, these are very worthwhile projects, but their scale is necessarily modest as a consequence of the limited funds available.

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[72] Maui County Code, Chapter 2.94.

[73] Hawai`i Revised Statutes, Section 201H-38. The law previously included a provision limiting the applicability of state-required expedited process to projects primarily or exclusively furnishing affordable housing units. This proviso has been removed from the revised law though HHFDC must still find that a project proposed for expedited processing "…is consistent with the purpose and intent of this Chapter …" (Section 201H-38(a)(1)).

3.3 The Accessory Dwelling or `Ohana Option

Accessory dwelling units are provided for in Title 19 of the Maui County Code.[74] They may be constructed in residential, apartment, hotel, and interim zoning county zoning districts, subject to some specified exceptions, and in the State land use rural district. The maximum gross floor area of such a dwelling varies from 500 to 1,000 square feet depending on the lot area, which varies from a minimum of 7,500 square feet to 87,120 or more. Only one such unit may be constructed on a lot, regardless of its size. The dwelling must have at least one separate entrance, but may not have an interior connection to the main structure. An accessory dwelling must have a carport or other off-street parking area. Furthermore, the appropriate authorities must certify the adequacy of the sewage disposal system, the water supply, fire protection, and access to a street with a minimum width of 16 feet prior to the applicant applying for a building permit.

The County has not formally employed the accessory dwelling unit provisos of the Code as a means of increasing the supply of affordable housing. Individual homeowners, however, have undoubtedly added such units in order to provide an affordable dwelling unit for family members or to rent to supplement the family income. By their very nature and with few exceptions, accessory dwellings increase the affordable housing stock.

Chris Hart, a Maui planning consultant and landscape architect, has emphasized that accessory dwelling units provide one of the best sources of affordable workforce housing:

> We feel that the `ohana units are so important to the developing of an adequate supply of workforce housing, that the County should be encouraging their development. They function to make affordable housing in two ways: first, by providing long-term, single family, rental opportunities attractive to those individuals and families who are not in a position to own; and secondly, by providing a supplemental income for the main house owners, through rent, better letting them manage their own mortgage costs. [75]

3.4 The Department of Hawaiian Home Lands Program

Undoubtedly, the largest provider of affordable housing units on Maui, at least in recent years, is the Department of Hawaiian Home Lands, which manages the Hawaiian Home Lands Trust. The Trust provides lands to qualified native Hawaiians (defined as a 50% blood quantum or higher) in what it describes as "self-sufficient and healthy communities."[76] There is no economic means test.

The Department offers four types of homestead residential awards:

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[74] See 19.08.020 and 19.35 of the Maui County Code.

[75] Letter of Christopher L. Hart, ASLA, *Ibid.*

[76] Mission Statement, Department of Hawaiian Home Lands.

- Turnkey lots, including all subdivision improvements, which are generally developer built but may include some self-help units;
- Improved vacant, which include all subdivision improvements but the homestead householders builds their own home;
- Rural lots, which include limited infrastructure and the homestead householders builds their own home; and
- Undivided interest, which is to be subdivided later.

The land is leased to the homestead family for a period of 99 years at a dollar per year, which contributes significantly to making the housing very affordable. Furthermore, there is no real property tax on the land and there is a seven-year exemption from this tax on the improvements. It should be noted that the home must be owner-occupied.

Recent projects on Maui[77] include the Waiehu Kou Phase 4, which will include 86 developer turnkey units and 12 self-help units, the latter being "…for families unable to financially pre-qualify for the lowest price house." The developer built homes will be two to four bedroom units on lots averaging 7500 square feet. The cost of the homes will range from $127,000 to $182,000. The developer is the Dowling Company, which also developed Phases 2 and 3 of the Waiehu Kou Project.

Waiehu Kou 3 includes 115 two- to four-bedroom homes, 79 of which were built by Dowling and 38 by their owners.[78] The average lot size is 8,000 square feet, and the prices ranged from $99,859 to $169,850.

The Department is also building the Village of Leiali`i in Lahaina in partnership with the Dowling Company. The first phase of this undertaking will include 96 turnkey homes, again ranging in size from two to four bedrooms, sited on 7,500-square-foot lots on average and ranging in price from $127,000 to $240,000. The Dowling Company, it should be noted, has been quite successful in securing federal grants "to support buyers with down payments and closing costs."

Everett Dowling has stated that, "The competition for affordable housing makes home ownership unattainable for too many Maui residents. Waiehu Kou 4 will help alleviate Maui's affordable housing crunch by providing Hawaiians with homes, thereby decreasing the number of buyers competing for homes in the affordable market."[79] Micah Kane, Chairman of the Hawaiian Homes Commission, has noted that, "Dowling Company has been an excellent partner for us on Maui. Once this project (Waiehu Kou) and the Village of Leiali`i are completed, we will have built 422 homes together. That

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[77] See Department of Hawaiian Home Lands News Releases dated September 15, 2005 and August 15, 2006.

[78] See Department of Hawaiian Home Lands News Release dated January 28, 2005.

[79] See Department of Hawaiian Home Lands News Release dated August 15, 2006.

total makes Dowling Company the single largest private developer of homes for native Hawaiians in the state."[80]

Dowling's point is well taken. By providing homes for native Hawaiians (some but not all of whom would qualify for affordable housing) on Hawaiian Home lands, the pent-up demand for affordable units in the community at-large is significantly reduced. Further, the experience of the Department of Hawaiian Home Lands and the Dowling Company may prove very useful to the County of Maui and Na Hale `O Maui (see the next sub-section, below) in terms of how best to meet the needs of the larger community for affordable housing.

3.5 The Community Land Trust: Na Hale `O Maui (NHOM)

The non-profit Community Land Trust on Maui, now entitled Na Hale `O Maui (NHOM), has recently been incorporated.[81] It is temporarily operating under the fiscal sponsorship of Lōkahi Pacific until NHOM secures its own 501(c)(3) recognition from the Internal Revenue Service. In early July 2006, the Board adopted its by-laws and articles of incorporation. The organizing Board consists of professionals and community members, but as the organization matures the Board is to be composed of one-third affordable housing owners on Trust land, one-third general members, and one-third appropriate professionals.

NHOM's first-year budget is $200,000, devoted primarily to organization and getting started. It is employing an executive director and a second staff member and setting up its own office. Already, the Trust has secured firm commitments totaling $125,000. It anticipates little difficulty in raising the remainder. In August 2006, it held a strategic planning session with the assistance of a highly regarded national community land trust consultant. It has already established close working relationships with the County of Maui.

NHOM's priority is providing permanent affordable housing on the Island of Maui. (If those living on the island of Moloka`i determine that they desire to set up their own land trust, Na Hale `O Maui has already indicated that it would be willing to help Moloka`i in so doing.) The Trust will seek to obtain land, by purchase, donation, or dedication, which it will hold in perpetuity. The members of the assisted household will own their own home on land leased from the Trust. When the homeowner chooses to sell, the sales price will be determined by a formula that keeps the house affordable to another qualified family requiring such housing. Any equity increase is to be shared between the seller and NHOM in accordance with a predetermined ratio.

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[80] *Ibid.*

[81] Most of the information on the Maui Community Land Trust was provided by Dale Bonar, Executive Director of the Maui Coastal Land Trust and one of a number of prime movers in the establishment of the Maui Community Land Trust.

NHOM is fully cognizant of the need for affordable rental housing on Maui, though its initial emphasis will be on affordable home ownership. How the Trust will address the rental need was one of the issues discussed at the strategic planning session in August. Initially, NHOM expects to limit itself to being involved in large-scale rental developments in which it will lease land to the rental property owners to assure long-term affordability. Simultaneously, it will begin exploring optimal ways for NHOM to be involved in meeting the need for rental housing.

NHOM will seek to raise funds and donations of land from a variety of sources including members, foundations, corporations, private landowners, developers, and government. It will be able to offer tax advantages to private contributors and to prioritize qualified homeowners or renters (e.g., qualified employees of a company that is building or contributing to affordable housing or to long-term Maui residents) in ways that are sometimes difficult for governments to do. It will also be in a position to accept public funds.

Na Hale `O Maui's first year goals are to[82]:

- "Create a sustainable, effective non-profit organization for creation and management of permanently affordable housing for Maui residents;
- "Assure that key audiences understand how Na Hale `O Maui works to create and support permanently affordable housing in support of community goals;
- "Determine the target markets and the types of housing to be made available to low and moderate income residents through Na Hale `O Maui; and
- "Develop a fair and workable 'Deal' for the eligible home buyers."

Land will be leased to the homebuyer, thus reducing the initial cost of the house and lot package to the new owners. The lease arrangement, combined with the resale formula, will ensure that the housing will be affordable in perpetuity, an important objective of the Trust.

The priority constituencies include "… current Maui residents, native residents, families with children, and employees of key employers including hotel workers, teachers, first responders (police, firefighters, etc.), construction trade workers, and hospital workers."[83] In order to hold down costs, the Trust will be seeking land that is donated or sold to NHOM at a reduced price or is available on a low-cost, long-term lease basis. In addition it will seek funding so as to be able to engage in purchase price write-downs. It will look for reduced rate mortgage financing, favorable property tax treatment, in-kind contributions, including "sweat equity," and municipal assistance.[84]

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[82] Drawn from the draft Na Hale `O Maui Annual Work plan (10/10/06) for FY 2006-07.

[83] Drawn from the Summary Report, Na Hale `O Maui Strategic Planning Retreat, August 18-20, 2006.

[84] *Ibid.*

The launching of Na Hale `O Maui is quite impressive. NHOM has secured the participation of key players in the affordable housing field on Maui. It has brought in top-rate consultants. It has conducted an organizing retreat, which was intensive, energetic, and thorough. It has considered the multiple aspects involved in launching a new non-profit organization as well as the range of aspects involved in providing and funding affordable housing (e.g., scattered development, mixed income developments). It already has a draft of a first year work plan in place. Na Hale `O Maui provides a resource of incredible value to the community and the public and private sectors in meeting the need for affordable housing on Maui.

IV. DEVELOPER RESPONSES TO CURRENT AND POTENTIAL AFFORDABLE HOUSING POLICIES

4.1 Introduction

We asked Maui developers for their feedback on both current affordable housing policies and the potential elements of the "Affordable Housing Policy Tool Kit" described in Section II.

About ten Maui developers responded to a series of questions, in either written form or telephone conversations. These communications took place in September and October 2006 and involved a wide range of developer types – small and large, Maui-based and Honolulu-based. Most were conventional for-profit firms, but a few nonprofits were also included.

Ours was not a systematic survey research project,[85] but rather reaching out to a non-randomly selected, limited group of developers to gain their reactions to current and potential means of increasing the stock of affordable housing on Maui. The reason for asking developers, rather than all the stakeholders – e.g., low to moderate-income householders, environmentalists, community activists, public officials – was our desire to ascertain the reactions of those who produce the housing that the community consumes. The views of other stakeholders are also critically important, but the starting point is determining whether a specific approach to increasing affordable housing is going to be perceived as a positive inducement, an indifferent incentive, or a negative detriment by those producing housing.

4.2 Developer Response to Current Housing Policies

As a group, Maui developers perceive themselves as more concerned about the quality of the natural environment than developers in some of other parts of the world. Many told us that preserving Maui's quality of life reflects both personal values and sound business practice. They do not want to diminish the natural beauty and open spaces, which make Maui one of the most desirable places to live anywhere. They said they are willing to recognize that the rate of population growth and development needs to be carefully monitored, and perhaps even metered, in order to prevent environmental damage. However, they said, they do want to build houses and they do not like to waste time or money on what they perceive as arbitrary bureaucratic requirements, which add little or no value.

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[85] We employed some starter questions, but not a formal, comprehensive questionnaire. Further, in order to secure responses from developers, we guaranteed our respondents anonymity.

For many, the basic perceived issue is that ***the County does not have a clear over-arching policy on growth rates and preferred locations.*** Rather, each individual housing project application is subject to the full range of reviews, hearings, and impact assessments that they believe are more suitable to the determination of an overall county strategy. Growth, they say, "metered" on an individual project basis, adds great time and uncertainty – hence, cost – to the process.

Metering growth by making the permit process onerous is not uncommon. Many local governments have used it to control growth. This approach has "worked" in Aspen, La Jolla, Mill Valley, and Westchester County, to name a few places. Growth has been limited and open space preserved. Some of our interviewees noted that when it takes so much time and effort to get the permit, no one wants to build anything but expensive houses.

Maui developers told us they would be more likely to accept limits on development for environmental reasons if these limits were openly stated and if the permit process were more straightforward, efficient, and predictable. They would prefer to get a "no" earlier, rather than later. Developers also stated that they would be willing to build more units in the affordable range if the County provided the necessary entitlements and infrastructure. (Recent projects by the Department of Hawaiian Home Lands, discussed briefly above in Section 3.4, were often cited as an example of this approach.)

In response to open-ended questions about what the County should or should not do with respect to affordable housing, we received numerous suggestions. The following are typical:

1. <u>What are the most important steps the County should take to help meet affordable housing needs?</u>

- "Truly make it a priority – reserve water; build infrastructure, expedite permitting, adapt/change ordinances, and make similar changes."
- "Zone more lands for residential development with a reasonable (10%-25%) affordable housing requirement."
- "Approve more mixed use, smart growth projects as soon as possible."

2. <u>What are the most important actions the County should stop taking, or avoid doing?</u>

- "The County should stop disregarding the State's leading economists and business people, as well leaders from the mainland (Urban Land Institute)."
- "Reduce the number of project types that are required to be reviewed by the County Council. Time and uncertainty are major deterrents to providing housing on a timely basis."
- "Stop taking so long at every review level to approve projects (often taking 7 to 10 years in total)."

4.3 Developer Response to Other Possible Policies

The list of possible policy tools previously set forth in Section II was reviewed with the same set of Maui developers to gain their feedback on what they think is practical and useful. These comments are presented below, grouped under the headings previously used to describe the elements of the "Affordable Housing Policy Tool Kit" in Section II.

4.3.1 Development Incentives

As previously stated, there are a series of incentives that can serve as an inducement to developers to increase the supply of affordable housing, such as:

- increase the density allowance;
- waive certain design requirements;
- provide available (and adequate) infrastructure; and
- expedite processing.

Infrastructure assistance was the most frequently favored incentive by the developers. Providing adequate water and road service were often mentioned as something the County could do to improve housing affordability.

Unlike the development community in other locales, Maui developers did not emphasize increased density allowances or waiving design requirements as major incentives to the development of affordable housing.

While all of the developers whom we interviewed spoke at great length about their dislike of the permitting process (see 4.3.3 below), expediting the process was not perceived as an actual "incentive" per se. In the first place, they were extremely skeptical that the process will change. Second, they view the process as an artificial constraint, intentionally or unintentionally imposed, to limit the rate of growth. They view the length of the process as an arbitrary disincentive, which needs to be removed.

4.3.2 Inclusionary Zoning (IZ)

The intent of IZ ordinances is to increase the supply of affordable housing. However, as previously mentioned (Section II), “The devil is in the details.” Without exception, the developers to whom we spoke expressed grave reservations about the IZ ordinance under consideration at the time of our interviews (and subsequently adopted), because they considered it impractical. Some were opposed to the concept in principle, but the majority was concerned about the perceived impossibility of implementing the proposed IZ ordinance.

Unlike some IZ ordinances in other locales, the Maui IZ ordinance strikes most developers as extremely unbalanced. "All sticks and no carrots" was one expression used to describe the ordinance from the developers' perspective. Some also said the ordinance would place a disproportionate financial burden on the buyer (and builder) of the new homes, as opposed to the buyer (and the real estate agent who facilitates the sale) of an existing home. Given that new homes are a small fraction of total homes sales, placing the burden on new homes strikes them as both unfair and impractical.

4.3.3 Streamlining the Permitting Process and Waiving of Fees

Developers consistently complained that they have to deal with multiple agencies – local, state, and federal – each with its own permitting and review processes. This takes lots of time and money, which adds cost but not value to the final product.

One developer cited a project that involved a third more public hearings than the number of units in the project. Several examples were given where the permit processing took longer than construction. In fact, most developers said this situation is the rule, rather than the exception.

Waiving fees was not frequently mentioned, compared to the idea of expediting processing with greater coordination among the permitting agencies and jurisdictions. Developers overwhelmingly endorsed simultaneous (as opposed to sequential) permit processing. The lack of coordination between the authorities responsible for water distribution and other County agencies was frequently mentioned.

4.3.4 The Community Land Trust

A community land trust exists to develop affordable for sale and rental housing for persons with low to moderate income and to assure that such housing remains permanently affordable.

Several developers spoke enthusiastically about this option in extended private conversations. Others viewed the trust approach as not particularly promising.

4.3.5 The Accessory Dwelling or `Ohana Option

This approach as a means of increasing the stock of affordable for sale or rental units, elicited practically no response from the developers questioned. This may be because `ohana units are usually not built by housing developers but by smaller contractors.

4.3.6 Public - Private Partnerships Utilizing Public Land and Facilities

The idea of public-private partnerships – utilizing publicly-owned lands – was very well received. This creative approach to increasing the supply of affordable for sale or rental units was overwhelmingly chosen as an effective possibility by developers.

4.3.7 Workforce Housing in the Rural District

The Rural District is not useable at present as a means for increasing the supply of affordable housing, but it could be in the future. The idea of allowing cluster developments in this area was one of the most frequently cited options in discussions about density rule changes that could be beneficial in increasing the supply of affordable housing.

4.3.8 Revenue Producing Tools

This November the voters of Maui County decided to amend the County Charter to provide that at least a minimum of two per cent of the County's annual property tax revenues will be devoted to providing affordable housing. Prior to the vote, about half of the developers we spoke to were in favor of this change.

Another possible new source of revenue for affordable housing would come into being if the State were to enact legislation enabling a county to levy a surcharge on the conveyance tax. Many of the developers supported this idea as worth exploring.

4.3.9 Higher Density Development and Smart Growth

A smart growth strategy means that most affordable housing will be built within the bounds of existing urban areas. It is likely that much of such housing would be located in multi-family structures. Many developers to whom we spoke endorsed these concepts as appropriate for Maui. No one seemed to oppose this type of approach, at least in principle.

4.3.10 Utilizing the Property Tax

Many Maui residents perceive newcomers as contributing to the high cost of housing on the Island. There has been a great deal of concern that people purchasing high-end real estate and living on Maui Island only a portion of the year, perhaps in a gated community, do not contribute their fair share to paying the costs of operating and maintaining the public sector.

When asked if offshore investors/owners should be taxed differently than local residents, with the proceeds used for affordable housing, the developers were split evenly between positive and negative responses. In conversations, some expressed reservations about whether this idea was practical.

V. RECOMMENDATIONS FOR HOUSING POLICIES

5.1 Introduction and Summary

Our basic recommendation is to establish a ***multi-faceted affordable housing policy***, which includes:

- Providing Infrastructure for Affordable Housing Projects;
- Adopting an Inclusionary Zoning Program;
- Streamline the Permitting Process for Affordable Housing Projects;
- Waiving Selected Fees;
- Working with Na Hale `O Maui, the Community Land Trust;
- Utilizing the Accessory Dwelling or `Ohana Option;
- Developing Public-Private Partnerships Utilizing Public Lands and Facilities;
- Tapping into Available Financial Assistance Programs; and
- Implementing Smart Growth through Higher Density Development.

These derive from the foregoing Section II. However, it will be noted that the bullet list above does not include all the options mentioned in the "Affordable Housing Policy Tool Kit" set forth earlier. One financial program, tax increment financing, does not appear to be relevant to Maui County at this time. Several other potential tools or financing programs cannot be implemented without authorizing state legislation and/or extensive public input due to the difficult political issues involved.

First, the County cannot make good use of the State Land Use Rural District for affordable housing until the half-acre minimum lot requirement is removed and the counties are given greater jurisdiction over the Rural District.

Second, counties cannot have the option of levying a surcharge on the conveyance tax for the purpose of funding affordable housing without enabling state legislation.

Finally, in order to utilize the property tax to increase the share of county costs paid for by those who live in Maui for only part time or not at all, the County Council and the Mayor would have to significantly raise residential property tax rates while simultaneously (and substantially) increasing the home exemption to offset the property tax increase for qualifying resident home owners and establishing a comparable new offset for housing that is rented to qualifying residents.

We recommend that the Mayor and County Council explore the possibility of requesting the Legislature to give the counties the option of levying a surcharge on the conveyance tax to fund affordable housing. We also recommend that the Mayor and Council explore the property tax option.

5.2 Establish a Multi-Faceted Affordable Housing Policy

It is important to specify the principles that provide the under girding for the Maui Island housing policies. In this regard the Urban Land Institute's (ULI's) "principles of successful affordable housing programs and developments"[86] provide an ideal framework for organizing the recommendations that we are presenting.[87] Taken together, our recommendations constitute a multi-faceted affordable housing policy for Maui Island.

5.2.1 Take a Comprehensive and Flexible Approach to Affordable Housing Policies and Programs

There is no single magic bullet. There is no one policy that by itself can lead to an adequate supply of affordable housing in any complex modern community. Thus, there is a need to take a multi-faceted approach. Policies that may work and work well during times of vibrant economic growth may not be well suited to periods of financial downturn. Strategies that are suited to residential districts may not function as well in resort areas. Programs that are ideal when applied to large developments may be counter-productive when imposed on homeowners or small-scale builders.

Private-sector developers build most of the housing in American communities. These same developers even construct most of the housing that is directly funded by government agencies. Thus, it becomes important to know the incentives to which these developers will respond at particular times. If the development business is booming, a developer may be less inclined to take on a low-profit project than if the market is slack.

There may be a time when the largest pent-up demand is for affordable for-sale housing. The economy may shift and the monitoring of current housing data may indicate that now the predominant need is for affordable rental housing. Public affordable housing policies have to be flexible enough to adapt to such a shift in demand.

Furthermore, designing and implementing affordable housing policies and programs is a learning process. One idea works; another does not; a third would succeed if only a small change were made. As stated earlier: "Montgomery County, Maryland, has one of the oldest and most productive IZ (that is, inclusionary zoning) systems in the country, entitled the Moderately Priced Dwelling Unit (MDPU) Program. The fact that the ordinance has been amended over 20 times since its initial passage in 1976 is

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[86] Urban Land Institute. *Workforce Housing: Innovative Strategies and Best Practices*. Washington, DC: author, 2006, pp 9-15.

[87] The principles are restated as the headings for the remaining sub-sections, which follow.

testimony to how continuously a jurisdiction must work to keep its system up-to-date taking into account current market conditions."[88]

5.2.2 Use Public Policies, Programs, Land and Money to Leverage Private Investment in Affordable Housing

The County invests millions of dollars every year in infrastructure – including water lines, sanitary sewers, storm drains, and roads. In addition, the State expends funds of a similar magnitude to build schools and highways. If building affordable housing in existing urban districts is the desired policy objective, then constructing public infrastructure that makes such development possible is the course to follow. Private investment tends to respond to public capital improvements. Often, it is the landowner and the developer who lead the way, convincing governmental officials to construct infrastructure that makes their lands accessible and developable. It is advisable, however, for public officials to invest in areas that their general and community plans have designated for development and particularly for affordable housing construction.

One of the most effective ways to leverage private investment in affordable housing is to put in place policies that encourage the development of `ohana or accessory dwelling housing. It is the developer or the homeowner who funds the construction of such supplemental units. Built in urban areas, they will constitute in-fill development. Built as part of new development, whether single-family, attached, or multi-family, they will contribute to creating mixed-income communities.

5.2.3 When Appropriate, Create Public-Private Partnerships to Develop Affordable Housing

Another creative approach to increasing the supply of for sale or rental affordable housing is forming public-private partnerships utilizing public lands and facilities in the urban district. Possible examples of such partnerships are presented in Section 2.7 above:

> For example, assume Maui County needs a new fire station in an urban area. The old station occupies an acre of land. The County can enter into a partnership with a private developer to build a new station on the ground floor and affordable for-sale or rental units on the upper stories. The same approach can be used with police stations or administrative officers. Perhaps the most promising possibility is such partnerships in conjunction with public schools, which allows a joint use of athletic facilities, meeting rooms and other facilities and provides some interesting possibilities for tutoring, mentoring, and other educational endeavors.

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[88] See page II-4 above.

5.2.4 Make It Easier to Develop Affordable Housing by Waiving Fees, and Expediting the Entitlement and Permitting Process

Our interviews with developers did not indicate that the waiving of fees would provide them with a strong incentive to develop affordable housing, with one notable exception – namely the fees imposed by the Department of Water Supply. Since the Department is a semi-autonomous organization within the structure of county government, managed by a semi-autonomous board, the waiving of such fees would only occur if that agency became a partner of the Council and Mayor in fostering the development of affordable housing. If such fees were to be waived, then the Department would be faced with replacing the lost revenue from another source.

It is very clear from the comments of the developers that expediting the permitting process for projects including a substantial proportion of affordable housing would for them constitute a very attractive incentive. However, as consequence of years of experience, they do not believe that that will happen. On the other hand, the success of the S.M.A.R.T. Housing Initiative Program in Austin, Texas, has been in good part due to expedited review.[89] It is not just expedited processing in the Planning Department, but in all the county agencies involved in the review of the application. The optimal situation is in the case of a proposal requiring action by state and federal as well as county agencies, if the review process can be both coordinated and concurrent.

The recently-adopted Maui County Residential Workforce Housing Policy ordinance does provide for expedited departmental review:

> For developments subject to this chapter, and under the jurisdiction of the development services administration of the department of public works and environmental management, decisions on permits will be made by all departments within sixty days of the date the permit application is deemed complete by the development services administration. Decisions on permits that require review by any outside agency will be made within thirty days of the receipt by the development services administration of the last approval from an outside agency; provided that decisions on applications that require special management area permit review, or environmental review pursuant to Chapter 343, Hawai`i Revised Statutes, shall be issued within ninety days of the applicable review."[90]

However, no provision is made in the ordinance for the enforcement of these time limits. Clearly special management area review and environmental impact statement processes could add significant time to the schedule described above. Furthermore, the ordinance, in a bit of an anti-climax, states that the Council "…will schedule the initial meeting for such application within six months of the referral to the appropriate

[89] See ULI Workforce Housing *Ibid.*, pages 16-20.

[90] Section 2.96.140A of "A Bill for an Ordinance Establishing a Residential Workforce Housing Policy," dated October 12, 2006.

committee. The Council will vote to approve or deny the application within one year of the referral to committee." [91]

5.2.5 Support and Build Mixed-Income Communities Including Market-Rate Units, When Possible

A soundly conceived affordable housing policy is not just focused on creating units to be sold or rented to low and moderate-income families. It is concerned with building viable, vibrant, safe communities. Mixed-income communities are much more likely to exhibit such characteristics than areas populated solely by low and low-moderate income households. Thus, the County should encourage developers to include a mix of affordable and market rate units in their full-time residential developments.[92] We recognize that, depending on project economics, some market-rate housing projects may have a difficult time attaining the needed level of return to attract financing if affordable units are required on site, and so there may be cases when this is not possible … or when it is only possible if the County provides incentives such as capital improvements, density incentives, or waiving of fees.

Externally, there should be no difference in appearance between the two classes of homes – though internally the affordable unit might be somewhat smaller and include a few less amenities than its neighboring unit. Furthermore, the affordable units should not be segregated, but rather both types of units should be interspersed throughout the development.

As ULI puts it so well: "Providing housing options for all income groups affords lower-income households access to the services and positive life style benefits afforded to middle- and upper-income households."[93]

Small affordable housing projects, running in the area of four to ten units, need not include market-rate housing, as long as such small-scale developments are integrated into mixed-income areas.

Finally, it is just as important to build affordable rental units as it is affordable for-sale units. Again, it makes sense not only to mix market and affordable units, but also to include owner-owned homes and rental dwelling places in the same neighborhood.

Na Hale `O Maui, the community land trust, will be in a position to help both developers and the County government to realize the goal of creating viable, vibrant, safe communities that include both affordable and market rate housing and owner occupied and rental housing. Most importantly, Na Hale `O Maui is structured in a manner to

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[91] *Ibid.*, Section 2.96.140B.

[92] For resort-residential projects, it is probably more realistic to seek developer contributions through off-site affordable housing, directly or by payment of in-lieu fees.

[93] ULI Workforce Housing, page 12.

assure that the affordable for sale and the affordable rental units remain permanently in the affordable housing stock.[94]

5.2.6 Provide Opportunities for Affordable Homeownership, and Provide Homebuyer Education

Providing assistance to families to become owners of affordable homes is a crucial function of any affordable housing programs. This includes assistance in applying and qualifying for loans and, in many instances, providing help in meeting the initial front-end closing costs. Homebuyer education underlies preparing families to become homeowners. There are many examples of such programs in Hawai`i and across the country. The Department of Hawaiian Home Lands runs one such program; the Hawai`i Home Ownership Center runs another. It is not that the County should itself provide homeowner education, but rather that it should make certain such programs are available to families seeking affordable for sale housing through nonprofit organizations such as Na Hale `O Maui, the Hawai`i Home Ownership Center, and in some cases directly from the developer.

5.2.7 Develop Affordable Housing Consistent with Smart Growth Principles

As stated earlier:

> If a community with an expanding population is going to preserve open space and agricultural lands, while still providing housing opportunities for its people, then it will be both necessary and desirable to give priority to building in existing communities. Such a strategy is critical to being able to provide transportation choices and to creating walkable, close-knit vibrant communities. The long-term consequence will be increasing density in existing urban areas, while preserving open space, rural character, agricultural lands, and critical environmental areas, especially watersheds.[95]

Smart growth means that residential housing, including affordable housing, will be built in already urbanized areas. Densities in such areas will increase. Much of the new housing will be multi-family structures including both affordable and market rate units and both rental and owned units.

<u>5.3 Summary of Recommendations</u>

A summary of our recommendations appears in Exhibit 5.1 on the following pages.

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[94] Buy-back requirements comprise a critical issue that deserves further discussion. What portion of the appreciation in the price of the affordable for-sale housing unit should go to the seller of the unit and what portion should remain with the entity or trust that made the unit affordable in the first place and desires to make it affordable to the next family in line? These are substantial economic policy questions that cannot be treated at length in this paper.

[95] See Section 2.12, page II-18 above.

Exhibit 5.1: Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
Economic Cycle Respond to Economic Cycle.	To assure that affordable housing is built during boom periods.	Even out the peak and valley of the cycles with respect to production of affordable housing by offering extra incentives in boom periods and withdrawing incentives during slack periods.	Capacity for advanced planning to identify stages of the economic cycle so that it is possible to put the incentives in place before the boom makes it hard to do so and vice versa.	Production of affordable for-sale and rental housing during peak periods equal to or greater than during down periods.
Urban Infill/Smart Growth Provide necessary plan, zoning, and infrastructure especially water and roads, in areas where it is desirable to locate affordable housing.	To assure that affordable housing is built in existing urban areas or in areas added to the Urban District, or, in designated portions of a revamped State Rural District.	(1) Make certain that construction of affordable housing does not contribute to further urban sprawl in the Agricultural District and elimination of open space; and, (2) Minimize need for additional infrastructure, especially highways, and services in rural areas.	Establishment of adequate development plans and zoning allowances and construction of sufficient infrastructure in urban areas.	(1) Availability of plans, zoning, and infrastructure in areas in which the County desires affordable housing to be built; (2) Periodic survey of developers to determine the degree to which absence of infrastructure in urban areas is a barrier to the construction of affordable housing; and (3) Modification of requirement in any inclusionary zoning ordinance that mandates units to be constructed in the same area in which new housing is constructed.

Exhibit 5.1: Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
Infrastructure Make certain that required infrastructure is available in urban areas.	To assure that affordable housing is built in existing urban areas or in areas added to the Urban District or in designated portions of a revamped State Rural District.	Create affordable housing that does not contribute to further urban sprawl in the Agricultural District. Provide necessary infrastructure, especially water lines and roads in urban areas.	Close cooperation in planning and implementation among County Planning Department, Public Works and Environmental Management Department, and Department of Water Supply. Inclusion in capital improvement program of infrastructure projects designed to increase the supply of affordable for-sale and rental housing.	Availability of infrastructure in areas in which the County desires affordable housing to be built.
Inclusionary Zoning Make certain that a portion of the new singly-family and multi-family housing that is built is available to households in the low and medium income family ranges.	To assure that adequate housing is available to all segments of the population.	Require the construction of affordable for-sale and rental housing units as part of the construction of new housing developments, setting the percentages higher as boom periods approach and lower as they recede.	Design the inclusionary zoning (IZ) ordinance so that the percentage requirements of the multiple variables in IZ may be modified depending on the stage of the economic cycle being entered into.	The number of new affordable housing units built during peak and low portions of the economic cycle remain relatively constant.

Exhibit 5.1: Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
Streamlining the Permitting Process Streamline the permitting process for affordable housing, particularly as the housing production cycle enters the peak period.	To assure the continued production of affordable housing units during peak period in the housing cycle.	Encourage and facilitate the construction of affordable for-sale and rental housing units at times when a variety of other opportunities are available to developers.	Move the processing of application for permitting of projects that include affordable housing units to the head of the line and facilitate the permitting of such projects by other agencies.	The number of new affordable housing units built during peak housing cycle periods.
A Permanent Affordable Housing Stock Keep both affordable for-sale and rental housing permanently affordable.	To build up a large inventory of affordable housing that remains affordable for the foreseeable future.	Avoid building affordable for-sale and rental housing that only remains affordable for 10 or 15 or 20 years and then becomes market-price housing.	Seek to have ownership of as much affordable housing and the land on which it is located vested community land trusts. Community land trusts, in accordance with their missions and structure as non-profit perpetual trusts, are equipped to keep for-sale and rental housing affordable in perpetuity or, at least, for the long, long term.	Increase the total stock of affordable for-sale and rental housing units on Maui over time.
Address Special Needs Housing Address housing requirements for those who are aging and those who have special needs.	To assure that housing is built in urban areas that allows those age 65 and older and those with special needs to continue to live in their homes and communities.	Increase the availability of housing in the urban area that is both accessible and affordable for seniors and those with special needs.	Cooperation among the Planning, Public Works & Housing Departments and advocacy groups to assure that county ordinances facilitate housing that meets the needs of those who are aging and those who have special needs.	Portion of residents age 65 and over and those with special needs living in the general community.

Exhibit 5.1: Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
Mixed-Income Neighborhoods Provide for affordable housing in mixed income areas.	To assure that affordable for-sale and rental housing units are not constructed in areas that are segregated from the general community.	Avoid the negative social consequences that accompany segregation of low-income families and individuals in specific geographical areas.	Provide that affordable housing units, whether for-sale or rental, are built in mixed income areas, are interspersed with market units, and are constructed of the same level of quality as the market units, though making allowances that the affordable units may have somewhat smaller interior spaces and lack some of the internal amenities of the market units. Set standards for what constitutes mixed income neighborhoods (e.g., at least an identified percentage of households are above 140% of the HUD-established median household income). Examine whether an exemption from the application of the mixed income requirement should be granted in resort areas designed for second homes.	Annual survey of new affordable unit to determine if they are located in mixed income areas, are interspersed with market units, and are constructed of the same quality and have the same external appearance as the market units.

Exhibit 5.1: Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
**The Accessory Dwelling of `Ohana Option** Utilize the accessory dwelling or `ohana option as an important element in the overall strategy to increase the stock of affordable rental and family housing.	To encourage and facilitate the construction of accessory dwellings or `ohana units in the urban areas.	Encourage: (1) the individual home owner in specific geographical areas to create an accessory dwelling on his/her property that can then be used to house family members or be made available as a long-term rental; and (2) developers of single or multi-family dwellings to incorporate accessory dwelling units in their developments, which will be available to house family members or be made available for long-term rental.	Provide that the accessory dwelling or `ohana unit is located on the same lot as the primary structure, is built of the same quality, meets minimum area requirements, and is either used to house family members or is rented for long-term residential use. There are to be no means tests.	The number of new accessory dwelling or `ohana units built each year.
Public-Private Partnerships Enter into public-private partnerships that facilitate the construction of public facilities and affordable housing on government lands.	To provide governmental agencies with modern facilities while simultaneously increasing the supply of affordable housing.	Identify suitable public lands on which both public facilities and affordable housing can be located in urban areas; negotiate agreements with county state or federal agencies that control public lands; and enter into agreements with developers capable of building the required public facilities and affordable housing.	Assure that public agencies, state and county, have authority to enter into partnership agreements with developers to construct both public facilities and affordable housing.	The number of new affordable housing units built annually on jointly used public lands.

Exhibit 5.1: Making Affordable Housing a Reality for Maui Island				
POLICY	GOAL	OBJECTIVE	MINIMAL REQUIREMENT	MEASURES OF SUCCESS
Government Leadership Provide exemplary public leadership dedicated to building-up and maintaining the affordable housing stock on Maui.	To assure central direction of affordable housing efforts on Maui.	Designate one official directly accountable to the Mayor who is responsible for: (1) providing the critically necessary direction of county affordable housing endeavors within the county; (2) over-seeing the utilization of housing research data; (3) assuring inter-agency cooperation; (4) coordinating with non-county governmental jurisdictions, land owners, major employers, land trusts, developers, community groups, and others with a stake in the availability of affordable housing for Maui; and (5) exploring potential new initiatives, including funding options, designed to increase the stock of affordable housing.	(1) A close working relationship between the individual responsible for affordable housing and the Mayor; (2) a good working relationship with the Council, other county officials, and those outside Maui government with a stake in increasing the supply of affordable housing on Maui; (3) an adequate budget; and (4) an imaginative approach to increasing affordable housing on Maui.	The number of new affordable housing units built annually.