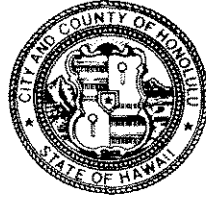


JAN 02 2009

OFFICE OF THE MAYOR RECEIVED
CITY AND COUNTY OF HONOLULU

530 SOUTH KING STREET, ROOM 300 * HONOLULU, HAWAII 96813
PHONE: (808) 523-4141 * FAX: (808) 523-4242 * INTERNET: www.honolulu.gov

MUFI HANNEMANN
MAYOR



CITY COUNCIL
HONOLULU, HAWAII

December 22, 2008

RECEIVED

JAN 9 12 07 PM '09

CITY CLERK
HONOLULU, HAWAII

The Honorable Romy Cachola, Chair
and Members of the Affordable Housing &
Economic Development Committee
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

Dear Chair Cachola and Councilmembers:

Enclosed is a copy of the, "Comprehensive Housing Strategy for the City and County of Honolulu by the Mayor's Affordable Housing Advisory Group, September 11, 2008". This is an over-arching, comprehensive, "housing production strategy" for non-profit and for-profit developers to partner with the City and County of Honolulu and provide housing for all market segments.

We look forward to working with you on developing solutions to the affordable housing needs of the people of Oahu. If you have any questions, please do not hesitate to give me a call at 523-4810.

Sincerely,

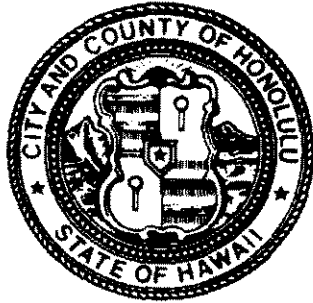
Rae Gee
Executive Assistant

Enclosure

APPROVED:

Wayne M. Hashiro, P.E.
Managing Director

FINAL REPORT



**COMPREHENSIVE HOUSING STRATEGY
FOR THE
CITY AND COUNTY OF HONOLULU**

**BY THE
MAYOR'S AFFORDABLE HOUSING ADVISORY GROUP**

September 11, 2008

**COMPREHENSIVE HOUSING STRATEGY FOR THE
CITY AND COUNTY OF HONOLULU BY THE
MAYOR'S AFFORDABLE HOUSING ADVISORY GROUP**

MAYOR'S AFFORDABLE HOUSING ADVISORY GROUP

Abe Lee	Abe Lee Realty & Seminars
Carleton Ching	Castle & Cooke Homes Hawaii, Inc.
Carole Lau	Central Pacific Bank
Robert Hall	Department of Hawaiian Home Lands, State of Hawaii
Dean Uchida	D.R. Horton, Inc.
Kevin Carney	EAH, Inc.
Debbie Luning	Gentry Homes, Ltd.
Gary Furuta	Hawaii Housing Development Corporation
Mike Klein	Hawaii Intergenerational Community Development Association
Mike Dang	Kamehameha Schools
David Arakawa	Land Use Research Foundation of Hawaii
Marvin Awaya	Pacific Housing Assistance Corporation
Charles Wathen	Pier Management Hawaii, LLC
Jesse Wu	Stanford Carr Development
Sanford Murata	Sanford Murata, Inc.
Claudia Shay	Self-Help Housing Corporation of Hawaii
Karen Seddon	State of Hawaii, Hawaii Housing Finance Development Corporation
Janice Takahashi	State of Hawaii, Hawaii Housing Finance Development Corporation
Orlando "Dan" Davidson	State of Hawaii, Land Use Commission
Thao Khamoui	U.S. Department of Agriculture, Rural Development
Lorraine Shin	U.S. Department of Agriculture, Rural Development
Mark Chandler	U.S. Department Of Housing and Urban Development
Michael Flores	U.S. Department Of Housing and Urban Development

City and County of Honolulu Resources

Debbie Kim Morikawa	City & County of Honolulu, Department of Community Services
Ernie Martin	City & County of Honolulu, Department of Community Services
Randy Wong	City & County of Honolulu, Department of Community Services
Gail Kaito	City & County of Honolulu, Department of Community Services
Henry Eng	City & County of Honolulu, Department of Planning and Permitting
David Tanoue	City & County of Honolulu, Department of Planning and Permitting

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Kathy Sokugawa	City & County of Honolulu, Department of Planning and Permitting
Mary Patricia Waterhouse	City & County of Honolulu, Department of Budget and Finance
Mark Oto	City & County of Honolulu, Department of Budget and Finance
Craig Nishimura	City & County of Honolulu, Department of Facility Maintenance
George "Keoki" Miyamoto	City & County of Honolulu, Department of Facility Maintenance
Christopher Terry	City & County of Honolulu, Department of Facility Maintenance
Carrie Okinaga	City & County of Honolulu, Department of the Corporation Counsel
Donna Woo	City & County of Honolulu, Department of the Corporation Counsel
Gordon Nelson	City & County of Honolulu, Department of the Corporation Counsel
Rae Gee	City and County of Honolulu, Office the Mayor
Drew Astolfi	Honolulu City Council, Councilmember Romy Cachola's Office
Venus Acoba	Honolulu City Council, Councilmember Barbara Marshall's Office
Christopher Garth	Honolulu City Council, Council Chairperson Todd Apo's Office

**COMPREHENSIVE HOUSING STRATEGY FOR THE
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I. Statement of the Problem

The January 2006 Joint Legislative Housing and Homeless Task Force report to the Hawaii State Legislature found that, "Hawaii's affordable housing problems have reached crisis proportions and will only worsen unless all levels of government and the private sector work in partnership to implement bold and effective measures to address the housing needs of our residents." Hawaii's real estate market generally follows national trends as dictated by the overall economy and financial market. Because of the cyclic nature of the local real estate market, available housing stock becomes a significant factor in the cost of housing here on Oahu. As is typical here, during the upswing of the market, there is a shortage of new housing stock and rental inventory on Oahu to meet the demand, contributing to the increase in housing prices. We believe that there is a lack of sufficient housing on Oahu and that this shortage can be reduced, in part by promoting the production and supply of a wide range of housing types for varying market segments. This shortage of units on Oahu has greatly contributed to the current homeless crisis as the most financially marginal families falling out of housing. We have chosen to address three distinct housing segments, which are identified as follows:

1. Assisted Housing
2. Affordable and/or Workforce Housing
3. Market Rate Housing

To create a balance, a continuum of existing and new housing stock in each of these segments is needed to provide for the basic, diverse, and social needs of the general populace.

Given present conditions and influencing factors, this housing crisis is expected to continue indefinitely unless major steps are taken to alleviate the shortage by increasing the supply of all housing market segments. Recognizing the need to provide shelter and homes for an ever-growing population should be a priority. It will necessitate the infusion of substantial dollars from all parties to upgrade the infrastructure in our City's urban core to allow for redevelopment of currently underdeveloped lands. It may also require the development of lands that are currently vacant or zoned for agricultural use, or not in use, which may include the review of Oahu's Urban Growth

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Boundaries. This overall strategy builds on the State Government's severely limited ability to acquire, preserve, and create new units. The overall shortage is exacerbated by the need to preserve existing affordable units threatened by the expiration of federal subsidies, or the increased pressure from rising land values.

II. Analysis-Discussion

This "over-arching housing strategy is intended to focus the recommendations of the attached "Affordable Housing Advisory Committee" of April 2006 and result in a comprehensive approach to addressing the housing needs in the City and County of Honolulu. It provides a framework to assess and formulate policy and legislation to address the specific segments of the housing market. The framework, for the first time, allows policy makers to assess the effectiveness of legislation in a comprehensive manner.

For many years, the City has attempted to address the need of affordable housing by imposing housing and infrastructure requirements, through Unilateral Agreements (UA), on residential developers seeking zone changes for large residential developments. The City has also utilized its own lands and federal financing through the Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) and other U.S. Housing and Urban.

Development (HUD) programs to assist in the development of privately owned affordable and special needs housing projects. The City has also administered the State Chapter 201H, Hawaii Revised Statutes, program process which can provide developers exemptions from zoning, subdivision, and building requirements to reduce the development costs for an affordable housing project.

These efforts have resulted in a substantial number of affordable homes being built. Despite these programs, the City recognizes that there are segments of the housing market that cannot be accommodated by private developers alone, and that there are segments of the population whose housing needs are not being currently met. A comprehensive approach to address the existing and future housing needs for all of the residents of the City is recommended.

In creating a housing strategy, the working group sought to use Section IV, Housing, of the Oahu General Plan (GP) as an over-arching

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document for the strategy and has used it as a "keystone reference". Although due for an update, the GP's housing objectives can be summed up in three phrases:

- Provide housing at affordable prices;
- Reduce land and housing speculation; and,
- Provide a "live-work-play" housing choice.

Revising the OGP is outside of the purview of the working group. In spite of the need for revision, the working group endeavored to be faithful to the spirit of the General Plan.

The working group also reviewed the following work in developing the strategy:

- The City's "Final Consolidated Plan, Program Years 2006-2010", a requirement of the City by the U.S. Department of Housing and Urban Development (HUD) when utilizing CDBG, Emergency Shelter Grants (ESG), Housing Opportunities for Persons with AIDS (HOPWA) and HOME Investment Partnerships funds and programs.
- "The Final Fourteenth Year Action Plan: Program Year 2008-2009," a yearly implementation plan of the HUD programs. The plans address how federal funds are utilized for housing and related needs of the low- and moderate-income families in a way that improves the availability and affordability of decent, safe, and sanitary housing and a suitable living environment.

In reviewing the GP and Final Consolidated Plan, it was apparent that a Housing Functional Plan (master plan) is needed that pulls together the GP and the Final Consolidated Plan.

The purpose of this document is to establish a clear and Comprehensive Housing Strategy to address Oahu's pressing needs for housing.

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III. Market Segments

The City recognizes three major categories of housing market segments, as follows:

A. Assisted Housing

The Assisted Housing Group is defined as households with an annual income of not more than 80% of the U.S. Department of Housing and Urban Development (HUD) median income of Honolulu, adjusted by household size. These households are typically eligible for Federal and State assisted public housing, including Section 8 housing vouchers, and other forms of public assistance.

The 2008 Honolulu HUD annual median income (for this segment) of a household of four with two wage earners is \$38,000 for each wage earner, or, (\$18.27/hour. This income tier includes a majority of the jobs found in every industry (i.e. retail sales, leisure and travel, services, civic, office, industrial and manufacturing, construction, medical, entertainment, hospitality, finance, etc.) and in an integral part of maintaining a balanced and sustainable community.

Unless the personal household income increases significantly, rental housing or living with 'ohana' family rent-free are generally the only options for this income group, notwithstanding self-help home ownership efforts.

The Assisted Housing Group is further segmented into households with incomes of not greater than 50%, 60% and 80% of the median income.

- Households whose incomes do not exceed 50% of median income are eligible for Federal and State assisted public housing and Section 8 vouchers;
- Those whose incomes that are not greater than 60% of median income are eligible for units funded from private equity from the Low Income Housing Tax Credit program, and;

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- Households whose incomes do not exceed 80% of the median income are eligible for projects funded with HUD, CDGB, and HOME Investment Partnership funds.

Households residing in the Federal and State assisted public housing projects or privately owned Section 8 subsidized units pay 30% of their adjusted income as their share of rent. The difference between this share of rent and the "rent" is subsidized by the Federal and State governments. Rental rates for households in the 60% and 80% median income are "flat rate" amounts and are established by a formula (adopted by the Federal and State governments) that considers income by family size and the number of bedrooms rented.

Rental housing projects developed for this group require significant funding assistance for construction, permanent mortgage and operations to successfully build, maintain, and operate this housing segment type. Social services are usually needed for this rental segment and vary from assistance in household management and budgeting to affordable child care. Substantial financial assistance in the way of grants, rather than loans, is usually required to successfully build and operate these projects.

Rental projects developed for the 50% of median income group require substantial development and operating subsidies because rent rates typically do not meet debt and operating and utility costs, especially given Hawaii's extraordinarily high construction cost and cost of living. As the incomes rise, the subsidies decrease, but are not eliminated.

B. Affordable/Workforce Housing

The Affordable/Workforce Housing segment is defined as households with an annual income of not more than 140% of the Honolulu HUD median income, adjusted by household size. The annual median income for a household of four with two wage earners is about \$54,000 or (\$25.00/hour) for each wage earner in this income group.

The majority of the households in this market segment are typically employed in service and government industries. Many are employed by the government can be classified as "first-

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responders" to civic emergencies and employed in the public and private higher and lower education systems. The income of many of these households comes from two wage earners.

Households in this segment (generally above 120% of median income) may be able to afford the purchase of below market rate dwellings. These units are primarily located outside of the Honolulu urban district and, if members of the household are employed in urban Honolulu, the household will incur substantial transportation costs.

Rental housing projects developed for this market segment typically need permanent mortgage debt assistance, as even at these higher incomes, rental income is insufficient to meet the cost of development due to current inflationary and petroleum prices. Second mortgage construction and permanent mortgage financing is often required.

C. Market Rate Housing

The Market Rate Housing segment is defined as households with an annual income of more than 140% of the Honolulu HUD median income, adjusted by household size. There is actually another "gap group" contained within this Market Housing segment, as 205% of the HUD median income is required to purchase a median priced residence for \$600,000 in Honolulu. While interest rates in the United States are currently at historically low levels, many of these households are having difficulty qualifying for mortgages as residential mortgage credit markets contract due to stricter loan underwriting (credit scoring) and equity (down payment) requirements.

Increasing delivery of all housing segments can be achieved by more rapid processing of land use, zoning, and ministerial permitting of housing. Priority in processing should be considered where Assisted Housing and Affordable/Workforce Housing projects are a significant part and integrated in the development and especially where commencement of these projects is conditioned on the commencement of the Market Housing.

An impediment to the delivery of all Market Rate Housing is the above stated condition of the residential credit market. As it

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becomes more difficult to obtain mortgage financing, the market will adjust by delivering less Market Rate Housing to reduce the standing inventory of already produced housing. This strain will increase demand to both the Assisted Housing and Affordable/Workforce Housing inventory of existing rental and for-sale units as upward mobility of homeowners slows.

IV. Goal

Increase the number of newly constructed and preserved housing units annually, in all three categories, within the City and County of Honolulu.

V. Strategy

The following are some of the major components necessary to cause a significant increase in the number of Assisted, Affordable/Workforce and Gap Group housing units which can be built by nonprofit and for-profit developers.

A. Assisted Housing

Funding is the most significant barrier that prevents increasing the supply of Assisted Housing units on Oahu, especially for rentals at the 80% and below income groups. The strategy is as follows:

1. Funding

Consolidate and leverage various existing funding sources to provide the maximum number of units with the existing sources of funding. The City should take advantage and expand the use of:

- Rental Housing Revenue Bonds;
- Single Family Mortgage Backed Revenue Bonds;
- General Obligation Bonds;
- Tax Increment Financing, if legal and, Community Development Facilities Bonds;
- Leveraged CDBG loans;
- Affordable Housing Fund; and the,
- Housing Development Special Fund.

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There needs to be one entity in the City and County of Honolulu with the expertise, responsibility and authority to identify and comprehensively bundle the various existing government funding sources with a focus on increasing unit counts in the Assisted Housing market segment in Honolulu.

2. Entitlements

Create more incentives through directed density bonuses, enhancement credits, and other zoning benefits to leverage private investment and increase funding for construction of more Assisted Housing units.

3. Unilateral Agreements Program (UA) for Affordable Housing

Use the UA process to increase supply in targeted market segments with consideration for incentives to encourage more units for Assisted and Affordable/Workforce housing.

B. Affordable/Workforce Housing

Infrastructure costs and the lengthy entitlement process are the two significant barriers that prevent increasing the supply of Affordable and/or Workforce housing units on Oahu. The strategy for this segment is as follows:

1. Leverage private, Federal, State and County funds for infrastructure capacity building in areas identified for future growth.
2. Create incentives for construction of Affordable and/or Workforce housing units in areas identified for future growth. This may include developing broad design guidelines or standards that would provide a developer with a certain amount of flexibility provided they stayed within the design guidelines or standards. The design guidelines or standards would essentially establish parameters to meet minimum public health and safety requirement, while allowing for a developer to take advantage of a site's unique

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characteristics or features for specific areas or projects.

3. Leverage down payment assistance loan programs by matching funds.

C. Market Rate Housing

Affordability is also an issue in the market rate housing segment. There is a deep and significant gap between the median income qualifying home price and the median market price of a home. It takes an income of at least 205% of the area median income (AMI) to qualify for the current median priced home in the \$600,000 range. While the goal is not necessarily to have these two prices equal each other, incentives should be provided to enable more gap group households in the 140% to 205% range to become first time homebuyers. The strategy for this segment is:

1. Leverage private, Federal, State and County funds for infrastructure capacity building in areas identified for future growth with preference for projects targeting units priced for the Gap Group.
2. Develop incentives for the entitlement and permitting processes for construction of Gap Group housing units in areas identified for future growth. This may include developing broad guidelines or standards that would provide some flexibility within defined standards to meet minimum public health and safety requirements while allowing for unique characteristics or features for specific areas or projects.
3. Leverage down payment assistance loan programs with matching funds.

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VI. Implementation

The following are some of the major structural and organizational changes that need to be made within the various levels of government to increase the number of housing units constructed annually, in all three categories, within the City and County of Honolulu.

A. Recommended Changes to City Government Administrative Rules and Regulations

1. The City should consider establishing an Office of Housing (that is fully staffed) in the Executive Branch to implement this adopted Comprehensive Housing Strategy. This will require a legislative commitment on the part of the City Council to provide adequate funding for such an endeavor.

The Group is cognizant that establishing this Office will incur costs not budgeted in the City's operating budget for fiscal year 2009. The Group suggests that a "task force" chaired by the City Managing Director, or, the Deputy Managing Director, be formed to spearhead and resolve housing tasks and issues that are difficult to address under the current City organizational structure (in which at least 5 departments are involved in housing-related functions). In addition to the Chair, the Mayor's Special Assistant On Housing, the City department heads, and the division managers from the five (5) departments will be the composition of the members of the task force. The departments include: Budget and Fiscal Services, Planning and Permitting, Community Services, Design and Construction, and Facility Maintenance. This task force is likely to be "ad hoc" and should also consolidate issues and implement the actions recommended, such as:

- The Comprehensive Housing Strategy created by this Group as approved by the Mayor; and,
- Assist the Department of Planning and Permitting in establishing a permanent long-range housing planning capability for Housing. DPP is presently

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understaffed in the area of long-range planning on Housing. This long-range housing planning function will ensure that a "Housing Functional Plan" is created, updated, and responsive to ever changing market conditions.

2. Develop more incentives with density bonuses, credits, and other zoning benefits to leverage private investment.
3. Consider the establishment of redevelopment zones and support Transit Oriented Development areas in which Assisted, Affordable/Workforce, and Gap Group housing units can be built.
4. Revise the "Rules for Unilateral Agreements Requiring Affordable Housing".

All of the housing market segments are affected by the City's use and implementation of Unilateral Agreements. The UA program has been a useful and successful tool in expanding the inventory of affordable rental and homeownership projects. However, the rules governing housing units built under the UA program require substantial amendments in order to make it a more flexible and usable tool and to provide the types of incentives needed to develop affordable units where the demand is greatest.

Among the various revisions contemplated are:

- Increasing the maximum household income level to 140% of the Honolulu area median income.
- Allowing the "transfer and sale" of housing credits to another project.
- Establishing enhancement credits for affordable rental and for-sale housing.

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- Allow third party verification of "qualified" buyers and renters thus relieving the DPP staff of this task.
- Allowing "In-lieu" fees.

B. Funding for Infrastructure

1. Leverage private, Federal, State and County funds for infrastructure capacity building in the urban core areas and areas identified for future growth. This includes greater use of the tax increment financing and community facility district bonds.
2. Plan and budget for installation of major backbone infrastructure to support redevelopment with the high capacity transit project.

C. Regulatory Barriers

The Group suggests that the City continue to be actively involved in HUD's "National Call to Action" campaign in streamlining the entitlement process and reducing regulatory barriers for affordable housing projects. This campaign is designed to enlist states, local communities, and affordable housing advocacy groups across the nation to commit to producing affordable housing through public participation in a national network for regulatory reform.

The campaign addresses the problem of hard-working families struggling to find homes and apartments within their budgets. They are often forced to commute long distances, live in sub-standard housing, or live in overcrowded conditions due to exclusionary, discriminatory, and/or unnecessary regulations that drive up costs that are eventually passed on to the consumer.

Over the years, HUD has found that regulations such as out-of-date building codes, duplicative or time-consuming design review or approval processes, burdensome rehabilitation codes, restrictive or exclusionary zoning ordinances, unnecessary or excessive fees or taxes, extreme environmental restrictions, and excessive or "gold-

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plated" land development standards, all contribute to higher housing costs and production delays.

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ATTACHMENT 1

**FINAL REPORT AND RECOMMENDATION:
AFFORDABLE HOUSING ADVISORY COMMITTEE**

**Submitted to the Mayor by the Affordable Housing Advisory Committee
April 2006**

EXECUTIVE SUMMARY

This report represents the commitment and efforts of the Affordable Housing Advisory Committee, convened by the Mayor of the City & County of Honolulu, to put forth a balanced array of recommendations that could easily be implemented with minimal to zero cost impacts to the City. In some cases, as with bond financing programs, the recommended activities could generate significant revenues to the City. The most critical factor that will contribute to the City's success in being part of the solution to Oahu's affordable housing crisis is "political will" and "strong leadership." The Committee has every confidence that this exists under the current administration and looks forward to partnering with the City in meeting the demands for more affordable housing.

INTRODUCTION

Honolulu is currently facing a housing crisis of monumental proportions. Home prices have sky-rocketed, rents are increasing at an exponential rate, and homelessness is on the rise. The socio-economic fabric of the community is threatened by the lack of affordable housing. In addition to meeting the basic human need for shelter, affordable housing is a quality of life issue. If the City & County of Honolulu truly wants to achieve the status of being one of the most "livable cities" in the United States, we must address this current crisis.

The lack of affordable housing is a complex problem. And, while there are no easy solutions, this Affordable Housing Advisory Committee has identified some key recommendations that could be implemented with minimal financial impact to the City and yet could produce significant results.

The Committee views the current crisis as a "supply" issue. In formulating the City's policy on housing, there needs to be an understanding of the housing market in general, and the forces that influence this dynamic market.

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The supply and demand of the housing market are influenced by:

- ✓ Income/jobs;
- ✓ Interest rates;
- ✓ Land costs (including entitlements, i.e. State Land Use approvals, County zoning);
- ✓ Infrastructure;
- ✓ Construction cost – materials and skilled labor;
- ✓ Household formation / population; and
- ✓ Political will.

The Committee believes strongly that the City has a critical role to play in the production of housing, not as a developer, but as a facilitator. The Key Recommendations stated in this report highlight the many ways the City can facilitate the development of much needed affordable housing through leadership and direction of existing City resources.

KEY RECOMMENDATIONS

1. Hire a Special Assistant to the Mayor on Housing

The Committee has identified the need for an individual on a full time basis, with the right skill sets (i.e, understanding of risk, housing development and finance intellect) to address the following:

- a. Assisting housing developers (new and renovation) in packaging city financial resources (bonds, grants, exemptions, etc.);
- b. Serving as the City's liaison for federal and state housing programs and initiatives, the "go to" person for housing advocates, profit and non-profit developers, and the general public;
- c. Serving as an advocate for any housing initiatives, activities or projects to ensure effective and accountable collaboration;
- d. Serving as a Legislative liaison working with the city council and state legislature to improve communication and coordination of city and state programs and resources to further affordable housing development;
- e. Monitoring City department programs to assure that the administration reflects a consistent set of housing policies, priorities, and objectives;
- f. Communicating housing priorities to and between City departments and to the public.

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2. Create Opportunities for Increased Densities

- a. Replacement of existing "below grade" infrastructure presents an opportunity to install larger capacity systems to support increased density and opens the opportunity of all types of residential development that will invigorate downtown Honolulu. Coupled with new mass Honolulu transit system and Transit Oriented Developments ("TOD") at transit stations, increased capacity of wastewater, storm drainage, and water systems will complement and advance development opportunities.

- ❖ Sewer
- ❖ Drainage
- ❖ Water

- b. Create a "Special Area Plan" for the Kaimuki to Capitol District

Creation of a "Special Area Plan" (as authorized by Ordinance 04-14) for the Kaimuki-Capitol District area by the City will focus issues of density, greater height limits, and relaxation of parking requirements at transit stations. The current PUC Development Plan does not emphasize residential development in the entire area with the exception of low and mid-rise residential development in the Downtown/Iwilei Waterfront.

- c. Create "value" for development of housing through zoning by targeting areas for mixed-use and providing density bonuses or other incentives for more affordable units.

3. Use Existing City Programs and Resources

The City has at its disposal existing tools, resources, and programs which can be more effectively used to promote affordable housing.

- ❖ Tax Exempt Multi-Family Revenue Bonds (approximately \$55 million available each year)
- ❖ Real Property Tax Exemptions
- ❖ Community Facilities Districts (provides for the repayment of infrastructure costs through use of city bonds - a city ordinance exists to allow for this)
- ❖ Tax Increment Financing (a tool that helps to reduce the cost of up-front infrastructure, however, a new City ordinance would need to be created to allow the use of this tool)

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- ❖ Targeted use of Community Development Block Grant (CDBG) and HOME funds for affordable housing, i.e. limit use of CDBG and HOME funds for only affordable housing projects

4. Streamline/Fast Track Entitlement and Permitting Processes

The ability to bring new housing product to market in a timely fashion is critical to meeting market demand and keeping prices in an affordable balance. Project delays result in added costs which are passed on to the consumer. While many approval and permitting processes fall under State jurisdiction, opportunities exist within the scope of the City to address with respect to approvals and permits to expedite processing, reduce costs to the project, and result in greater production of housing.

- ❖ Allow developers, not just architects and engineers, to “self certify” project compliance with zoning and LUO requirements. Work to establish objective parameters for compliance to remove as much subjectivity or discretion as possible;
- ❖ Re-examine all apartment zoning districts to allow for increased densities and greater design flexibility;
- ❖ Encourage greater use of R-3.5 zoning;
- ❖ Expedite those projects with a component of units for households at 80% of area median income (AMI) and below;
- ❖ Reject/do not process any incomplete or inaccurate building permit plans to reduce inefficient use of staff time;
- ❖ Upgrade current front counter DPP staff from “intake clerks” to “planners” to provide greater expertise and front end decision-making to improve permit processing times;
- ❖ Add 2 to 3 planners in DPP who can address subdivision permits and bonding issues for affordable housing projects to reduce approval time;
- ❖ Continue to refine DPP’s program to “pre-approve” master track plans. Once approved, processing time could be shortened for individual house permits;
- ❖ Form a special task force composed of architects, engineers, land planners and builders to investigate further streamlining and fast-tracking of the permitting process or encourage the Urban Land Institute (ULI) to make this one of their projects.

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5. Provide Incentives for the Development of Affordable Housing

It is estimated that it takes a subsidy of about \$147,000 per unit to produce a one-bedroom one-bath affordable rental affordable to a household earning 50% AMI (area median income). A 3-bedroom unit would require a subsidy of approximately \$205,000 to create an affordable rental at the same AMI. This assumes the land is virtually free and that these units are not subject to the general excise tax or real estate taxes. This means greater incentives are needed to encourage increased production of affordable housing.

a. Unilateral Agreement (UA)

- ❖ The single most critical element to providing affordable housing in developing communities is the Unilateral Agreement (UA). Unfortunately, the existing UA contains disincentives rather than incentives to encourage development of affordable housing. Due to the complexity of the UA, the Committee deferred the evaluation, recommendations, and concerns surrounding the UA to the members and advocates who are impacted by the conditions in the UA and who are working directly with DPP and the City Council to revise the UA.
- ❖ Because of the debate on continuing the unilateral agreement, extensive analysis has been prepared by the planning department as well as SMS Research and Marketing Services. While the conclusion has been that approximately 12,000 units that are currently owned and inhabited by families for whom the units were originally targeted for, the new price level of these homes and rising interest rates will push these families out and necessitate subsequent buyers be of substantially higher income. In essence, these units will be lost.
- ❖ The Committee did want to emphasize the need to balance obligations and incentives within the UA and to strive for win-win scenarios that would simplify the requirements and reduce costs to both developers and the City. The UA could also serve to better drive housing objectives by awarding weighted credits. For example, development of low income rentals would receive higher credits than an affordable for-sale project. Or another option would be to allow developers to pool and transfer credits to non-profit or for-profit developers to encourage development of low-income rentals in the urban core or closer to transit centers.
- ❖ It was also recommended that the 1991 affordable housing rules be updated to provide flexibility and latitude to address current housing market issues and challenges and to extend the restriction to 140% of HUD's median income to be consistent with State guidelines.

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Members of the Committee expressed serious concerns that there be assurances that whenever in-lieu cash fees are collected as part of the UA or any other affordable housing program, that there is close tracking of these fees to ensure that they are applied towards the maintenance or creation of additional affordable housing units and not deposited into the City's general fund.

b. Enhancement Credits

To further encourage the development of more affordable projects, the Committee recommends the consideration of enhancement credits. These credits could be offered to projects that:

- ❖ Serve lower income groups;
- ❖ Serve larger household sizes;
- ❖ Produce rental housing projects as opposed to for sale housing;
- ❖ Offers a longer period of affordability.

c. Other Incentives

- ❖ Expand the property tax exemption for all types of housing, whether new or pre-existing, so long as the development contains an affordable component with a regulatory agreement that provides for long term affordability;
- ❖ Further reduce the sewer development charge and create a new water development charge for affordable housing projects;
- ❖ Focus grant funds on projects that support the development of rentals at or below 80% of AMI;
- ❖ Reduce parking requirements for housing projects developed within a specified distance from transit stops;
- ❖ Provide density and height bonuses for affordable housing projects dependent upon the number of units available for residents below 120% AMI;
- ❖ Provide for the transfer of housing credits to other projects located within the County.

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6. Maximize Leveraging of All Resources

By maximizing use of existing City resources and programs, the City can play a significant role in addressing the affordable housing crisis. Because these resources fall under different City departments, it will require an individual or entity beyond each of the departments to coordinate and maximize the leveraging of all resources. Additionally, the City's effectiveness will depend on its ability to identify ways to leverage its resources with other government resources to maximize the benefits to affordable housing development.

a. Designate Increased CDBG and HOME Fund Allocations to Affordable Housing Projects

While CDBG and HOME funds have been used to leverage affordable housing projects in the past, it is recommended that the City allocate a larger portion of its CDBG (\$9 million) and HOME (\$5 million) funds towards supporting projects targeting units at 80% and below of the AMI. Funds applied in the following areas would significantly support the development of more affordable housing on Oahu.

- ❖ Grants or no interest loans to provide gap financing;
- ❖ Grants to subsidize affordable housing projects.

b. Prioritize Infrastructure Improvements

In recent years, more and more of Hawaii's Low Income Housing Tax Credits (LIHTC) have been awarded to neighbor island projects because of Oahu's higher cost of development, which results from the lack of infrastructure, high county water and sewer fees, and lack of leveraging funds.

- ❖ Use CDBG funds for infrastructure improvements;
- ❖ Identify areas eligible for U.S. Department of Agriculture (USDA), Rural Development (RD) loans and combine city resources with RD programs to develop infrastructure;
- ❖ Provide infrastructure for developments that include affordable housing units.

c. Use Existing Funding Source to Support Affordable Housing

Reconstitute the Housing Assistance Fund that can be used for a variety of actions related to the development or maintenance of housing, including the development of a revolving loan fund.

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d. Develop a List of Pre-Qualified Buyers for Affordable Housing Units

The Hawaii Home Ownership Center, the Self Help Housing Corporation of Hawaii, or other agencies may be able to provide "advance homeownership counseling" services to help prospective buyers be financially ready for home buying opportunities. Maintaining a list of these individuals could further facilitate the ability of developers to connect with potentially pre-qualified buyers for their affordable homes.

e. Develop a Land Bank or Land Trust

The City should work with the State, land owners, and developers to set-up a land banking system or land trust for the development of affordable housing.

f. Preserve the City's Independent Right to Issue Its Own Tax Exempt Bond for Affordable Housing

g. Identify Redevelopment Areas to Increase Opportunities for Affordable Housing.

7. Preservation of Existing Affordable Rental Housing

The Hawaii Housing Policy Study, 2003 clearly stated a greater need for rental housing over for-sale housing due to the high demand and limited supply of units. And, as important as new construction of affordable housing units is, it is equally, if not more important to preserve our existing stock of affordable and subsidized housing units.

It is estimated that in the last 10 years over 5,000 affordable rental units have been lost to condominium conversions, including units that were originally developed under the Unilateral Agreement. Over the last several years, over 800 units have had their HUD restrictive use agreements expire. It is estimated that an additional 1,000 units with restrictive use agreements will soon expire. Currently, the Kukui Garden Apartments with 857 low income units is being marketed for sale in addition to the 100 unit Coronado Apartments.

As such, the City needs to become proactive in preserving the existing rental stock and develop a toolbox of incentives to preserve and create as many affordable rental units as possible.

- ❖ The City could provide low interest loans to allow organizations to maintain or acquire affordable rentals provided they guarantee that the

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property will serve those making up to 80% of median income and retain affordability for a minimum of 55 years.

- ❖ The Committee recommends the City sell its rental units using both a business and social plan to maximize the revenues to the City and create the greatest number of affordable units in perpetuity.

The City owns 1,303 units that were developed or purchased. This portfolio runs the gamut from small rent facilities to elderly apartment communities to mixed-use, high-rise rental properties which include several public parking facilities. Most of the units should be sold with available 4% housing tax credits and tax exempt revenue bonds. Three of the buildings might be best sold as mixed-income properties serving residents up to 140% AMI. No matter which way the properties are marketed, it is recommended that they have deed restrictions placed on them outlining the required number of units per various income groups. It is likely that the sale of these properties will generate substantial revenues in excess of the debt and the additional proceeds can be used to help facilitate the preservation and production of additional affordable housing units throughout the city.

8. Mass Transit and Transit Oriented Developments

Mass transit combined with transit oriented development offers the greatest promise of increasing Oahu's affordable housing stock. Transit oriented developments would in turn create the increased densities needed to support transit rider-ship. And, transit stations create increased property values within 1,000 to possibly 2,000 feet of each station.

While the City has actively engaged transit planners and the community in the planning process, the Committee strongly encourages the City to actively engage urban planners and real estate developers early on and throughout the process. These individuals are especially critical for their expertise in determining potential transit routes that could maximize affordable housing opportunities as well as the appropriate growth and development of the affected communities.

The value of the entitlements that the City is able to offer around a properly planned transit route has the greatest potential for financing the affordable housing needs of Oahu. The following are a few recommendations for consideration.

- ❖ Include a study for newly planned, higher density housing neighborhoods in the transit plan;
- ❖ Require an affordable housing component at each transit station and create a value capture zone to help subsidize these units;

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- ❖ Create several terminals to serve the Kalaeloa/Kapolei area. One should be a regional transit oriented development with ample parking and vital roadways connections to serve the Ewa area.

9. Actively Lobby for State and Legislative Support

The State administration and the legislature have spent several years studying the housing crisis. In the current legislative session, there are numerous bills pending that would help facilitate the preservation and development of affordable housing. The Committee recommends that the City assess and closely monitor the different bills and lobby for their enactment. At stake in this current session are numerous provisions for housing and several hundred million dollars. Other areas warranting support or collaboration include:

- ❖ On a petition-by-petition basis, encourage the State LUC to drop redundant conditions of approval;
- ❖ Set as a priority and work closely with the state Hawaii Community Development Authority (HCDA) and the Navy to expedite the development of Kalaeloa;
- ❖ Advocate for the allowance of the counties to submit "fast track" comprehensive, county-wide state LUC boundary amendments;
- ❖ Support increases in bond authority of the Housing and Community Development Corporation of Hawaii (HCDCH);
- ❖ Support increase of funds into the Rental Housing Trust Fund (RHTF) and the Dwelling Unit Revolving Fund (DURF) of HCDCH, but not at cost of market homes;
- ❖ Support dedication of a percentage (75%) of General Excise Tax (GET) collections on residential rentals to be deposited into the RHTF of HCDCH;
- ❖ Pursue legislation for an affordable housing investment tax credit for income or general excise taxes.