

# Honolulu General Plan Update

Affordable Housing Trend Report

September 2010



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## ACRONYMS

AMI	Area Median Income
CDBG	Community Development Block Grant
DHHL	Department of Hawaiian Home Lands
DOT	Department of Transportation
FTA	Federal Transit Authority
HHFDC	Hawai'i Housing Finance and Development Corporation
HUD	Department of Housing and Urban Development
LIHTC	Low Income Housing Tax Credit
LEED	Leadership in Energy, Environment and Design
TOD	Transit Oriented Development
UA	Unilateral Agreement
UH	University of Hawai'i

# INTRODUCTION

## Purpose

The following analysis was prepared for the Department of Planning and Permitting in conjunction with the Honolulu General Plan Update and provides a general overview of historical trends and future concerns for the production, maintenance and administration of affordable housing in the City and County of Honolulu. This overview aims to develop a framework for the discussion of affordable housing as a topic relevant for the Honolulu General Plan Update. This paper is not intended as a new housing study and does not aggregate data to determine specific housing need and available supply. Existing state and local reports<sup>1</sup> over the past decade have produced an abundance of studies using 2000 Census and subsequent Community Survey data. Any quantitative data presented in this paper originates from previously published studies.

We are starting from an assumption that affordable housing is a pressing need for the county. Although this report presents a detailed breakdown of stakeholders and trends that we believe will influence the availability of affordable housing, the overall goal is to provide a foundation to determine whether language changes to the General Plan can facilitate the construction and maintenance of affordable housing in the City and County of Honolulu.

This report focuses on government-sponsored housing programs, however, the term “affordable housing” also describes existing low-cost housing, *ohana* units, and any other private units that are built without any subsidies and that are not built to meet any government requirement.

## Structure

This report consists of four sections. Section 1 outlines trends on a national and local scale that will influence affordable housing over the next 25 years. Section 2 provides descriptions of subsidy types and entities involved in the production of affordable housing. Section 3 outlines a variety of metrics for determining affordable housing need. Finally, Section 4 identifies factors that inhibit the production, maintenance and availability of affordable housing.

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<sup>1</sup> Studies include but are not limited to: *Affordable Housing Policy and Hawai'i's For-Sale Housing Markets*; *Hawai'i Housing Policy Study 2006*; *Audit of the City's Management of Unilateral Agreements in Affordable Housing: A Report to the Mayor and the City Council of Honolulu*; *Housing Problems and Needs of Native Hawaiians*; *Maui Island Housing Issue Paper: A Discussion Paper for the Maui County General Plan Update Summary of Recommendation*; *State of Hawai'i Consolidated Plan for Program Years 2010 – 2015*.

# 1. TRENDS INFLUENCING AFFORDABLE HOUSING | 2010-2035

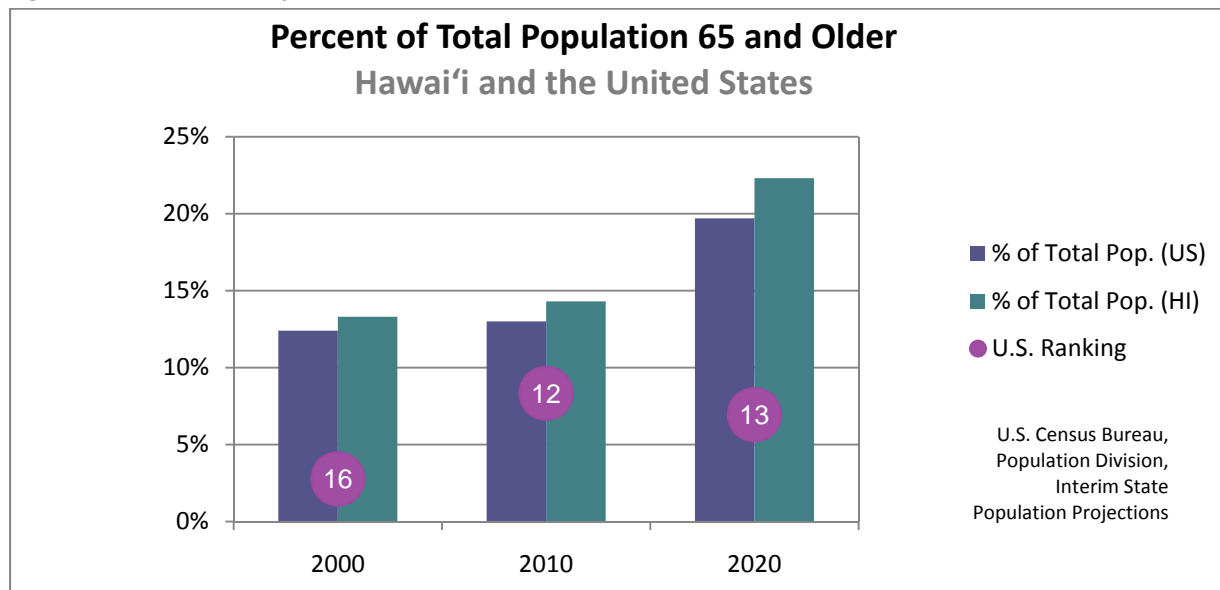
This report identifies trends that will influence the production, availability, and maintenance of affordable housing over the next 25 years. Each trend concludes with a discussion question relevant for the preparation of the Honolulu General Plan Update.

- Aging of the Baby Boomers
- Transit Oriented Development
- Gentrification
- Densification
- Conversion from Affordable to Market Rate
- Green Building

## 1.1. Aging of the Baby Boomers

The US Department of Housing and Urban Development (HUD) recognizes the elderly as a population requiring special housing needs. As the first of the baby boomer generation (those born between 1946 and 1964) reach retirement age, the 65+ age cohort will accelerate rapidly across the country. Projections estimate that the proportion of Hawai'i's population over 65 years old will increase from 13.3% to 22.3% between 2010 and 2020 [Figure 1], increasing in step with the rest of the United States. Hawai'i's elderly population exceeds the national average and the state is ranked high for its proportion of elderly population, indicating that key players in Hawai'i's public and private sectors must have a heightened awareness of the changes that will occur as a consequence of this aging population.<sup>2</sup>

Figure 1: Percent of Population 65 and Older in Hawai'i and the United States



<sup>2</sup> U.S. Census Bureau, Population Division, Interim State Population Projections

The increasing elderly population will have strong implications for affordable housing supply, typology and location. A 2003 HUD analysis concluded nearly 45% of all privately owned, subsidized apartments nationwide<sup>3</sup> were occupied by elderly residents<sup>4</sup> and 60% of Section 8 residents were at least 62 years old.<sup>5</sup> Among elderly populations in Hawai'i, 2000 census data reveal that 21.9% – more than 350,000 – are considered low income and qualify for public housing assistance.<sup>6</sup> Moreover, 18.9% of elderly homeowners and 48.7% of renters spend over 30% of their income on housing indicating that housing affordability remains a burden on much of the elderly population.<sup>7</sup> As this cohort increases, state and local governments will have to adjust their affordable housing stock to accommodate elderly needs. Such elderly accommodation may include an increase of handicap units and housing with pedestrian access to social services and public transportation.

***Should the General Plan provide a framework from which participants in the production and maintenance of affordable housing meet elderly needs?***

**1.2. Transit Oriented Development (TOD)**

For decades, development in the United States focused on the automobile as the primary source of transportation. This allowed suburbs to develop far from commercial and business districts and created a culture not only focused but also dependent on the automobile. The negative psychological and health consequences of suburban sprawl and the rising prices of fossil fuels have led to a resurgence of public transit oriented communities. The Center for Transit Oriented Development claims that TOD “works at the intersection of regional planning, climate change and sustainability, affordability, economic development, real estate and investment,” creating a fully holistic development model.<sup>8</sup>

The 2005 collaboration of HUD and the Federal Transit Authority (FTA) enabled federal funds to be directed into research focused on the benefits of providing housing near transit stations. Since 1998, the Federal government has authorized funding for over 400 proposed new transit projects from states and municipalities across the country.<sup>9</sup> The City and County of Honolulu has demonstrated great foresight, recognizing the limitations of the automobile and made

[OUR GOAL IS TO HELP CREATE NEIGHBORHOODS WHERE YOUNG AND OLD, RICH AND POOR, CAN LIVE COMFORTABLY AND PROSPER, WITH AFFORDABLE AND HEALTHY LIFESTYLE CHOICES AND AMPLE AND EASY ACCESS TO OPPORTUNITY FOR ALL.] THE CENTER FOR TRANSIT ORIENTED DEVELOPMENT

<sup>3</sup> This mainly includes units developed using Low Income Housing Tax Credits (LIHTC).

<sup>4</sup> U.S. Department of Housing and Urban Development, *Characteristics of HUD-Assisted Renters and their Units in 2003*.

<sup>5</sup> Lubell, Jeff, Mark Shroder, and Barry Steffen, “Work Participation and Length of Stay in HUD-Assisted Housing.” *Cityscape: A Journal of Policy Development and Research* volume 6, no. 2 (2003): 207-23.

<sup>6</sup> Low income is defined as less than 200% of the poverty threshold.

<sup>7</sup> University of Hawai'i, Center on the Family.

<sup>8</sup> Center for Transit Oriented Development. *5 Year Brochure*. 2010.

<sup>9</sup> Reconnecting America. *Jumpstarting the Transit Space Race: How the New Administration Could Make America Energy-Independent, Create Jobs and Keep the Economy Strong*. Center for Transit Oriented Development. 2009.

significant progress on the development of a rail rapid transit system, focusing development efforts on TOD within the transit core.

While TOD provides a multitude of benefits, it can endanger the availability of affordable housing in the following ways.

1. Developers could exclude or severely limit the availability of affordable housing as a reaction to increased demand and a desire to maximize profit margins by focusing on more profitable uses.
2. The increased value of land surrounding transit centers could push out low-income residents and increase the prices of already existing units.<sup>10</sup>

In recognizing these risks, Ordinance 09-04 was adopted in 2008 committing the City and County of Honolulu to the establishment of TOD special districts, or “TOD Zones”. Most notably, the Bill emphasizes the need to preserve existing and create new affordable housing while enhancing the TOD Zones, and calls for gentrification to be avoided during redevelopment.<sup>11</sup> National research notes that local government commitments to the provision of affordable housing in TOD areas can help offset increased land value.<sup>12</sup>

***Considering the possibility for affordable housing loss, should the General Plan provide a framework that allows for affordable housing initiatives in TOD zones?***

### **1.3. Gentrification**

Andres Duany, one of the founders credited with the emergence of New Urbanism<sup>13</sup> describes gentrification as an “organic, self fueling urban force” that “rebalances the concentration of poverty... improv[ing] the quality of life for all of the community’s residents.”<sup>14</sup> Other urban scholars remain more critical and describe gentrification as a double-edged sword.<sup>15</sup> On one hand, the newfound interest by middle class residents in these previously devalued properties starts to revitalize the neighborhood. These new residents have stronger purchasing power, and attract new businesses and commercial spaces. On the other hand, the increased property values and consequential rising property taxes force lower-income households and renters to relocate into more affordable locations. While gentrification may provide much value to dying urban communities, metropolitan areas with already high property values may actually decrease their stock of affordable housing as a consequence.

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<sup>10</sup> U.S. Government Accountability Office. *Affordable Housing in Transit-Oriented Development: Key Practices Could Enhance Recent Collaboration Efforts between DOT-FTA and HUD*. September 2009.

<sup>11</sup> Sec. 13-9.3.5, ROH; Sec. 21-9.100-2.a4-5, ROH; Sec 21-9.100-4.a-b, ROH.

<sup>12</sup> U.S. Government Accountability Office. *Affordable Housing in Transit-Oriented Development: Key Practices Could Enhance Recent Collaboration Efforts between DOT-FTA and HUD*. September 2009. 18.

<sup>13</sup> New Urbanism is an urban design movement that originated in the United States in the 1980s and 90s. This aesthetic utilizes principles heavily influenced by pre-automobile towns and cities. Design elements include pedestrian friendly neighborhoods and mixed use commercial and residential development.

<sup>14</sup> Duany, Andres. “Three Cheers for Gentrification”. *American Enterprise Magazine*, April/May 2001. Website. [http://www.dpz.com/amd\\_gentrification.htm](http://www.dpz.com/amd_gentrification.htm). 2001.

<sup>15</sup> Aka Jr., Ebenezer O. "Gentrification and Socioeconomic Impacts of Neighborhood Integration and Diversification in Atlanta, Georgia (cover story)." *National Social Science Journal* 35.1 (2010): 1-13.

In urban Honolulu, where land values are higher than elsewhere and where affordable housing is in high demand, gentrification and higher-density redevelopment may reduce the supply of lower-cost housing over time. This is especially true in low-rise areas such as McCully, Mō'ili'ili, Kaimukī, Kapahulu, Liliha and Kalihi. Given that low-income residents depend on relatively low housing costs in these neighborhoods, any large-scale changes which significantly increase rents or property taxes may displace a significant number of lower-income families and workers.

***Should the General Plan be revised so as to discourage the public and private sector from displacing low-income residents during the process of gentrification?***

#### **1.4.      Densification**

Increased densification of cities, an integral component of the Smart Growth<sup>16</sup> movement, has inspired a paradigm shift in the American psyche. Smart Growth has identified flaws in the American Dream, attributing obesity, depression and even elements of global warming to the private single family house with white picket fence. It has redefined this image into a more holistic community-oriented goal of higher density that allows for greater access to public transportation and walkability, and mixed use development. Increased density includes urban infill, Brownfield<sup>17</sup> redevelopment, and multifamily, mixed use, and mixed income developments. If affordability remains a focus, the push towards more multifamily dwellings and rentals and shift away from the previously desired “McMansion” may allow for more units and an increase in affordable housing. In Honolulu, efforts to redevelop Kaka'ako and other developed areas of the Primary Urban Corridor indicate a push towards densification.

***Should the General Plan provide language that supports increased density in the urban core?***

#### **1.5.      Conversion from Affordable to Market Rate**

HUD-administered housing programs like Section 8 and Low Income Housing Tax Credits (LIHTC) have the potential of converting to market rate rents once their requisite period of affordability expires. Similarly, affordable units created under City Unilateral Agreements are only required to remain affordable for a set period, which is usually 10 years. After the required term of affordability expires, these units may be sold at affordable prices, especially if they were built specifically to satisfy the affordable requirement (such as the townhouse or apartment component of a larger project). In comparison, affordable units within a higher-quality subdivision that were built to the same standard as the market-priced units may be sold at higher prices when the term expires.<sup>18</sup>

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<sup>16</sup> Geller, Alyson L. "Smart Growth: A Prescription for Livable Cities." *American Journal of Public Health* 93.9 (2003): 1410-1415.

<sup>17</sup> Brownfields are properties that were previously held industrial or certain types of commercial use (such as dry cleaning or a gas station) that may contain levels of contamination. These sites demonstrate potential for rehabilitation for future use.

<sup>18</sup> The *Affordable Housing Policy and Hawai'i's For-Sale Housing Markets* (SMS Research 2005) indicates that O'ahu units that sell at prices affordable to families with moderate incomes resell, years later, at higher prices but at about the price affordable to families with moderate incomes. Housing value (i.e., affordability for residents) not price – of mid-range homes changes little over time, so that affordable housing stays affordable.

Affordable housing preservation is the movement to prevent at-risk properties from converting to market rate. Properties across the United States are on the cusp of conversion or have already been converted to market housing, diminishing the overall number of affordable units nationwide. Property owners, whose properties increased in value rapidly during the 1990s, know that if they convert back to the market they can receive higher rents or at least greater flexibility in their management.<sup>19</sup>

In Honolulu, community efforts have successfully preserved some affordable housing units. Faith Action for Community Equity (FACE) spearheaded a movement that ultimately prevented Kukui Gardens, a low income development from returning to market rate. Other affordable housing, both state and federally funded, will be in a position to convert within the next 25 years.

***Should the General Plan create a framework that supports efforts that preserve affordable units after their terms expires?***

## **1.6. Green Building**

As the federal government sets standards for Energy Star rated facilities and Leadership in Energy Environment and Design (LEED) certification becomes increasingly prevalent and expands from buildings to the neighborhood scale, there is heightened awareness of the value of using these energy-saving design tools. State and Federal buildings are adopting LEED and Energy Star efficient standards and organizations like the Green Affordable Housing Coalition are advocating for sustainable design on affordable housing developments. Current movements in Hawai'i and Honolulu that encourage sustainable development and green building, such as the Hawai'i Clean Energy Initiative and the Hawai'i Green Business Fund, are government-supported programs. Furthermore, among Hawai'i's affordable housing stock, public housing typically utilizes solar water heaters and low-flow water fixtures. These movements and the global recognition of limited resources indicate a growing need for planning that provides a framework for creative solutions in environmentally sustainable design and affordable housing development and rehabilitation. For individuals and families residing in affordable housing units and property owners, the benefits of green building strategies include the cost-savings of lower utility bills, healthier living environments, and improved comfort. Developers and operators gain through higher-quality, more efficient and more durable buildings, while the local and regional community benefits from the reduced demand on infrastructure systems.<sup>20</sup>

***Should the General Plan encourage green building in their affordable units?***

## **2. SUBSIDIES AND INSTITUTIONAL STRUCTURE**

The way in which various subsidies flow through the federal, state and local government and combine with other subsidies in public and private sectors can determine their success in providing and maintaining affordable housing. Over the past 30 years, responsibility for affordable housing has been

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<sup>19</sup> Policy Link. Website. [http://www.policylink.org/site/c.lkIXLbMNjRE/b.5136981/k.A41A/Expiring\\_Use.htm](http://www.policylink.org/site/c.lkIXLbMNjRE/b.5136981/k.A41A/Expiring_Use.htm).

<sup>20</sup> Green Affordable Housing Coalition Website.

<http://www.frontierassoc.net/greenaffordablehousing/WhoWeAre/FAQs.shtml>

increasingly shifted from the federal to state and local governments, and developers.<sup>21</sup> The following are descriptions of various subsidies utilized in the City and County of Honolulu and a diagram expressing how various agencies implement them.

## 2.1 Types of Subsidies

**Housing Choice Vouchers** provide tenant-based subsidies that enable eligible families to rent houses or apartments on the private market. This program allows eligible families to choose housing that meets HUD standings in areas outside of designated public housing projects. The property owner receives the subsidy directly and the tenant is responsible for paying the remainder based on HUD determined fair market rent.

**Section 8 Housing Vouchers** are rental subsidies distributed to private property owners and managers on behalf of eligible tenants. The City's Section 8 Housing Choice Voucher Program provides rental subsidies to extremely low- and low-income families that are primarily elderly, disabled and those with special needs. The HPHA also administers a Section 8 program on O'ahu. Section 8 pays the difference between the tenant's contribution and fair market rent.

**Public Housing** is government-owned property developed and managed by federal and state funds to provide housing for low income families and individuals. Subsidies are attached to the unit, limiting their availability to tenants living in the units. The HPHA owns and operates public housing statewide, including an estimated 4,050 federal-funded public housing units and about 750 state-funded public housing units.

**Low Income Housing Tax Credits** are tax credits distributed by state agencies to developers for the construction or rehabilitation of low income rental housing projects following criteria determined by a Qualified Allocation Plan (QAP). The LIHTC program in Hawai'i is managed by the HHFDC, and provides Federal tax credits to qualified project owners who agree to maintain all or a portion of a project's units for low-income individuals or families. Developers sell a 10-year period of tax credits to an investor or syndicator in exchange for capital contributions.

**Community Development Block Grants (CDBG)** provide housing, economic development, neighborhood revitalization and community development funds to different jurisdictions. The design of these grants enables them to work in combination with other government subsidies. CDBG funds are generally used for small special-needs housing projects, public service and economic development programs such as microenterprise training and community-based economic development efforts, and the renovation of existing housing units.

**The HOME Investment Partnership Program** provides Federal assistance and incentives to jurisdictions to develop and support rental housing and homeownership for very low and low income families through construction, acquisition and rehabilitation of housing units (including real property

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<sup>21</sup> Pendall, Rolf. "From Hurdles to Bridges: Local Land-Use Regulations and the Pursuit of Affordable Rental Housing." in Nicolas Retsinas and Eric Belsky, *Revisiting Rental Housing*, pp. 224-273. Brookings Institution Press: Washington, DC, 2008.

acquisition and site improvements, and rental and homebuyer assistance programs. Permanent housing for disabled homeless persons, transitional housing, and group homes are eligible for HOME assistance. HOME Program funds may also be used for administrative and planning costs, and operating expenses of community housing development organizations. The HOME Program requires that all HOME funds be utilized to assist households earning 80% or below of the area median income (AMI).

**Hawaiian Homestead Services** works in compliance with the 1920 Hawaiian Homes Commission Act (HCCA) by allocating land to qualified recipients (50% Native Hawaiian). The Department of Hawaiian Home Lands (DHHL) distributes land through 99-year leases at the cost of \$1.00. These leases allow for residential or agricultural development, ensuring that the land will “be held in trust for continued use by native Hawaiians in perpetuity”.<sup>22</sup>

**Native Hawaiian Housing Block Grant** provides Federal funding to build, acquire or substantially rehabilitate homes on Hawaiian Home Lands.

**Rental Housing Trust Fund** is a state-run low interest loan or grant program available to developers for the development, pre-development, construction, acquisition, preservation, and substantial rehabilitation of rental housing units.

**Hula Mae Multi-Family Tax Exempt Bond** Program provides below-market rate mortgage revenue bonds for the development or rehabilitation of affordable rental housing.

**Unilateral Agreements (UA)** are a county-based initiative applied when land is re-zoned for residential development that contain a condition requiring developers to provide at least 30% of their residential units at a combination of 80%, 120% and 140% of O’ahu’s median household income. Developers may also meet affordable housing obligations by conveying land to a non-profit developer or providing an in-lieu contribution to the City. The Department of Planning and Permitting updated the City’s Affordable Housing Rules that are used to implement the UA requirements in February 2010.

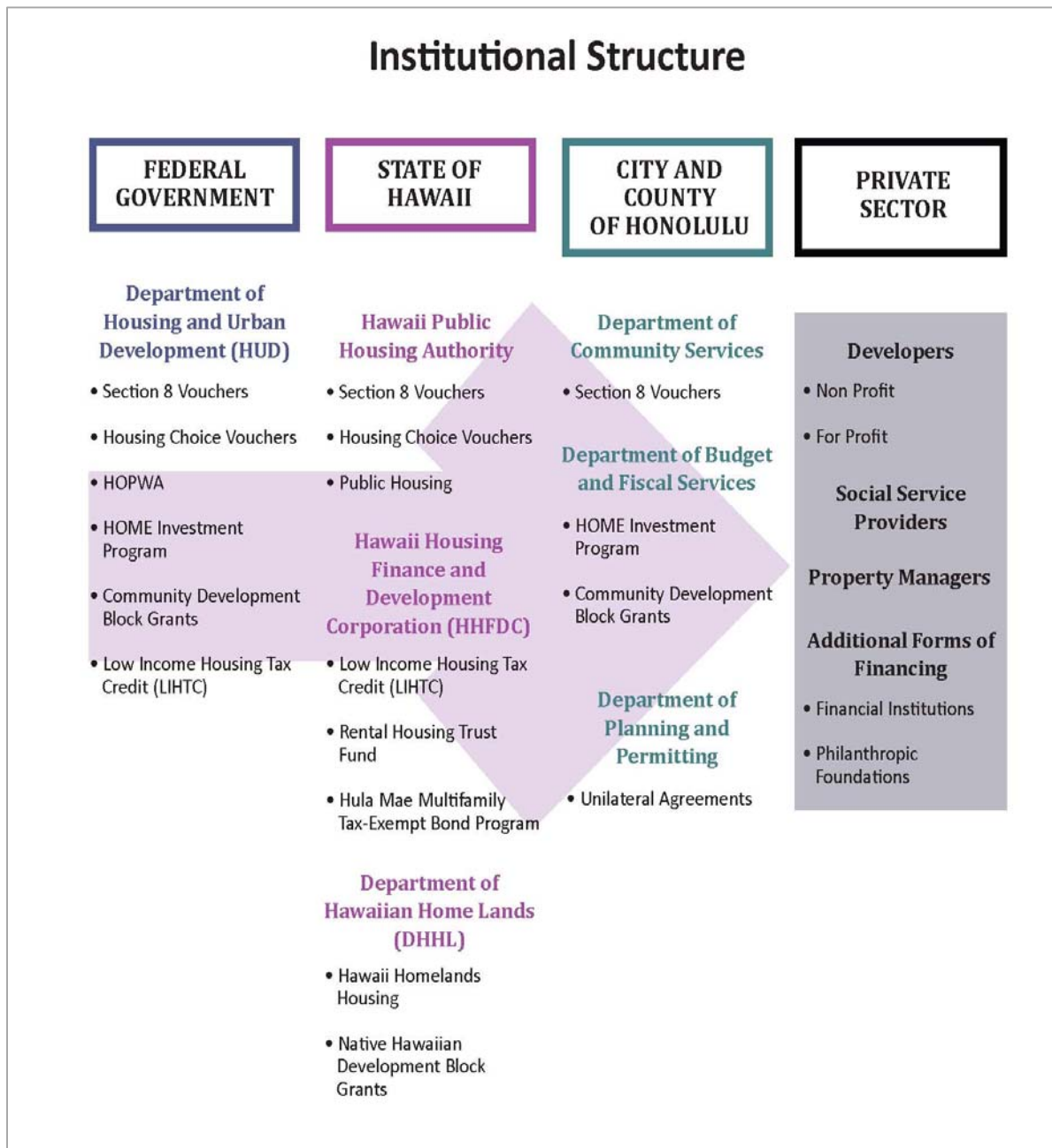
## 2.2 Institutional Structure

Figure 2 illustrates the flow of housing subsidies from the federal to state and local governments and then to the private sector. It is apparent that multiple agencies have affordable housing goals built into their missions and responsibilities, but interagency cooperation may prove difficult. Furthermore, this diagram highlights the dependence the public sector has on the private sector in the ultimate execution of affordable housing production and maintenance, therefore suggesting the growing importance of public-private partnerships.

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<sup>22</sup> U.S. Congress. Text of HCCA. [http://www.capitol.hawaii.gov/hrscurrent/vol01\\_ch0001-0042f/06-Hhca/HHCA\\_.htm](http://www.capitol.hawaii.gov/hrscurrent/vol01_ch0001-0042f/06-Hhca/HHCA_.htm). Website. 26 July 2010.

Figure 2: Flow of Subsidies from Public Agencies to Private Entities



## Employers

Employers can contribute to the provision of affordable housing by providing subsidies to their employees as a part of their benefits package. Below are examples in Honolulu of employer-based housing subsidies.

## Military

The U.S. military provides a variety of affordable housing options for their service members, including on and off base rental assistance and tax free, no down payment, low interest mortgages.<sup>23</sup> Table 1 illustrates how recent renovations of military housing in Hawai'i help alleviate demand for market-based residential units.<sup>24</sup>

**Table 1: Military Housing Production in Hawai'i**

MILITARY HOUSING PRODUCTION			
	Current Inventory	Planned Production	Total Planned Inventory
<b>Air Force</b>	1,134	222	1,356
<b>Army</b>	8,088	(194)	7,894
<b>Marines</b>	100	975	1,075
<b>Navy</b>	2,160	2,316	4,476
<b>Total</b>	11,482	3,319	14,801

Source: Hawai'i Housing Policy Study, 2006

## University of Hawai'i

The University of Hawai'i (UH) at Mānoa provides subsidized rental housing for eligible faculty and their families.<sup>25</sup> They offer apartments and condominiums for as low as \$524/month for a basement studio to as much as \$1,749 for a three bedroom unit with yard. These prices fall well below the maximum rents required for publicly subsidized housing for individuals earning less than 80% Area Median Income (AMI). 50% of assistant professors at UH Mānoa fall below 120% AMI<sup>26</sup> and the minimum salary of \$42,500 for an assistant professor falls below 80% of O'ahu's AMI.<sup>27</sup> Therefore, housing provided by the University of Hawai'i meets the needs of many employees also eligible for government subsidized housing. Table 2 demonstrates how UH Mānoa provides subsidized housing well below limits provided by government subsidies.

<sup>23</sup> Military Hub. [www.militaryhub.com](http://www.militaryhub.com). Website. 26 July 2010.

<sup>24</sup> SMS Research and Marketing, Inc. *Hawai'i Housing Policy Study, 2006: Housing Production Issues*. February 2007.

<sup>25</sup> Eligible families include those of newly recruited Board of Regents appointees and University of Hawai'i, East-West Center (EWC), and Research Corporation (RCUH) employees.

<sup>26</sup> University of Hawai'i at Mānoa Faculty Housing Website. <http://www.hawaii.edu/fachousing/rentalhousing.html>. Website. 26 July 2010.

<sup>27</sup> University of Hawai'i Professional Assembly Website. <http://asp.uhpa.org/FacultyData.asp>. Website. 27 July 2010.

**Table 2: UH Faculty Housing vs. Government Subsidized Housing at 80% AMI**

Type of Unit	UH Faculty Housing	Maximum Rent for Federal Housing (80% AMI)	% Discount of UH Subsidies
Studio	\$ 524 - \$ 572	\$ 1,191	56-61%
1 Bedroom	\$ 710	\$ 1,397	49%
2 Bedroom	\$ 874 - \$ 1,076	\$ 1,704	35-48%
3 Bedroom	\$ 1,118- \$1,749	\$ 2,473	29-55%

Source: Department of Planning and Permitting; University of Hawai'i at Mānoa Faculty Housing Website

### 3. METRICS FOR MEASURING AFFORDABLE HOUSING NEED

#### 3.1 Area Median Income (AMI)

Area median income is a commonly used metric for determining affordable housing need. HUD determines AMIs for each county and then segments off income limits to determine housing need. These numbers are revised at least twice a year. Government agencies use percentages of AMI to determine eligibility for various housing programs (Table 3). For example, the City and County of Honolulu requires that 30% of all housing in residential developments serve populations below 120% AMI. Similarly, public housing requires income limits of 80% AMI.

**Table 3: Income Classification as Percent of AMI**

INCOME CLASSIFICATION	Percent of AMI
Extremely Low Income	<30
Very Low Income	<50
Low Income	<80
Moderate Income	<120

Source: [www.huduser.org](http://www.huduser.org)

After determining AMI, public agencies break down annual income into monthly increments and extract 30% of that income as necessary for housing expenditures. They then calculate rents and mortgages based on income designated for housing to determine affordable mortgage and rents. For example in Honolulu a family of four earning 80% of AMI, \$79,450 annually (Table 4), can afford a maximum rent of \$2,473 for a 3-bedroom apartment or \$410,359 for a 10% down, 30-year fixed rate mortgage.

**Table 4: City and County of Honolulu Area Median Income as of May 2010**

FAMILY SIZE	80% of AMI	100% of AMI	120% of AMI
1	\$55,650	\$57,190	\$68,628
2	\$63,600	\$65,360	\$78,432
3	\$71,550	\$73,530	\$88,236
4	\$79,450	\$81,700	\$98,040

Source: Department of Planning and Permitting<sup>28</sup>

<sup>28</sup> [http://www.honoluludpp.org/Planning/AffordableHousing/AH\\_IncomePriceTables2010.pdf](http://www.honoluludpp.org/Planning/AffordableHousing/AH_IncomePriceTables2010.pdf)

The use of AMI to determine affordable housing need is problematic for working households with incomes that are below the State and City standards of “affordable,” and for those who do not qualify for subsidized affordable housing yet cannot afford appropriate market-rate housing in their community. For such households, the concern is that “affordable” housing is still not affordable. In Honolulu, this is most evident in the rural areas where inflated real estate values and the lack of new housing development is affecting area residents’ (i.e., those already living in the community) ability to afford the cost of housing in their neighborhoods.<sup>29</sup> In addition to encouraging the development of affordable housing, residents are concerned that new housing is priced within a range that existing residents can afford. This suggests that a different metric or approach based on the regional income level and not the county-wide average may be necessary to address the affordable housing needs of residents in rural areas.

### **3.2 Percent of Income Applied to Housing**

Federal housing policy allocates LIHTCs, Section 8 vouchers, and other housing subsidies based on a housing affordability standard of 30% of a household’s total expenditures. This 30% benchmark is useful because it allows for an easy calculation of affordability that translates across all municipalities and income levels. A growing body of research<sup>30</sup>, however, has challenged this metric and encouraged policymakers to reframe housing affordability to include location efficiency measures such as transportation costs and proximity to public transit.

### **3.3 Housing + Transportation**

The Housing and Transportation Affordability Index (H + T Index) measures the costs of housing and transportation in proportion to household income. By incorporating both housing and transportation costs into the metric for affordability, analysts can take into account the trade-offs households make when choosing a place to live. For example, property values outside of the urban core may be lower, enticing households to move to suburban areas. However, transportation costs to work and commercial centers increases as public transportation and general proximity become less convenient. Thus when calculating housing affordability alone, it appears that the person living outside of the urban core maintains a more affordable lifestyle. Since transportation is the second largest household expenditure after housing, including transportation costs into the affordability index would illustrate that the household in the suburbs were paying as much, if not more, than the household in the urban core. In short, this metric recognizes the complementary nature of housing and transportation expenditures.<sup>31</sup>

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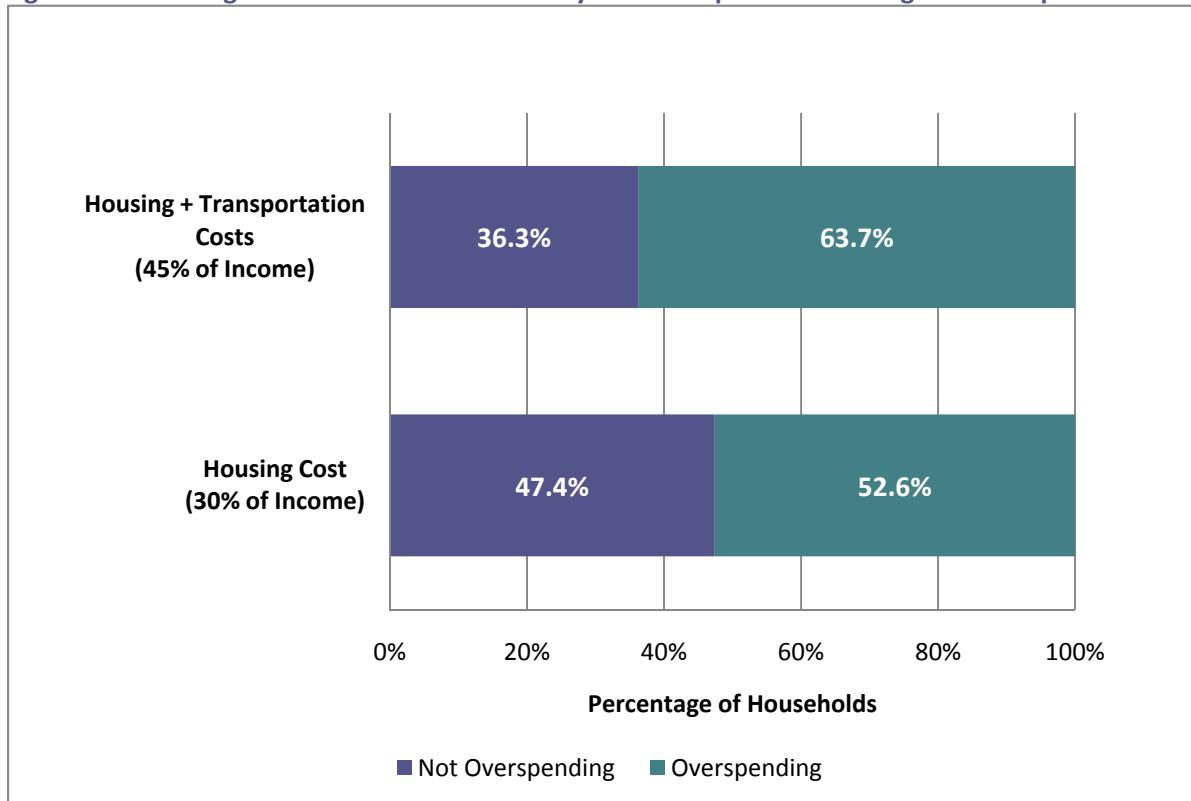
<sup>29</sup> The lack of affordable housing and the question of affordability for existing area residents was a major concern for residents who participated in the *Ko’olau Loa Sustainable Communities Plan Five-Year Review*.

<sup>30</sup> Much research by the Center for Transit Oriented Development and Center for Neighborhood Technology, such as *The Affordability Index: A New Tool for Measuring the True Affordability of Housing Choice* and *The Case for Mixed Income Transit Oriented Development in the Denver Region*, highlight the limitations of measuring housing affordability based on housing without examination of transportation costs.

<sup>31</sup> Center for Transit-Oriented Development and Center for Neighborhood Technology. *The Affordability Index: A New Tool for Measuring the True Affordability of Housing Choice*. The Brookings Institution. January 2006.

The Center for Neighborhood Technology has refined this method by estimating that 45% of income spent on a combination of housing and transportation reveals true affordability. Census data indicates that the average expenditure on housing and transportation for households in the City and County of Honolulu is 61% of their income, or 32% and 29% spent on housing and transportation respectively. Figure 3 shows the percentage of households in Honolulu that are spending more than 30% of their income on housing in comparison to the percentage of households spending more than 45% of their income on housing and transportation combined. When considering housing costs alone, approximately 52.6% of Honolulu residents spend more than 30% of their income on housing (i.e., overspending). In comparison, the H+T Index measuring a maximum expenditure of 45% on housing and transportation calculates that 63.7% of Honolulu households are overspending (Figure 3).<sup>32,33</sup> This measurement of affordability will become increasingly important in Honolulu County as residential development in Kapolei progresses, urban Honolulu increases its density and public transit serves a larger population.

**Figure 3: Percentage of Honolulu Households By Amount Spent on Housing and Transportation**



### 3.4 Homelessness and Hidden Homeless

Homelessness is one of the most severe consequences of an affordable housing shortage. While sometimes linked to mental illness, drug use, and outside factors, the availability of affordable housing can prevent homelessness. The 2008 HUD published *Annual Homeless Assessment Report to Congress*

<sup>32</sup> [http://htaindex.cnt.org/mapping\\_tool.php#region=Honolulu%2C%20HI&theme\\_menu=0&layer1=23&layer2=24](http://htaindex.cnt.org/mapping_tool.php#region=Honolulu%2C%20HI&theme_menu=0&layer1=23&layer2=24)

<sup>33</sup> More information on methodology available at <http://htaindex.cnt.org/downloads/Methods.3.23.10.pdf>.

ranked Hawai'i as having the third largest homeless population (.47%) after Oregon (.54%) and Nevada (.48%).<sup>34</sup> This confirms that even on a national scale, Hawai'i's homeless problems are not inconsequential. In addition to actual homeless, evidence of large populations of hidden homeless and at-risk homeless further demonstrate challenges pertaining to housing affordability. Hidden homeless are populations that reside in housing accommodations shared by multiple households. On the other hand, households considered "at risk" are those that would become homeless within three months with loss of primary income source. The *Hawai'i Housing Policy Study, 2006* notes that as affordability drops and unemployment rises, hidden homelessness tends to increase.<sup>35</sup> Therefore, current times of economic recession can potentially increase the homelessness and hidden or at-risk homeless populations.

### 3.5 Living Wage

The adoption of a living wage could ensure the availability of adequate salaries and in turn provide income for sufficient housing. The living wage takes into consideration the minimum hourly wage for adequate shelter, transportation and health for a persons' lifetime. The calculation adjusts between metropolitan areas and number of dependents. Cities such as Washington D.C., Santa Fe, and San Francisco have passed living wage ordinances. Traditionally such ordinances require public entities to participate in contracts with companies and organizations that pay a living wage.

A 2000 report published by the Legislative Reference Bureau concluded that a living wage of \$9.00/ hour (in 2010 \$13.01/hour for Honolulu CDP<sup>36</sup>) would benefit a few hundred underpaid workers under state contracts, and would incur minimal costs to the state.<sup>37</sup> If the ability of government to subsidize housing costs retreats further from current capabilities and government services are increasingly outsourced to the private sector, adoption of a living wage that takes into account Honolulu's high cost of housing and other living expenses may be part of a larger, comprehensive approach to economic self-sufficiency.<sup>38</sup>

## 4. FACTORS INHIBITING THE AVAILABILITY OF AFFORDABLE HOUSING

Despite the accessibility of multiple of forms of affordable housing subsidies, there continues to be several factors inhibiting the availability of affordable housing. The most primary obstacles include:

1. Cost of Production
2. Risk in Development

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<sup>34</sup> Department of Housing and Urban Development. The 2008 Annual Homeless Assessment Report to Congress. July 2009.

<sup>35</sup> SMS Research and Marketing Inc. *Hawai'i Housing Policy Study, 2006: The Hidden Homeless and Households at Risk of Homelessness*.

<sup>36</sup> Living Wage Calculator. Website. <http://www.livingwage.geog.psu.edu/places/1500317000>. 27 July 2010.

<sup>37</sup> Pan, Peter G. *A Hawai'i Living Wage Law: Contracted State Services*. Legislative Reference Bureau. Hawai'i State Capitol. 2000.

<sup>38</sup> William M. Kaneko of the Hawai'i Institute for Public Policy suggests that a comprehensive plan and policy agenda for economic self-sufficiency involves a number of components, including jobs that pay a living wage, more affordable housing, and access to healthcare, among the most salient. (He, Yuan and Illukpitiya 2007).

3. Maintenance and Management Problems
4. Regulatory and Infrastructure Barriers

Because affordable housing production depends on public sector involvement and contributions, concerns about adequate public sector administration also intersects both cost and risk.

#### **4.1 Production Cost**

The cost of housing production in Honolulu is influenced by a number of factors, including O'ahu's relatively high land costs and the relatively strict controls over development, and the cost of materials, infrastructure development, and labor. . These production costs, which are traditionally passed on to the housing consumer, can substantially affect housing prices. Because of the price limitations imposed on affordable housing, developers would benefit from alternative strategies that support lower production costs while attracting private investors.

#### **4.2 Development Risk**

Aside from high costs, developers of affordable housing must take on added risk and anticipate an unpredictable cash flow.

#### **Permitting Process**

The 2005 State of Hawai'i report *Requesting the Convening of an Affordable Housing Task Force* cites the permitting process and two-tiered State-County land use approval system as creating barriers to the development of affordable housing. The entire entitlement process for large residential developments can take up to 10 years to complete,<sup>39</sup> such that the entire development and permitting process<sup>40</sup> could take upwards of 10 years before groundbreaking. Streamlining this permitting process would ameliorate risk on the developers' side and encourage the private sector to create affordable housing.

#### **Fragmented Financing**

Private sector affordable housing developers, including non-profit corporations, have to stitch together a multitude of financing from both public subsidies and private investors. While financial structure can vary among developers, affordable housing development often consists of 50% tax credits, 25% private investment, and 25% gap financing.<sup>41</sup> While the ultimate goal is for rental income and subsidies to support development costs, each piece of the financial puzzle presents different forms and levels of risk. For example, subsidies and tax credits depend on government spending and the overall ability for the developer or property manager to organize paper work. Because tax credits and subsidies require a certain percentage of units at various levels of affordability for a certain number of years, organization and management become critical components of the development process. In turn, equity

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<sup>39</sup> Housing and Community Development Corporation of Hawai'i. *Pursuant to S.C.R. 135, S.D. 1 Requesting the Convening of an Affordable Housing Task Force*. Prepared for the Affordable Housing Task Force. Report to the Twenty-Third Legislature. State of Hawai'i. 2005.

<sup>40</sup> The permitting process consists of many stages, including preliminary planning, community outreach, environmental reviews, applying for and obtaining land use permits, preparing detailed plans, and applying for and obtaining ministerial permits.

<sup>41</sup> Housing and Community Development Corporation of Hawai'i. 2005.

investors are concerned with receiving a return on their investment and evaluate developers based on their organizational skills and availability of government to provide subsidies and tax credits during the regulatory regime. Furthermore, due to the complex nature of the finance structure, both developers and investors must devote a significant amount of time to understanding the process, which creates an initial barrier to entering the affordable housing market.<sup>42</sup>

### 4.3 Maintenance and Management Issues

Much of affordable housing policy encourages the production of affordable housing, but neglects to adequately address the importance of long term strategies to enforce regulatory agreements and provide for adequate property management. Participants of the 2005 task force to discuss streamlining initiatives expressed their concern for adequate management. “It takes special management skills to manage low-income rental housing. We don’t have the property management companies like on the mainland; they won’t come here because we don’t have the number of units they need to manage.”<sup>43</sup> Even with for-sale affordable condominiums, unqualified purchasers have sometimes been able to participate in the affordable housing market without restrictions as a result of economic hardship and an inadequate exit strategy by the developer.<sup>44</sup> In the best case scenarios, government subsidies align to encourage private development of affordable housing, but once constructed, poor monitoring and enforcement of regulatory agreements, as well as inadequate property management, can prevent long term adequate affordable housing.

### 4.4 Regulatory and Infrastructure Barriers

Existing zoning and building standards, as well as the condition and capacity of Honolulu’s infrastructure systems, are increasing the cost of building affordable housing units, and are ultimately discouraging development activities. Examples of regulatory and infrastructure barriers include:

- Lack of capacity and poor condition of existing infrastructure systems (e.g., sewer, drainage, water)
- Inappropriate development standards such as applying urban street standards in rural areas
- Inflexible building codes that require the use of expensive materials and building systems in low-rise housing units, and
- Zoning regulations that discourage redevelopment if the lot is small or nonconforming

Addressing these issues would facilitate the full development of the PUC, and support increased densities in urban Honolulu’s older areas. In addition, it could help to expand the areas where *ohana*

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<sup>42</sup> Cummings, Jean and Denise DiPasquale. “Building Affordable Rental Housing: An Analysis of the Low Income Housing Tax Credit.” *City Research*. 1998.

<sup>43</sup> Housing and Community Development Corporation of Hawai’i. *Pursuant to S.C.R. 135, S.D. 1 Requesting the Convening of an Affordable Housing Task Force*. Prepared for the Affordable Housing Task Force. Report to the Twenty-Third Legislature. State of Hawai’i. 2005. Exhibit D. Pg. 2.

<sup>44</sup> Gomes, Andrew. “Waipahu Homeowners Upset.” *Honolulu Star Advertiser*.

[http://www.staradvertiser.com/business/20100704\\_Waipahu\\_homeowners\\_upset.html](http://www.staradvertiser.com/business/20100704_Waipahu_homeowners_upset.html). 4 July 2010.

units are allowed, and encourage future planned communities to serve various housing constituencies, which may include making provisions for second units, very-low-cost units and special-needs units.

## **CONCLUSION**

Housing affordability will continue to present challenges for residents, developers, and agencies of the City and County of Honolulu. It is a complex issue that is influenced by national economic trends, energy costs (e.g. shipping), Federal policies, and political will, among other factors. This overview has purposefully avoided judgments about the efficacy of existing language in the Honolulu General Plan and is meant to provide common ground to discuss and consider appropriate language for the General Plan in support of existing and/or new objectives for affordable housing.

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