PRP
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INSIGHTS

RENTAL HOUSING

INSIDE: RENTAL HOUSING BREAKDOWN

WHY ARE RENTALS SO HARD TO FIND?

The Workforce Housing

GAP

WHY AREN'T THERE ENOUGH RENTALS FOR HAWAII'S WORKERS?

There is an undoubted shortage of low-income housing for households earning less than 60 percent of AMI ($49,560 per year for a family of four), but thanks to subsidies and financing programs, there are projects recently finished and under construction to serve that segment of the population, as Stanford Carr explains on page 4. There is no such shortage of market-rate and luxury housing, built for Hawaii households (and non-resident investors) earning more than 140 percent of AMI ($115,640 per year for a family of four). But for the vast majority of working families and professionals who make between 60 and 140 percent of AMI, homes they can afford to buy are scarce because it's nearly impossible for developers to get a project to pencil.

"Building homes that fall into this in-between category is generally not economically feasible given the high cost of land, materials and labor in our island market," says David Striph, senior vice president – Hawaii of the Howard Hughes Corporation. "The rents that are achievable do not provide a positive return on the costs required to build the project and therefore developers cannot attract the needed capital to get these projects off the ground."

So to bring a workforce housing project to fruition, developers must cover the cost of a subsidy with higher prices on other units or other projects, pushing them further towards the luxury end of the spectrum.

"The burden of the subsidy is really being placed on the new market-rate homes that are being built, which have requirements for developers to provide some number of workforce units along with the market rate units," David explains. "This effectively increases the cost of the market-rate homes to help pay for the workforce units – it actually widens the affordability gap." For example, Howard Hughes' Waiea, Anaha and other market-rate projects in Ward Village will subsidize the cost of the income-restricted 988 Halekauwila development.

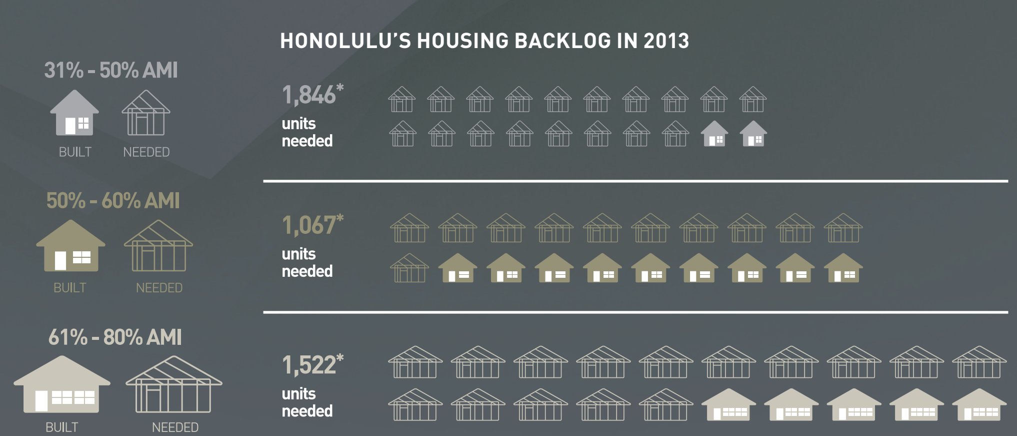
"There are myriad ways in which the government can encourage more workforce housing to be built," David says. "The counties and the state could help on the cost side by making land available for these types of projects or possibly waiving fees and/or taxes. They could provide off-site infrastructure or debt assistance of some sort, and accelerate the permitting and zoning processes for these types of developments – or not count workforce units in density calculations."

> ***Building homes that fall into this in-between category is generally not economically feasible given the high cost of land, materials and labor in our island market***

But these solutions must start with collaboration between developers, the counties and the state – and a willingness of all Hawaii residents to share the burden. "Currently, the burden of subsidizing workforce housing falls on the buyers of the new market-rate units. If this burden could be shifted to the entire population in some manner we might see more workforce units built."

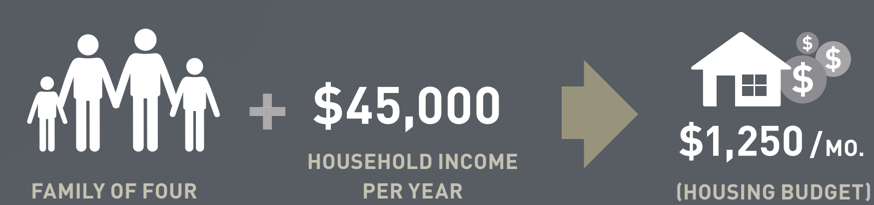
HOUSING BACKLOG

Hawaii's housing production has not kept up with population growth, leaving a housing backlog that is projected to continue to grow.



*2014 Affordable Rental Housing Study Update (Ricky Cassiday, Data at Work for the C&C Honolulu, Dept. of Community Services)

ESTIMATING YOUR HOUSING BUDGET

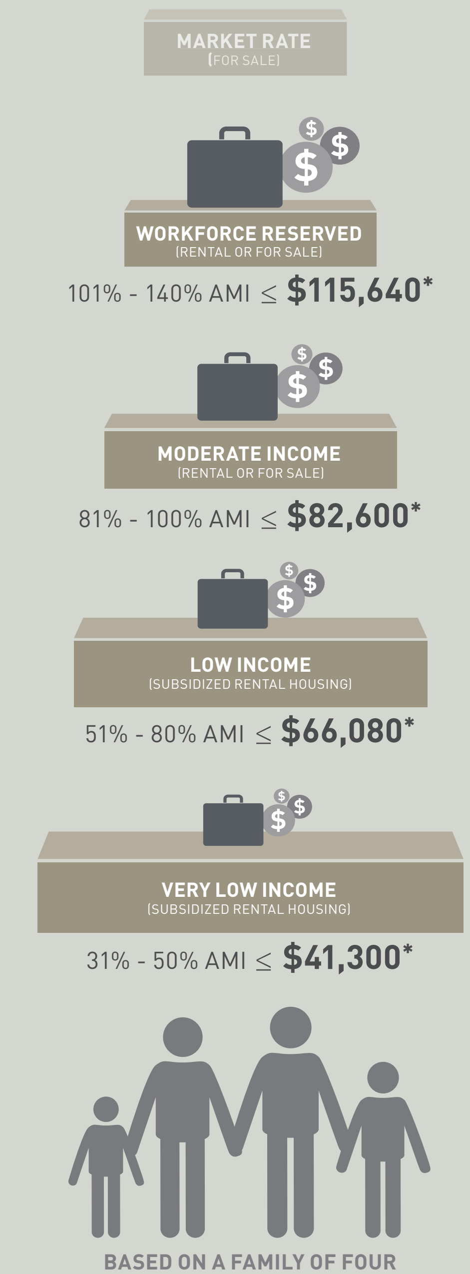


Housing budget is defined at any given income level as 30 percent of household income.

For example, a family of four with a household income of $45,000 per year earns less than 60 percent of AMI. They could afford to spend 30 percent of their income, or $1,250 a month, on housing.

THE HOUSING LADDER

The rungs of the housing ladder correspond to the percentage of area median income (AMI) a household earns and is adjusted by family size. Housing is considered affordable for any given income level when it consumes no more than 30 percent of household income.



*Source: U.S. Department of Housing and Urban Development, 2014

Stanford Carr, President

Stanford Carr Development, LLC develops quality residential communities, commercial projects and special needs housing, like Halekauwila Place, which opened in 2014 with 204 units for families earning 60 percent of AMI, or $49,560 for a family of four. We spoke with Stanford about low-income rental projects.

Expert Q&A

STANFORD CARR

STANFORD CARR DEVELOPMENT, LLC

Q: WHAT GOVERNMENT SUBSIDIES AND FINANCE TOOLS ARE NEEDED FOR LOW-INCOME RENTAL PROJECTS?

SC: There are two programs under IRS Section 42, the federal low income housing tax credit (LIHTC), to build rental units targeting households earning 60 percent or less of AMI [or $49,560 for a family of four].

The 9 percent program is capped – Hawaii gets about $3.6 million per year – based on population. The 4 percent program has no cap on how much any state can use.

The State has a piggyback program worth 50 percent of the federal credit amount.

But that's not enough. When you use a 4 percent LIHTC, you need a private activity bond – like Hula Mae [Multi-family Tax-exempt Bonds] – and then on top of that you may need an equity gap loan from the Rental Housing Trust Fund, which is derived from the conveyance tax and requires that 5 percent of units go to families earning 30 percent of AMI or less [$24,780 for a family of four]. That's administered by the Hawaii Housing Finance & Development Corporation (HHFDC), which generates about $30 million a year. Unfortunately, the HHFDC only allocates once a year, between June and July, which is terrible because if your project is ready after that, you may sit on your hands for a whole year.

When you use the 9 percent volume-capped LIHTC, you cannot use a private activity bond. You must use conventional construction loan financing.

Q: WHAT CAN BE DONE TO INCREASE THE SUPPLY OF RENTAL HOUSING?

SC: On the federal level, we only receive a limited amount of 9 percent LIHTC money based on our population, but our index of rents versus incomes is the worst. Most states don't use all of their allocation, because they don't have an affordable rental problem. We need our congressional delegation to help us become a priority for any unutilized allocations, because it should be based on need, not population.

[CONTINUED ON P.5]

Halekauwila Place, Honolulu

Integrated Communities

GREAT NEIGHBORHOODS FOR EVERYONE

We know what we want to get out of the communities we aim to build for Hawaii's future. We want to slow the proliferation of automobiles, ease traffic congestion and reduce greenhouse gas emissions. That means maximizing the use of public transit and creating walkable neighborhoods with homes in close proximity to work, entertainment and the necessities of life. We want to keep the country, country by concentrating growth in already developed areas, boosting the economy and providing good construction jobs for our members. That's the dream of integrated communities, and it's become a reality for communities across the country.

But we also need to address the question of who can afford to live in these communities. An integrated community connected to transit helps create more affordable lifestyles, by supplying housing for people of all incomes and providing an alternative to hours wasted in traffic.

Hawaii's current inability to meet the demand for homes for local families suggests that the status quo housing pattern is not adequate. As we build integrated communities, pursuing mixed-income development can help correct the imbalance in Hawaii's housing stock. Not only will it boost supply for the low-income and affordable market – it will also deconcentrate poverty by ensuring that every neighborhood has a variety of housing options. It will stabilize the workforce by supplying housing for workers at all income levels. It will keep families close; when children grow up and form new households, they'll be able to find housing near their parents, as will their downsizing grandparents. And the household cost savings that come with integrated communities – projected to be as much as $7,000 when compared to current development patterns – benefit income-challenged families the most.

When we integrate a mix of housing into our communities, we share the dream of a livable, affordable Hawaii with everyone.

Expert Q&A

STANFORD CARR

[CONTINUED FROM P.4]

There was a bill in the legislature to increase the piggyback credits to dollar for dollar that, unfortunately, did not pass. But we also need the state and the counties – because this is an acute problem in all four counties – to create a program for people who make more than 60 percent of AMI. They don't qualify, so what are their options? There's no program above 60 percent.

So let's do a pilot program and take $100 million that we're going to set aside for equity gap financing. We'll do a $100 million bond issuance and earmark $3 million a year from a reliable revenue source to service that bond. The general excise tax is probably the most reliable source of revenue, or each county could give a portion of their property tax towards it. Because it's everybody's problem, so everybody needs to pay their fair share.

There are other creative solutions.

On the Mainland, the business community started non-profits like EAH Housing in California to build affordable housing to attract and retain their workers in places like San Francisco.

In Hawaii, you've got an $11 billion employee retirement system looking for an investment platform and their hurdle rate is 8 percent. I think that's cheap money if they were to put some investment in housing, because they're reinvesting their employee retirement fund into a vehicle that will benefit their own membership. The federal guys who buy these federal tax credits, they love Hawaii. They know that the risk to invest is super low if you've got competent people developing it and managing it, because of the need, the demand for housing here.

Contractor Profile

BILL WILSON

HAWAIIAN DREDGING CONSTRUCTION COMPANY

COMPANY
Hawaiian Dredging
Construction Company

General Contractor: Building, Heavy (Civil), Waterfront and Foundations, Power and Industrial, Commercial

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Preconstruction Manager

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Bill Wilson started with Hawaiian Dredging Construction Company and its affiliates in 1974, served as president for 21 years and in 2014 became Chairman of the board. His firm is Hawaii's largest, oldest and most diversified general contractor, with experience in many sectors, including rental housing. He spoke to us about Hawaii's unique rental supply issues.

"There's a variety of ways to meet rental supply demands," says Bill Wilson. One is to build rental units.

"It's a fairly common thing being done today in the continental United States, but in Hawaii there are very few rentals being developed to be rented on the open market," says Bill. An exception is 7000 Hawaii Kai Drive, a property Hawaiian Dredging is building with 269 rental units, 54 of which will be reserved for renters earning 80 percent of AMI or less (currently $66,080 for a family of four).

"Here, condominiums are being developed much more," he adds. "And not much of what's in new condominiums today are rentals because of economic factors." Units in newer buildings, even those reserved for residents who earn less than the market level of 140 percent of AMI (currently $115,640 for a family of four), have a limited impact on rental supply.

"You can see that in some of the workforce housing–focused projects that we're building now– and we can use 801 South Street Building A as an example of that," he says. Of the property's 635 units, approximately 75 percent will be owner-occupied. The balance will be rentals.

The extraordinary shortage of housing on Oahu is the issue for both owners and renters. "You can see that in some of the workforce housing-focused projects that sell out overnight because the shortage is so great – 801 South Street's two towers and over 1000 housing units is the best, most recent example of this."

"For Honolulu, it will become more and more apparent that the older buildings will become a significant supply for the rental pool for those households that earn less," says Bill. "Think of Makiki as a solution for rentals: a lot of high-rise buildings close to town built in the 60s and 70s. More new buildings in the urban core need to be built to offer quality housing for Honolulu's workforce and at the same time release the older urban neighborhood condominiums for more rental.

"A key component to address this shortage is to educate the community that more housing needs to be built if there will be good quality housing alternatives for all income levels."

801 South Street, Honolulu

Afterword

JOHN WHITE
EXECUTIVE DIRECTOR, PRP

Learn more about Integrated Communities

We'd like to visit your office, trade association or other group to share a short, powerful presentation about integrated communities and their importance for the future of Hawaii. Please email Cheryl Walthall at cwalthall@prp-hawaii.com for more information or to schedule a visit.

HELPING LOCAL FAMILIES STAY – AND THRIVE – IN HAWAII

My story is not unlike the stories of thousands of other people who left Hawaii, but continued to feel a deep connection to this place. I'm part-Hawaiian, Oahu-born, but moved to the Mainland at age six when my mother couldn't see a better future here for herself and her children.

As those of you who have ever moved away can attest, there's this thing about Hawaii that never really leaves you. And it's that feeling that drew me home 15 years ago. I've spent the better part of my life pursuing the idea that brought me home —perhaps the Spirit of Aloha comes closest to capturing its essence.

It's the idea that we can come from many different backgrounds and allow our diversity to define, not divide us. It's the idea that Hawaii provides opportunity for all, not just the privileged few.

I've come to realize that we have a long way to go to reach that ideal. Housing, and people's inability to access it in Hawaii, is a major obstacle.

Too many families face the awful choice of leaving Hawaii because they can't find a decent place to live at a price they can afford. We simply haven't built enough homes to keep up with demand.

Hawaii faces a significant number of challenges to growth and construction. We're an island state with limited land, finite resources and a tourism-based economy that depends on the islands' natural beauty, all compounded by the high cost of land and construction.

Our elected leaders need to be more entrepreneurial and seek out policies to help create the conditions for more housing to be built for people of all income levels.

Almost half of all Hawaii households make between 60 percent and 140 percent of AMI – that's between $49,560 and $115,640 per year for a family of four – yet there are no subsidies to help them find homes. We need the county, state and federal governments to provide more funding programs and expand existing programs to increase the supply of housing local families can afford. That requires political will, which we can't just demand from government officials – we need to voice our support for good policies and adequate spending to ameliorate these problems or the social cost, the repercussions of acute socio-economic imbalance, are going to be costlier.

At PRP, we envision integrated communities that will allow Hawaii to seize the opportunity rail will provide and use it to solve many of the problems Hawaii faces now and in the near future, with perhaps the biggest being affordable housing.

To achieve that vision, we need partnership – the principle PRP was founded on. We need both the public and private sectors to come together and do what's right to improve the affordability of homes for Hawaii's people – all of them. Together, we can transform these islands from a place of worsening hardship to a place of opportunity for families, like mine, that may need some help before they get a chance to give back.

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