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INSIGHTS

WORKFORCE HOUSING



INSIDE:

A COALITION
COMES TOGETHER

HAWAII'S HOUSING CRISIS

Lack of housing supply in Hawaii is an enormous issue affecting residents. And while it's a problem across the board, there has at least been some progress at the low-income and market rate ends of the housing spectrum. But one group faces unique challenges that have made the housing crisis particularly intractable for decades: the people who comprise Hawaii's workforce.

THE WORKFORCE SHORTFALL

Hawaii's workforce housing shortfall is massive today and it's forecast to get worse with every passing year, as more workers are projected to enter the housing market than projects are being built.

COMING UP SHORT

64,693

ADDITIONAL HOUSING UNITS
THE STATE OF HAWAII WILL
REQUIRE FROM 2015 TO
2025 TO MEET PROJECTED
HOUSING DEMAND

Source: Hawaii Housing Finance and Development Corporation, Hawaii Housing Planning Study, 2016

WHAT'S THE PROBLEM?

Hawaii has a number of constraints that make workforce housing projects infeasible, including limited developable area and a maze of policy roadblocks, from the approval process to zoning density requirements and legal challenges.

BETWEEN MAUKA & MAKAI

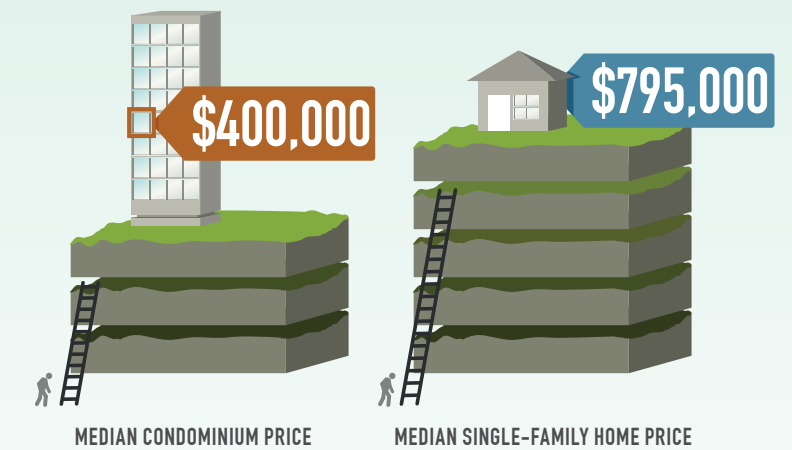
92% of Urban Honolulu
Can't Be Developed

Source: "U.S. Apartment Demand – a Forward Look," National Apartment Association, May 2017



RENTALS ARE THE KEY

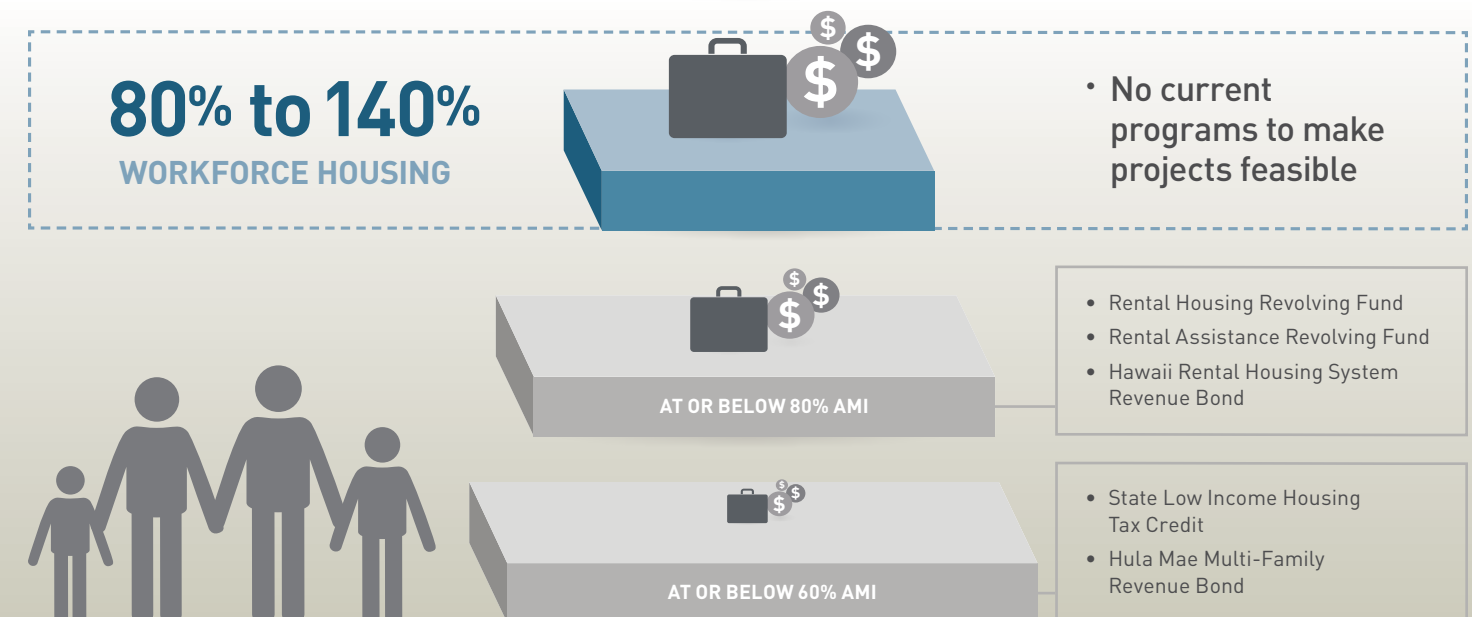
The first step is to recognize that Hawaii's astronomical median housing price – and the difficulty of securing a massive down payment – puts home ownership out of reach for most households earning workforce incomes. If they don't inherit a home or other assets, their only realistic option is to rent.



Source: Honolulu Board of Realtors, www.hicentral.com/mpr/mpr-2017-06.php, June 2017

NO PUBLIC PROGRAMS

But unlike programs for lower-income housing, government funding does not address workforce housing.



SOLUTION: A WORKFORCE RENTAL HOUSING PROGRAM

To provide more housing that people in the workforce can actually afford, we need to create a program that will make workforce rental projects more feasible.

THE WORKFORCE HOUSING PUZZLE

HOW ARE COALITION MEMBERS PIECING THE PUZZLE TOGETHER?

The Hawaii Rental Housing Coalition has one goal: to make it feasible to build rental housing for Hawaii’s workforce, defined as households that earn 80-140% of the Area Median Income (AMI), which in 2017 was \$83,700 – \$121,250 for a family of four.

Because workforce rental projects don’t qualify for federal funding, they have

proven virtually impossible to fund and build. So the coalition has come together to change the economics of building and operating workforce rental housing projects in Hawaii, putting the puzzle together piece by piece.

Neither the government nor the private sector can do it alone. The effort requires participation from every facet

of the community and every sector of the economy, coming together to solve an intransigent community problem. To succeed, it became clear that everyone would have to make a sacrifice, giving something to get something we all want – more workforce rental housing.

STATE OF HAWAII

- General Excise Tax exemptions

HAWAII CONSTRUCTION ALLIANCE (TRADE UNIONS)

- Reduced wage and fringe package

CITY & COUNTY OF HONOLULU

- Expedited processing that guarantees fee waivers and Real Property Tax exemptions

HECO (HAWAIIAN ELECTRIC COMPANY)

- Review permits and complete installations as expeditiously as possible

HAWAII BANKERS ASSOCIATION

- Favorable lending terms

GENERAL CONTRACTORS ASSOCIATION OF HAWAII

- Best pricing
- Reduced profit margins

AIA HONOLULU (AMERICAN INSTITUTE OF ARCHITECTS)

- Best pricing
- Reduced profit margins

LANDOWNERS & DEVELOPERS

- Will keep units workforce-affordable for a minimum of 30 years
- Rental units will not be convertible to for-sale apartments within the first 30 years

HOW IT WORKS – A NEW PATH TO WORKFORCE HOUSING

The coalition’s proposal lowers the up-front costs of construction and enhances the revenue for operating workforce rental housing. To take advantage of the coalition’s benefits, a developer – or an owner renovating an eligible rental property – must first apply to the Hawaii Housing Finance & Development Corporation (HHFDC) for a GET waiver and prove how they will income-qualify workforce tenants. Then they would enter into a contract with a general contractor that is eligible to use the reduced union wage rate and fringe package. Finally, they would go to the state and county government for waivers on applicable fees.

What kinds of projects are eligible?

- Eligible projects must be:
- Entirely rental units.
 - 100 percent of units are for households with incomes at or below 140% AMI, of which 20% of units are for households with incomes at or below 80% AMI.
 - Fully privately funded and financed, other than tax exemption and waived permit fees.



Expert Q&A

DICK
GUSHMAN
DGM GROUP



Since 1974, Richard W. Gushman has been president of DGM Group, a privately owned Honolulu-based real estate development and investment company. Operating in Hawaii, California, Washington, Texas, Guam and Singapore, DGM Group has developed or invested in a variety of real estate assets, including high-rise office buildings, retail shopping centers, industrial assets, high-rise condominium developments, rental apartments, historic restoration projects, luxury single-family housing and resort condominiums. He is also a general partner and owner of Summit Financial Resources, a national commercial finance company based in Utah, since 1997.

Q: WHY IS YOUR FOCUS ON WORKFORCE HOUSING, GIVEN THAT IT ACCOUNTS FOR A BIT MORE THAN A QUARTER OF THE HOUSING NEED?

DG: At or below 80% AMI, we have mainly government subsidized housing. If we move up, there's nothing. There are basically no programs between 80%-140% AMI, for the workforce, and no projects of significant size. In fact, we haven't delivered an unsubsidized workforce rental project with more than 300 units since statehood.

So our workforce, people who are out there in the working class and working hard, holding two jobs, sending their kids to school, they're struggling, and there's nothing really there to help them.

Q: HOW HAS THE HIGH COST OF HOUSING IN HAWAII IMPACTED RESIDENTS?

DG: Today, 200,000 citizens of our state – that's 15 percent of the civilian population – are under-housed.

That means the actual occupancy loads our fellow citizens are forced into are at third-world levels. We've got studios with five people in them, one-bedroom units with six-plus people, two-bedrooms units with eight people in them. When I talk to my friends at the Department of Education, they say that level of occupancy correlates with severely decreased learning capacity of children, not to mention addiction and abuse —spouse abuse, child abuse, drug abuse. We are seeing this statewide, more so perhaps on Oahu. And we have to do something about it.

Q: WHAT HAS THE COALITION DONE DIFFERENTLY FROM OTHERS TO ADDRESS THIS NEED?

DG: On the private sector side, we're doing two things. We're driving down the cost of building rental housing and we're increasing operating revenues for the same project without raising rent. We went to the private sector and aggregated all the pieces we could. Nobody has a big piece, but every piece matters.

Then we went to the state, to the counties and asked them to exempt all of the fees that would normally be collected. On the revenue side, for certain types of rental housing there are already rules in place to exempt the GET on the revenue, and the same thing at the county levels on exemptions from Real Property Tax. So far it's going okay.

All that will create a material advantage to us from a pricing standpoint. So right now if you take all the pieces together to change the economics of building rental housing, it adds up to roughly 20-25 percent without land.

Q: HOW DID YOU ARRIVE AT THIS SOLUTION?

DG: It's a story of coincidence. In 2015, Ron Taketa, head of the Hawaii Regional Council of Carpenters, was in a conversation with the governor in the first quarter of his term. And he told Governor Ige that back in the 80s, when we had a vicious recession, the union went to the contractors and said, "We gotta do something to get our guys working again. What would happen if we reduced the base wages of our members?" It didn't work. The gesture was not proportionate to the problem, so it never happened.

I heard about this in the end of the first quarter of 2015, and I sat down with Ron. He's got every single carpenter working. There isn't anybody in the state who isn't working. They're getting tons of overtime, and he can see how for at least three years, maybe longer, he's got that same market environment with rail and all the other stuff that's going on in Oahu. But he said, "I'm worried about what my guys are going to be doing in '18 and '19. And what can we do about it?"

And so I said, "Are you willing to sit down and talk about actually doing this thing, the labor index?" And he said yes.

It took a long time. The Hawaii Construction Alliance Tyler Dos Santos-Tam is managing, the five major trade unions —they amount to roughly 70 percent of all hours worked on any given project. They came to an agreement with us to have a 15 percent reduction across the board, for rental housing that has 20 percent of the units at 80% or less AMI, affordability to survive 30 years. In return, their members who work on the project get the first shot at 20 percent of the units. Because this problem affects them; a lot of their members don't have housing.

We came out with a signed agreement at the end of the third quarter of 2016. I went out and rounded up a group of eight local developers, including Stanford Carr, Avalon, James Campbell Company, Castle and Cooke, DR Horton, Hunt, MW Group, and Kamehameha Schools. We had nine organizations in the room for the meeting, representing 75 percent of all the zoned land in Oahu.

Then I met with the rental advocacy community. We asked FACE, EAH and Catholic Charities to sit down with us and we asked, "What can we do together to change the scale of affordability and the cost, the economics of rental housing?"

I went to the General Contractors Association and they agreed on best execution and best pricing. I did the same thing with AIA Honolulu for all the architects. Then I asked the CEOs of the four major banks to participate. They took it to the Hawaii Bankers Association; they have an agreement to re-price debt as well as loan value.

Then I went to see Alan Oshima at HECO. I told Alan that we just wanted time – we wanted the utility to set up a separate processing system so that when we come in, we don't have to wait forever finding out whether we can get the utility support that we need to have.

And we started on a campaign.

Q: WHAT'S THE MAIN MESSAGE OF THE CAMPAIGN?

DG: Everyone has to hui up to make something happen. A lot of people have to give up something so that everybody can get more. That's how things used to happen in Hawaii. There's an old saying: "If not now, when? And if not us, who?" You can't pass this on. We've got to step up and do this – or explain it to your kids. Because if we can't make this happen, it isn't going to happen. So that's kind of my evangelical pitch, to step up here and try to make a change.

THE HAWAII RENTAL HOUSING COALITION

Hawaii's catastrophic housing shortage is perhaps the defining issue of our time. The Hawaii Rental Housing Coalition members and their supporters are stepping up, working together and surrendering something of great value to help others. It's a selfless effort and we salute everyone taking part in it.

LANDOWNERS & DEVELOPERS

DGM Group – Richard W. Gushman

Castle & Cooke – Harry Saunders

Kapolei Properties – Brad Myers and Steve Kelly

DR Horton – Robert Bruhl

Kamehameha Schools – Walter Thoemmes and Giorgio Caldarone

Avalon Group – Christine Camp

Stanford Carr Development – Stanford Carr

The Hunt Group – Steve Colon and Mitch Silver

MW Group – Steve Metter and Daniel Cody

HAWAII CONSTRUCTION ALLIANCE UNIONS

Hawaii Regional Council of Carpenters

Operative Plasterers' and Cement Masons' Union, Local 630

International Union of Bricklayers & Allied Craftworkers, Local 1

Laborers' International Union of North America, Local 368

Operating Engineers, Local 3

SUPPORTERS

CONTRACTORS

General Contractors Association of Hawaii

BANKS

Hawaii Bankers Association

ARCHITECTS

AIA Honolulu (American Institute of Architects)

GOVERNMENT

Hawaii Housing Finance & Development Corporation



Integrated Communities

COST CONTROL

To change the economics of workforce rental housing construction, we have to understand – and find a way to lower – the costs of these projects. In addition to the long list of costs that go into multi-family housing construction, rental properties also have operational and maintenance costs, many of which are passed on to renters, negatively impacting affordability.

DEVELOPMENT COSTS OF RENTAL HOUSING

- **LAND**
 - Acquisition of land
 - Demolishing existing buildings
- **PLANNING**
 - Permitting fees
 - Impact fees
 - Environmental impact statement
 - Traffic studies
 - Attorneys' fees
- **DESIGN**
 - Architects
 - Engineers
- **FINANCE/INTERIM COSTS**
 - Mortgage fees
 - Insurance
 - Other holding costs
 - Construction loan
- **CONSTRUCTION**
 - Project management
 - Contractors
 - Labor
 - Materials
- **TAXES**
 - 4.712% General Excise Tax on all development-related expenses

OPERATING COSTS OF RENTAL HOUSING

- **OPERATING AND DEBT SERVICE**
 - Management costs
 - Funds set aside for maintenance, future renovations, future risks
 - Insurance
- **PROPERTY TAX**
 - Real Property Tax to county
- **GENERAL EXCISE TAX ON RENTS**
 - 4.712% passed on to renters



Integrated Communities

COMMUNITIES THAT WORK FOR WORKERS

Median housing in Honolulu is severely unaffordable.

If there were any doubts, it's been confirmed (again) by the Demographia International Housing Affordability Survey, which deploys a unique approach to rate cities on what it calls middle-income affordability. It uses a median multiple index, which is a city's median home price divided by its median household income. While it doesn't consider complexities like house size or build quality, it does allow for a quick comparison of global housing markets and their relative housing affordability.

The survey calls a median multiple of 5.1 or greater "severely unaffordable," its highest category of unaffordability. With a median multiple score of 9.4, Honolulu came in as the 7th most unaffordable major housing market in the 13th edition of the survey in 2017. Honolulu was severely unaffordable for the 13th straight year.

It's a familiar story. From median home price to homelessness, cost of living to traffic woes, Honolulu and Hawaii can often be found at the troubling end of national and international lists of unaffordability. What can we do about it?

Building integrated communities is a way to address several of our problems – and many more – all at once. Integrated communities concentrate development around a transit corridor, creating the opportunity for a mix of new housing options so that everybody in a community – growing families and empty nesters, workers and retirees, renters and buyers – has a chance to live near work, play and the necessities of life.

A multitude of transportation options, including nearby public transit stations and bike-friendly, walkable streets,



obviates vehicular traffic and opens up integrated communities to a vibrant communal life that is lost when everyone has to commute by car. The savings are multifold: decreased spending on gas and vehicular maintenance, less time stuck in traffic, smaller impact on the environment and development of open spaces, more efficient use of resources in communities with greater density. If we do it right, rail presents a once-in-a-generation chance to remake several of our communities to be more livable.

But who will they be livable for?

The Demographia report and countless studies find that middle-income housing unaffordability, in Honolulu and around the world, is caused by the same factor: housing supply restrictions. We have not built enough homes for the local

workforce. With home ownership increasingly out of reach, we have to ensure that new developments provide rental housing that's desirable and affordable for Hawaii's workforce.

Integrated communities don't build themselves. It takes the right mix of policies and incentives to shape and optimize their composition for everyone, rather than the privileged few. Now is the time to build many more workforce rental homes in a relatively short period of time. But it won't happen unless we come together and make it a reality. The Honolulu Rental Housing Coalition is taking a bold step in the right direction to help ensure that we build as many homes as we can to be affordable for our workforce. ●

THE 80-140%

Who exactly is Hawaii’s workforce? Anybody with an annual income range of \$58,600- \$84,900 (which is the 2017 AMI for a one-person household). That means that our housing crisis is truly extensive—impacting not only lower-income workers, but a multiplicity of earners spanning industries and occupations. The widespread lack of affordable workforce housing affects everyone from mail carriers to police officers to architects... and, yes, even construction laborers.

Here are a few occupations with a median salary that falls into the workforce housing gap.

OCCUPATION	MEDIAN ANNUAL SALARY IN HAWAII
Hotel manager	\$58,240
Construction laborer	\$58,350
Postal service mail carrier	\$59,850
Tax examiner and collector/ revenue agent	\$62,530
Art curator	\$64,700
Freight inspector	\$65,900
Securities and commodities trader	\$65,900
Dietitian/nutritionist	\$66,120
Counseling psychologist	\$66,470
Financial analyst	\$69,100
Personal financial advisor	\$69,430
Retail sales manager	\$70,010
Police officer	\$70,460
Speech-language pathologist	\$70,920
Information security analyst	\$81,850
Building architect	\$82,070
Manufacturing logistician	\$82,220

Source: O*NET OnLine. National Center for O*NET Development, www.onetonline.org/, July 2017



Union Spotlight

RON TAKETA

EXECUTIVE SECRETARY-TREASURER
HAWAII REGIONAL COUNCIL OF CARPENTERS



For this special issue, we sat down with the long-time leader of the Hawaii Regional Council of Carpenters to talk about the extraordinary efforts the union has made to bring together a coalition capable of tackling the housing crisis.

Q: HOW IS THE HOUSING SHORTAGE IMPACTING UNION MEMBERS?

A: The housing shortage and the lack of rental housing are very important, inter-related issues. Housing unaffordability in Hawaii has hit a crisis level that impacts the working class, our union members and the residents of our state. When we add to the rental housing stock, we help overstretched housing budgets at all income levels, including union members.

Q: WHY DID THE UNION CHOOSE TO TAKE A CUT AND SACRIFICE HARD-EARNED WAGE AND FRINGE BENEFITS?

A: As a union, we’ve worked hard to help our members earn a living wage. We’re proud that they can put in an honest day’s work and then go home to their family and enjoy a good quality of life, which includes housing they can afford. But the housing shortage affects households up and down the income ladder, and the lifestyle we’ve fought so hard to achieve is threatened if we don’t do something.

So we decided to step up and be a part of the solution. We felt like we could do something to help a lot of folks, including our members. We’re taking a stand for our values and working with like-minded visionaries to make sure local people have a roof over their heads and an opportunity to work and provide for their families.

That’s what unions have historically been about. We’re no different. Our union is proud to be a part of the Coalition and we’re willing to do anything we can to take care of our communities.

Q: WHAT DOES SUCCESS LOOK LIKE FOR THE COALITION?

A: We’re not trying to solve the affordable housing problem. What we’re trying to do is make a difference in one aspect of affordable housing that the state is currently lacking in – rental housing. If we can find a way to spur the development of rental housing projects to give our community more housing options, that’s a win.

Our View

PRP STAFF



Partnering to
Help Hawaii’s Workers

PRP arose out of calamity in the late 1980s, when sharp divisions in our industry led to a schism that hurt everybody. In the aftermath, a group of visionaries came together in the spirit of partnership and said “never again.” We entered a new era of collaboration and mutual prosperity -- and haven’t looked back.

For the past 30 years, our motto at PRP has always been to work together to build a better Hawaii. We know from experience that when management and labor come together, we can guide the community toward a stronger, more sustainable Hawaii in a way that promotes a vibrant economy, creates jobs and enhances the quality of life for all residents.

Just imagine if there were more partners. On their own, management and labor have a history of incredible progress. Working people everywhere are better off thanks to unionized labor: the work week and workday, overtime, vacation time, benefits like pensions and health care – the list goes on and on. Likewise, our ever-increasing standard of living owes a great deal to union-signatory contractors, who envision great projects and take on immense risk, investing in the future of our communities. But management and labor are only two variables in an incredibly complex socio-economic reality. What if we could bring together not only construction labor and management, but also banks and financiers, landowners, nonprofits, even the public sector? There would be a great deal that we could accomplish.

That’s precisely what’s happening today, as we face another calamity. The local workforce – made up of many in the building industry – needs help. Into the breach has stepped the Hawaii Rental Housing Coalition, and we couldn’t be more proud of the spirit of partnership its members have embraced in coming together to stem the housing crisis. It’s just a start, with a long ways to go. But instead of belaboring the problem *ad nauseum*, we’ve arrived at a solution and there is now a movement afoot. We need everyone to jump on board to get workforce rentals built – and perhaps solve other divisive issues that are threatening our future.

Because there’s no problem in Hawaii that we can’t fix if we all work together, and put the common good first. That’s the way it used to be in Hawaii, when a familial dynamic predominated and individuals were eager to sacrifice so the group could succeed. It’s good to see it again in Hawaii with the Hawaii Rental Housing Coalition, and we hope to see more of it. You can be sure PRP will be there every step of the way, pushing for the success of this coalition and, we hope, many more to come after it.



Learn more about Hawaii Rental Housing Coalition

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