



Affordable Housing Requirement And Housing Strategy Implementation Zoning and Housing Committee April 13, 2017

What we'll talk about today

- Overall Affordable Housing Strategy
 - Priorities and Implementation Update
- Affordable Housing Requirement Ordinance
 - Research and Analysis
 - Stakeholder Input
 - Percentages and Details, 30-year Period
 - Scheduled Phase-in by Area Over Time
 - How In-Lieu Fees Produce Housing
 - Administration and Monitoring
- AH Financial Incentives Ordinance

Affordable Housing Strategy

1. Increase Affordable & Workforce Housing Inventory
2. Increase Low-Income & Homeless Housing Options
3. Invest in Better Neighborhoods
4. Update Policies and Regulations to Promote Housing Production
5. Coordinate Implementation & Measure Progress



Responding to Council Initiatives

The Affordable Housing Strategy responds to City Council Resolutions:

- 13-274 to develop an affordable housing policy for transit-oriented development (TOD) districts
- 13-168, CD1 to amend the unilateral agreement policy
- 14-28 to establish an affordable housing strategy
- 14-200 to regulate accessory dwelling units.

Developed by Staff Team

Affordable Housing Strategy developed by five City departments in 2013-2014.

- Mayor's Office of Housing
- Department of Community Services
- Department of Budget and Fiscal Services
- Department of Planning and Permitting
- Office of Strategic Development

Strategic action plan of realistic projects, policies, and investments based on decades of working groups and task forces

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Affordable Housing Vision

Oahu will provide housing choices that build community, strengthen neighborhoods, and fit family budgets.

All people will have access to shelter.



- Transit-oriented and transit-ready development
- Compact, mixed-use community design
- Healthy, age-friendly communities

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Latent Demand by Income Group (2012-2016)

Oahu needs more than 24,000 additional housing units to meet demand.

- Over 18,000 or 75% of demand is for households earning less than 80% of AMI.
- Just 10% of demand is for households earning 140% AMI and up.

	< 30% AMI plus HPIT	< 50% AMI	< 80% AMI	< 120% AMI	< 140% AMI	140+% AMI	Total Units
Maximum AMI (family of 4)	\$28,750	\$47,900	\$76,650	\$114,980	\$134,140	>\$134,140	
Ownership Units							
Single-family	887	277	1,499	643	752	1,143	5,201
Multi-family	963	392	539	286	294	565	3,039
Rental Units							
Single-family	134	69	183	0	0	287	673
Multi-family	4,022	2,811	2,047	1,047	515	502	10,944
Homeless	4,712	---	---	---	---	---	4,712
TOTAL	10,718	3,549	4,268	1,976	1,561	2,497	24,569

* Hawaii Housing Planning Study, 2011, prepared by SMS Research and Marketing Services, Inc.

* City & County of Honolulu, Homeless Point-in-Time Count 2014, assumes all earn less than 30% AMI.

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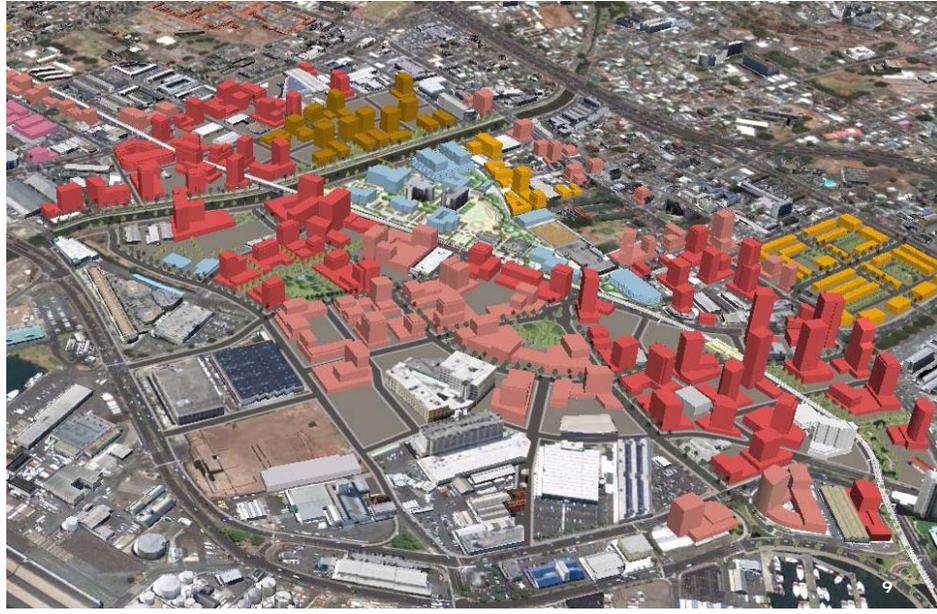
Affordable Housing Strategy

Mayor's implementation priorities (see handout)

- **Affordable Housing Requirement** (phased in)
- **Financial Incentives** – fee waivers for sewer, park dedication, building permits, real property taxes
- **Leverage City Lands** – nine properties identified; will be RFP'd to private developers and nonprofits
- **Rental housing finance:** \$100M/year in private activity bonds to leverage 4% low income tax credits
- **TOD Zoning and Infrastructure Investments**
- **Accessory Dwelling Units** and Incentives
- **Housing First** and Shelter Initiatives

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Infrastructure Finance District – Iwilei to Kalihi



AHR Background Research

Almost 500 municipalities have similar requirements, including those in similar “hot” markets with high development costs.

Staff research found that, compared with current UA requirements, most programs had:

- Much longer affordability period
- Lower Area Median Income (AMI) ranges
- Lower percentage of units required
- Applied to all building permits (above a certain size), not just rezoning

We talked with staff and experts from other cities.

AHR Background Research (2)

We followed best practices identified by recent national studies on inclusionary housing:

- **Economics of Inclusionary Development**, ULI 2016
- **Making Inclusionary Housing More Flexible**, Hickey 2015
- **Inclusionary Housing**, Jacobus, Lincoln Institute 2015
- **Separating Fact from Fiction to Design Effective Inclusionary Housing Programs**, Sturtevant 2016
- **Delivering on the Promise of Inclusionary Housing: Best Practices in Administration and Monitoring**, Jacobus 2009

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City-Sponsored Studies

We commissioned two studies and a policy memo to analyze the affordable housing requirement, tailored specifically for Honolulu:

- **Residential Nexus Analysis**. *Keyser Marston Associates, 2015*
- **Affordable Housing Requirement Financial Analysis**. *Strategic Economics, 2016*
- **Policy Memo on Affordable Housing Requirement**. *Rick Jacobus, 2017*

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Residential Nexus Analysis (Keyser Marston Associates)

- Analyzed the impact new residential development has on affordable housing needs
- Helps determine inclusionary housing percentages and in-lieu fees that are:
 - proportionate to these impacts
 - sufficient to mitigate these impacts
- Inclusionary % across five building types ranged from 17.3% to 21.7% (at all AMI levels)
- Calculated affordability gaps (subsidy needed per affordable unit)

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Residential Nexus Analysis (2) (Keyser Marston Associates)

- Affordability gaps (subsidy needed per unit)
 - \$0 for 120 to 140% AMI units (no subsidy needed)
 - **\$69,850** for 80 to 120% AMI units
 - **\$169,300** for 50 to 80% AMI units
 - \$288,300 for 30 to 50% AMI units
 - \$367,300 for under 30% AMI units

Since most renters and buyers can pay part or most of the cost, the subsidy only needs to cover the difference between what a unit costs to produce and what they can afford to pay.

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Residential Nexus Analysis (3) (Keyser Marston Associates)

- Nexus Costs per SF of building area
 - Cost per SF of creating new affordable units
 - Supports policy decision to set in-lieu fees
 - Ranged from \$31.70 to \$57.70
 - Selected ‘middle of the middle’ at **\$45.00/SF**

Income Category	Affordability Gap	Single Family 1,700 SF	Low-Rise Townhomes 1,200 SF	Mid-Rise Condo 1,000 SF	High-Rise Condo (PUC) 1,000 SF	Rental Apartment 900 SF
Prototype Size						
Ext. Low (30% - 50% AMI)	\$367,300	\$8.60	\$11.00	\$11.90	\$15.70	\$13.10
Very Low (30% - 50% AMI)	\$288,300	\$13.10	\$16.80	\$18.30	\$23.80	\$20.00
Low (50%-80% AMI)	\$169,300	\$7.90	\$10.20	\$11.20	\$14.50	\$12.20
Moderate (80%-120% AMI)	\$69,850	\$2.10	\$2.60	\$2.90	\$3.70	\$3.10
140% Tier (120%-140%)	none	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Total Nexus Costs		\$31.70	\$40.60	\$44.30	\$57.70	\$48.40

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Affordable Housing Requirement Financial Analysis (Strategic Economics)

Pro forma analysis to test the impact of the proposed AHR on development feasibility.

Also analyzed:

- Bonus density and community benefits
- Financial incentives, fee waivers, less parking
- IPD-T projects

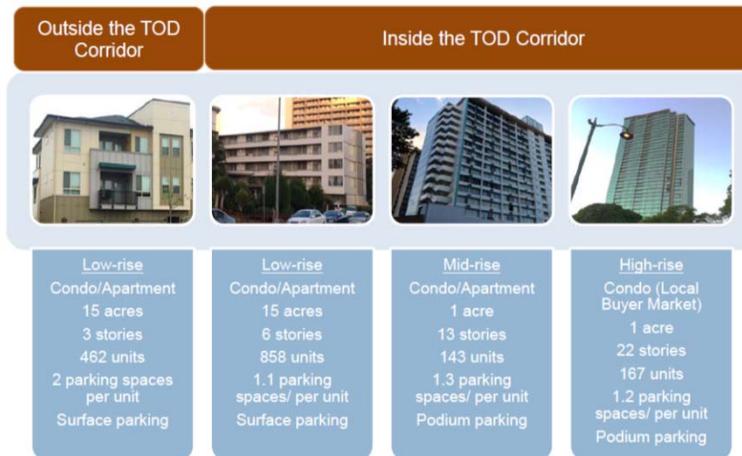
Tested feasibility of several building prototypes in different locations around Oahu.

- Several rounds of interviews and focus groups with local developers and industry reps.

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Affordable Housing Requirement (2) Financial Analysis (*Strategic Economics*)

- Developed six prototypes with four basic building types and program by local design firm



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Affordable Housing Requirement (3) Financial Analysis (*Strategic Economics*)

- Tested feasibility of proposed AHR formulas
- Revenue, cost, and return assumptions developed through market research, developer interviews, and city staff input.
- Assumed purchase of land at market rates (some projects are more feasible with lower or no-cost land).
- Ala Moana high-rise condos are feasible with higher density; with 25% returns (19% w/AHR)
- Low-rise condos in Pearlridge are closest to feasibility, with 10% returns

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Affordable Housing Requirement (4) Financial Analysis (*Strategic Economics*)

- Most other prototypes not yet feasible due to high construction and land costs.
- Some projects getting built with reduced-cost or free land, subsidies, or other incentives.
- AHR itself is only a modest burden.
- Recommendation to phase in 'hot' market areas first, then add areas at reduced AHR.
- Expectation that as initial TOD projects are built, the new market 'comps' will help other projects pencil out.

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Policy Memo on Affordable Housing Requirement (*Rick Jacobus*)

Asked for analysis and advice on two issues:

- Given uneven market conditions islandwide, should requirements be different percentages, or phased in over time geographically?
- How should the City plan for long term monitoring, administration, and stewardship of affordable homes created through the program?

Updated research on other programs, and met with staff, developers, and state partners.

Included admin and monitoring ideas (at end).

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Policy Options Studied *(Rick Jacobus)*

1. Target only high growth areas
- 2. Vary requirements by 'zone'**
3. Project by project underwriting
4. Vary requirements by rents/prices
5. Hardship waivers/appeals
6. Vary requirements by project size
- 7. Scheduled phase in of requirements**

After staff workshop, recommended combo of #2 and # 7 – **Vary by zone and phase in over time**

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Affordable Housing Requirement (AHR)

Proposed affordable housing requirement will require a percentage of all new development (10 units and up) to be affordable by people with low to moderate incomes.

- Requires a smaller percentage of units, across more projects, for lower income ranges, and maintains affordability for longer period (compared to existing UA).
- Phased in over three years, by location.
- Varies by whether for-sale, rental, and on- or off-site.
- Minimum 30-year period of affordability.
- Flexibility for developers with three compliance options.

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Three AHR Compliance Options

1. **CONSTRUCTION ON-SITE**

- Preferred. On same lot or in same building(s) as principal project.

2. **CONSTRUCTION OFF-SITE**

- Higher percentage of units required (if for-sale).

3. **IN-LIEU FEE** (Or LAND DEDICATION)

- Cash contribution paid to the City, in lieu of building affordable units. **Proposed fee is \$45/finished SF** (annual increase per CPI). Projects over 25 units require Council approval.
- Dedication of land (with infrastructure/improved lots) to be used to construct affordable housing. May be provided to a land trust or nonprofit (with city approval and oversight). Value must be at least equal to in-lieu fee.

Percentages set to encourage rentals and on-site construction

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AHR Three-Year Phase-In

Phased in per housing market variations:

- **Effective immediately.** Only Ala Moana, Downtown, and Chinatown rail station areas.
- **2nd Year.** The rest of the island, including the other rail transit station areas, will be subject to the requirement, although at lower percentages.
- **4th Year.** All rail transit station areas become one category, while the rest of the island will be subject to the lower required percentages.

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1st Year: TOD Areas

Includes Ala Moana, Downtown, Chinatown station areas

- 1. CONSTRUCTION ON-SITE** (same lot or building)
 - **If Rental:** 15% of the units at up to **80%** of AMI
 - **If For-Sale:** 20% of the units at up to **120%** of AMI
(½ at up to 100% of AMI)
- 2. CONSTRUCTION OFF-SITE** (same rail station area)
 - **If Rental:** 15% of the units at up to **80%** of AMI
 - **If For-Sale:** 25% of the units at up to **120%** of AMI
(½ at up to 100% of AMI)
- 3. IN-LIEU FEE** (Or LAND DEDICATION)
Cash contribution or improved land in lieu of building affordable units. **Proposed fee is \$45/finished SF.**

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2nd Year: Islandwide

Includes Islandwide and all other rail station areas

- 1. CONSTRUCTION ON-SITE** (same lot or building)
 - **If Rental:** 5% of the units at up to **80%** of AMI
 - **If For-Sale:** 10% of the units at up to **120%** of AMI
(½ at up to 100% of AMI)
- 2. CONSTRUCTION OFF-SITE** (same rail station or DP area)
 - **If Rental:** 5% of the units at up to **80%** of AMI
 - **If For-Sale:** 15% of the units at up to **120%** of AMI
(½ at up to 100% of AMI)
- 3. IN-LIEU FEE** (Or LAND DEDICATION)
Cash contribution or improved land in lieu of building affordable units. **Proposed fee is \$27/finished SF.**

Note: 1st year requirements still in effect in Ala Moana, et.al.

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4th Year: Islandwide and TOD Areas

Full TOD requirements applied to all rail station areas
Islandwide stays at same lower requirements

1. **CONSTRUCTION ON-SITE** (same lot or building)
 - **Full TOD area percentages apply to all rail station areas**
(same as initially applied to Ala Moana, Downtown, Chinatown)
2. **CONSTRUCTION OFF-SITE** (same rail station or DP area)
 - **Lower islandwide percentages apply everywhere except in the TOD areas**
3. **IN-LIEU FEE** (Or LAND DEDICATION)
 - **Proposed TOD area fee is \$45/finished SF.**
 - **Proposed Islandwide area fee is \$27/finished SF (60% of \$45)**

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What the AHR Applies To

- Applies to any project constructing 10 or more residential units, or a subdivision of 10 or more lots.
- Applies to substantial rehab (50% of current replacement value); exempts rehab below 50% of value.
- Would exempt:
 - commercial development and hotels (except dwelling units)
 - previously entitled projects or subdivisions
 - projects subject to a Unilateral Agreement (prior rezoning)
 - ohana dwellings, ADUs, micro-units, 201H projects
 - other government projects
 - group living and special needs housing

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SROs and Micro-Units



An SRO "aPodment" building in Seattle, WA geared toward young professionals. Units are 170 sq. ft. on average.



This "aPodment" unit includes a private bath with shower. Full kitchen facilities are shared.



To make the most of limited space, some micro-units use convertible furniture, such as the above design with a Murphy bed that transforms into a dining table

Images from Reimagining Housing in Hawai'i | Hawai'i Appleseed Center for Law and Economic Justice (2013)

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More AHR Details

- Proposed **affordability period is 30 years**, three times the current ten-year period under UAs. (Resets on resale).
- **If city funds or land** are used, required affordability period will likely be **60 years** or longer.
- **Requirement can be adjusted** to account for varying unit sizes, lower income ranges, or other factors (similar to how current UA rules are administered).
- **Enforced at building permit issuance**, or in the subdivision approval process (for land subdivision/lot sales).
- Currently **updating administrative rules**; e.g. the 30-year affordability period (will be in agreement and restrictive covenant along with fee and tax waivers).

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Extended affordability period

- Current UA rules limited to 10 years (frequently allowed to resell sooner, often at market rates)
- 30 year minimum is most critical element; for-sale units should re-set to 30 years on resale.
- Some say that buyers need to be able to sell at market rate after 10 years to build capital and 'move up the housing ladder'.
- Public purpose of the AHR is to help grow—and maintain—a stable supply of affordable housing.

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Moving up the Housing Ladder

AHR can create and maintain a significant supply while providing a fair return to home buyers.

Assuming \$300,000 unit, 10% down, average 1% annual increase tied to CPI:

- \$30,000 down payment increases 10%/year; could grow to over \$77,000 in 10 years.
- Principal payments could add an additional \$40,000 to \$60,000 in equity over 10 years.
- Potential \$117,000 to \$137,000 down payment on a future market rate home purchase.

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Moving up the Housing Ladder

Recent national data has shown that this equity-building works in practice:

- 2009 Urban Institute study included San Francisco; for the 10-year period ending in 2010, the typical affordable home seller made \$70,000 on resale, for an average return of 11.3 percent interest on the down payment.
- Grounded Solutions Network uses HomeKeeper data to track how many affordable home sellers are able to buy market rate homes; for 80 programs, the national average is 59.1 percent.

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How do In-lieu fees work?

\$45/SF applied to all floor area (non-commercial) in a building; paid before building permit issued.

- Hypothetical 100 unit building, 800 SF units.
- $100 \times 800 \text{ SF} \times \$45 = \$3,600,000$ in in-lieu fees
- Using affordability gap estimates (rounded):
 - \$70,000 for 80 to 120% AMI units
 - \$170,000 for 50 to 80% AMI units
- $3.6 \text{ M} / 70,000 = \mathbf{51}$ 120% AMI units
- $3.6 \text{ M} / 170,000 = \mathbf{21}$ 80% AMI units

Versus **20** units at 100 and 120% AMI if onsite

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Admin Recommendations (Jacobus)

- Need to expand city capacity as program grows
- Explore using software tools
- Partner with state agencies
- Explore contracting with a local nonprofit
 - Conduct some admin and monitoring roles
- Consider monitoring and resale fees

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Admin Recommendations (Jacobus)

- Monitoring Fees
 - Ex: City of Chicago/Chicago CLT
 - “Covenant Fee” \$25 per unit per month
- Resale Fees
 - Ex: State of New Jersey
 - 3% of Affordable Sales Price (with marketing)
 - 1.25% of Affordable Sale Price (without marketing)

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Key Program Admin Roles (Jacobus)

Supporting Development

1. Developer Options
2. Pricing
3. Marketing
4. Eligibility Screening
5. Buyer Financing

Long Term Stewardship

1. Monitoring
2. Enforcement
3. Managing resales

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Admin and Monitoring Software

Software Tools

The screenshot displays the HomeKeeper web application interface. At the top, there is a navigation bar with 'HomeKeeper' branding and a search bar. Below the navigation bar, there are tabs for 'Home', 'Accounts', 'Contacts', 'Opportunities', 'Properties', and 'Services'. The 'Services' tab is active, showing a 'Current Applications' table. The table has columns for 'Action', 'Applicant', 'Status', and 'Eligibility Verified'. A blue circle highlights the table, and a green arrow points to the 'Status' column. The table contains several rows of application data, including applicant names like Tony Burch, Pedro Campos, Mylenny Williams, Joan Smitty, Jimmy Brunner, Jane Doe, James Nguyen, J. Marcotte, Homer Simonson, and Copya Johnson. The status of these applications varies, including 'Inquiry', 'Application Submitted', and 'Purchase Pending'. The 'Eligibility Verified' column shows checkmarks for many of the applications. At the bottom of the screenshot, the URL 'www.MyHomekeeper.org' and the page number '38' are visible.

Action	Applicant	Status	Eligibility Verified
<input type="checkbox"/> Edit Del	Tony Burch	Inquiry	✓
<input type="checkbox"/> Edit Del	Pedro Campos	Inquiry	
<input type="checkbox"/> Edit Del	Mylenny Williams	Application Submitted	✓
<input type="checkbox"/> Edit Del	Joan Smitty	Purchase Pending	✓
<input type="checkbox"/> Edit Del	Jimmy Brunner	Application Submitted	✓
<input type="checkbox"/> Edit Del	Jane Doe	Inquiry	✓
<input type="checkbox"/> Edit Del	James Nguyen	Application Submitted	✓
<input type="checkbox"/> Edit Del	J. Marcotte	Purchase Pending	✓
<input type="checkbox"/> Edit Del	Homer Simonson	Purchase Pending	✓
<input type="checkbox"/> Edit Del	Copya Johnson	Purchase Pending	✓

www.MyHomekeeper.org 38

IPD-T Permit Revisions (at Council)

Interim Planned Development – Transit Permit (IPD-T)

- Flexible permit process to facilitate catalytic TOD projects prior to adoption of the TOD Special District in the LUO
- Can be used by any 20,000 SF+ property within ½ mile of a rail station (except HCDA)
- Requires significant community benefits in return for extra height and density
- Proposed revisions would set minimum percentage of affordable housing
(see next page; same as AHR for TOD areas)
- Minor refinements in uses, landscaping, signage, open space.

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IPD-T Permit Revisions (at Council)

Proposed Affordable Housing Requirement

CONSTRUCTION ON-SITE:

- **For-Sale: 20%** of units; 1/2 at < **100%** & < **120%** AMI
- **Rental: 15%** of units at < **80%** AMI

CONSTRUCTION OFF-SITE:

- **For-Sale: 25%** of units; 1/2 at < **100%** & < **120%** AMI
- **Rental: 15%** of the units at < **80%** of AMI

IN LIEU FEE (or LAND DEDICATION):

- Cash contribution or improved land in lieu of building affordable units (proposed fee **\$45 per finished SF**).

Minimum required period of affordability 30 years

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Status and Next Steps

- Affordable Housing Requirement Ordinance in final review; to be sent to Council shortly.
- Affordable Housing Incentives Ordinance in final review; to be sent to Council shortly.
- Revised IPD-T Ordinance at Council; need to adopt soon to use key updates.
- TOD LUO Special District (Bill 74) and Waipahu Zoning (Bill 76) at Council for adoption.
- Downtown and Ala Moana TOD Plans at Council; Airport and Halawa TOD Plans in progress.

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Mahalo!

Department of Planning and Permitting

Mayor's Office of Housing

Department of Community Services

Office of Strategic Development

Department of Budget and Fiscal Services

Download Housing Strategy at www.honoluludpp.org/