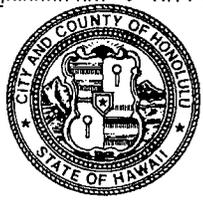


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DEPARTMENT OF PLANNING AND PERMITTING
CITY AND COUNTY OF HONOLULU

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DEPUTY DIRECTOR

September 1, 2017

The Honorable Kymberly Marcos Pine, Chair
and Members
Committee on Zoning and Housing
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

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Dear Chair Pine and Councilmembers:

SUBJECT: Incorporating Comments on the Affordable Housing Requirement (AHR) (Bill 58)

In discussions with stakeholders about the proposed AHR (Bill 58), development industry organizations have claimed 1) the City did not include developers in drafting the bill; and/or 2) if meetings were held, the City did not listen to developers or incorporate any of their suggestions. Both claims are simply not true.

Over two dozen meetings were held with stakeholders from 2014 through 2016 to discuss the Affordable Housing Strategy and proposed AHR components. Outreach included town hall meetings, small group meetings with developers and advocates, industry conference sessions, one-on-one discussions with housing experts and advocates, meetings with development industry organizations, banking and real estate groups, housing advocacy organizations, and the City's consultants. Several industry groups provided written comments, which were discussed in the meetings and incorporated into the Department of Planning and Permitting's (DPP) analysis.

In the Fall of 2015, development industry organizations asked Mayor Kirk Caldwell to organize a working group of developers and housing advocates to refine the Affordable Housing Strategy. Mayor Caldwell convened an affordable housing work group that included developers, finance experts, industry representatives, affordable housing advocates, and key City staff. The working group met several times in 2016, including discussions with the City's consultant, Strategic Economics, to help review and refine the financial analysis. The discussions included details of the AHR, such as

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the required affordable percentages and in-lieu fee, the extended period of affordability, administration and compliance issues, as well as needed infrastructure investments and finance tools. Developers were also encouraged to provide input and discuss directly with the consultants. In late 2016, the City engaged another consultant, Rick Jacobus, to help refine the AHR, and to meet with developers and housing advocates.

At every stage of the AHR's development over the last three years, substantial changes to the draft proposal were made based on input from developers and housing advocates. The following are some of the more significant changes made:

- Reduced the required percentage of units. The draft housing strategy (Fall 2014) proposed keeping the same percentage as required under unilateral agreements (UA) for rezoning, or 30 percent of units. In the Fall of 2015, this was reduced to 20 percent based on developer input and research on similar programs throughout the United States.
- Eliminated the requirement (as in the current UA) to provide 10 percent of units for sale to homeowners at 80 percent of area median income (AMI) and below; developers said that it is very difficult to qualify buyers below 90 to 95 percent of AMI.
 - Both the reduced total percent of units and the removal of the lower AMI requirement were tradeoffs that more than cover any actual costs of requiring the 30 year period of affordability.
- Reduced the period of affordability. Based on input from advocates, the Mayor's original proposal was to require a 60-year period of affordability, but this was reduced to a 30-year period after initial discussions with developers. Housing advocates have consistently asked for a longer period, and consider 30 years a minimum requirement.
- Added the option of providing improved land in addition to the in-lieu fee option (this is currently being used in a project proposed for the Ala Moana area).
- Adjusted the pro forma analysis. Based on comments from developers, the City's consultants made several adjustments to the development pro forma analysis used to calculate the financial impacts of the requirement. These included increasing the land cost assumptions, increasing developer return on cost (profit) on for-sale units from 15 to 18 percent, raising the annual yield on cost for rental projects to 7.5 percent, increasing development cost assumptions, assuming higher construction costs, and allowing for more parking.
- Exempted developments with an existing UA that already require affordable housing. However, developers have requested the opportunity to qualify for the proposed incentives (in Bill 59); this "opt-in" is recommended to be added in a separate bill

after adoption of Bill 58, providing the incentives in return for the longer period of affordability.

- Allowed the potential for providing a smaller number of units at a lower AMI range, with approval of the DPP Director.
- Based on developer concerns about feasibility in softer market areas (which is supported by the City's financial analysis), the submitted version of Bill 58 included:
 - A phase-in period of up to four years for the areas outside of Ala Moana and Downtown.
 - Reducing the required percentages by approximately half outside of the Transit-Oriented Development (TOD) zones.

In addition to these direct changes to the AHR, developers had several other suggestions about incentives and funding. While they wanted these included in Bill 58, most of them are already part of other City initiatives.

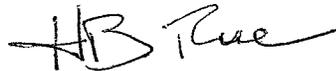
- The requests for fee, permit, and tax waivers were incorporated into Bill 59, currently under review by the City Council. This includes one-time waivers of \$23,000 to \$64,000 per unit, plus (for affordable rental units) property tax waivers over 30 years of \$70,000 or more per unit.
- The requests for density bonuses for affordable housing are already incorporated into the draft TOD Special District (Bill 74) and draft TOD Zoning (Bill 76 for Waipahu), which are under review by City Council. These provide height and density bonuses (from smaller increments to up to two to three times existing density and height, depending on the neighborhood scale). Parking requirements will also be greatly reduced; eliminating the need for parcel-by-parcel rezoning will save significant time and expense.
- The TOD Subcabinet has developed a list of \$1.2 billion in identified infrastructure projects in the TOD plan areas; the majority of these are either funded in current budgets or included in agencies' long-term programming. However, there is still a need for significantly more funding. We are working with State agencies and landowners to create an infrastructure master plan and finance district for the Iwilei-Kapalama area to support redevelopment and affordable and workforce housing production. A similar approach will be used in other areas.
- The City is developing a program to provide over \$100 million per year of Private Activity Bonds, which rental housing developers can use to match the 4 percent low-income housing tax credits. This financing could help produce hundreds of new rental units each year.
- Mayor Kirk Caldwell has proposed releasing City lands for affordable housing production. An initial list of nine properties is being evaluated for release to

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developers via Request for Proposals, with a focus on affordable, workforce, and mixed-income rental housing. Access to Private Activity Bonds and the Affordable Housing Trust Fund may be incorporated into these projects.

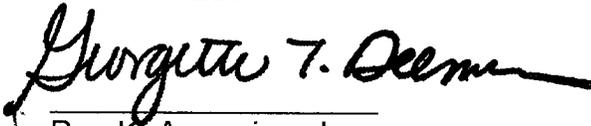
Should you have any questions, please contact me at 768-8294.

Very truly yours,



Harrison Rue
Community Building and TOD Administrator

APPROVED:



Roy K. Amemiya, Jr.
Managing Director