Affordable Housing Requirements and Incentives

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HCPO 2017
What we’ll talk about today

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

Mayor’s implementation priorities

• **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
TOD HOUSING POTENTIAL

Interagency TOD Council Priorities

- EAST KAPOLEI: 10,600
- WAIPAHU: 5,670
- AIEA/PEARL CITY: 4,100
- HALAWA: 2,220
- AIRPORT: 7,500
- KALIHI: 9,300
- IWILEI/DOWNTOWN: 5,600
- ALA MOANA: 2,370
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.

<table>
<thead>
<tr>
<th>Latent Demand by Income Group (2012-2016)</th>
</tr>
</thead>
</table>

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

* 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.
AHR Research and Analysis

• Staff conducted research on inclusionary requirements in similar hot markets with high development costs.
• Followed best practices identified by several national studies on inclusionary housing.
• Conducted two studies and a policy memo to analyze the affordable housing requirement, tailored specifically for Honolulu.
  – Residential Nexus Analysis. *KMA, 2015*
  – Policy Memo on AHR. *Rick Jacobus, 2017*
Affordable Housing Requirement (Bill 58(2017))

<table>
<thead>
<tr>
<th>TOD Areas</th>
<th>Islandwide (Outside TOD Areas)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>On-Site Construction</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Rental</strong>: 15% of units up to 80% AMI</td>
<td><strong>Rental</strong>: 5% of units up to 80% AMI</td>
</tr>
<tr>
<td><strong>For-Sale</strong>: 20% of units up to 120% AMI (1/2 to 100%)</td>
<td><strong>For-Sale</strong>: 10% of units up to 120% AMI (1/2 to 100%)</td>
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<td><strong>Off-Site Construction</strong></td>
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</tr>
<tr>
<td><strong>In-lieu Fee or Land Dedication</strong></td>
<td></td>
</tr>
<tr>
<td>Cash contribution or improved land</td>
<td>Cash contribution or improved land</td>
</tr>
<tr>
<td>Proposed fee: $45 per finished sq. ft.</td>
<td>Proposed fee of $27 per finished sq. ft.</td>
</tr>
</tbody>
</table>

Phasing: The requirement would be phased-in over 3 years. See AHR handout for more information on phasing. Note: AMI = Area Median Income
Proposed AHR Three-Year Phase-In

Phased in per housing market variations:

- **Effective immediately.** Only Ala Moana, Downtown, and Chinatown rail station areas.

- **2\textsuperscript{nd} Year.** The rest of the island, including the other rail transit station areas, would be subject to the requirement, although at lower percentages.

- **4\textsuperscript{th} Year.** All rail transit station areas become one category, while the rest of the island would be subject to the lower required percentages.
Extended affordability period

• Current UA rules limited to 10 years (often allowed to resell sooner, and at market rates)
• 30 year minimum is most critical element; for-sale units re-set to 30 years on resale/transfer.
• 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.
30-Year Affordability Period

30-Year Affordability
If 200 units/year = 6,000 units

Reset (on resale) to a new 30-year period continues to increase supply

10-Year Affordability
If 200 units/year = 2,000 units
AHR can create and maintain a significant supply while providing a fair return to home buyers. Assuming a $300,000 unit, 10% down, average 1% annual increase tied to CPI-U:

• $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.**
Moving up the Housing Ladder

National studies have shown that this equity-building and stepping-up 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.
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 x 800 SF x $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 M/70,000 = 51 120% AMI units
- 3.6 M/170,000 = 21 80% AMI units

Versus 20 units at 100 and 120% AMI if onsite
### Affordable Housing Incentives Bill 59 (2017)

**Description of Incentives**

<table>
<thead>
<tr>
<th>City Fee or Requirement</th>
<th>Current Fee or Requirement on Market Rate Units</th>
<th>Incentive Fee or Requirement on AHR Units</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wastewater System Facility Charges</strong></td>
<td>$6,616 per ESDU (FY 2016/17 and 2017/18)(^1)</td>
<td>No charge</td>
</tr>
<tr>
<td><strong>Park Dedication</strong></td>
<td>Multi-family: 110 sq. ft. per unit &lt;br&gt; Single Family: 350 sq. ft. per unit &lt;br&gt; OR Fee = fair market thereof</td>
<td>No requirement</td>
</tr>
<tr>
<td><strong>Building Permit and Plan Review Fee(^2)</strong></td>
<td>$3,915 + $4 per $1000 Construction Cost + 20% Plan Review Fee</td>
<td>No fee</td>
</tr>
<tr>
<td><strong>Real Property Tax(^3)</strong></td>
<td>$3.50 per $1000 of assessed value (deed-restricted)</td>
<td>100% tax exemption (rental units only)</td>
</tr>
</tbody>
</table>

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1. ESDU = “Equivalent single-family dwelling unit”. Rates assumed to increase by 3% per year in FY 2018/2019 and thereafter.
2. All housing units assumed to use the building permit fee structure for projects with construction costs of $2 million and up.
3. This incentive has been updated to allow property tax exemptions on affordable rentals only. Analysis assumes for-sale units continue to be subject to real property tax.
Status and Next Steps

• Affordable Housing Requirement Ordinance (Bill 58) and AH Incentives Ordinance (Bill 59) under review by City Council.
  — Drafting new rules and working on updated administration
• Revised IPD-T Ordinance under review by City Council; includes revised housing requirements.
• TOD LUO Special District (Bill 74) and Waipahu Zoning (Bill 76) at City Council for adoption.
• Prepping for release of city lands (via RFP) for affordable housing development.
Mahalo!
Department of Planning and Permitting
Mayor’s Office of Housing
Department of Community Services
Department of Land Management
Department of Budget and Fiscal Services

www.honolulu.gov/housing/default.html