

TERM REPORT

Affordable Housing

Office of the Governor
State of Hawai'i



Affordable Housing

Overview

When Governor Ige took office, the state had no coordinated plan for encouraging the development of new housing units. Statewide, production had stagnated due to burdensome government approval processes and lack of legislative interest in appropriating the significant sums needed to facilitate large affordable housing projects.

The governor quickly made affordable housing one of his top priorities. He set a minimum production target of 10,000 new units by 2020 and committed to reforms that allowed the state to meet this goal and go beyond it in subsequent years. The administration regularly convened public and private sector housing stakeholders and year after year secured large capital infusions into the state's affordable housing funds from the Legislature, setting the tone for future budgets.

The administration revised its affordable housing tax incentives to make them more attractive, funded necessary infrastructure improvements in every county to spur development and made large tracts of state lands available to private development partners to build affordable communities. Behind the scenes, the administration also worked to streamline government processes by revising administrative rules across multiple land use and housing agencies. The environmental review process now has exceptions for affordable housing and the state's historic preservation processes are being revised for the first time in three decades to eliminate project delays.

Homes that are affordable to Hawai'i residents are important. Although there is still much to be done, this administration proactively communicated with industry stakeholders to identify roadblocks, revise incentives, and prioritize the building of new units. The administration started new initiatives and set a new bar for capital infusions into the Rental Housing Revolving Fund and the Dwelling Unit Revolving Fund (DURF), the main two vehicles for the state to subsidize affordable units.

Governor's Mission

Build homes that people can afford, including rentals, to address the needs of those entering the work force. Renovate the state's public housing facilities. Transition the homeless from sidewalks, beaches, and parks; provide them with the necessary services so they can attain more permanent housing. On O'ahu, identify state lands near transit stations for housing, employment centers, daycare, senior centers, and community facilities.

Commitments

"It is estimated that 66,000 housing units are needed in the coming years. The state alone cannot fill the gap, but the state wants to do its part. That's why we are working with the private sector to develop a comprehensive approach to reduce regulatory barriers, strengthen financial tools, streamline procedures and re-orient policies toward increasing housing production. We've expanded our partnerships with the private sector to build more affordable homes and rentals across the state."

Governor David Ige, 2016 State of the State

"But the biggest roadblock to developing more homes is the lack of adequate infrastructure that allows housing projects to even begin. The state can make a major contribution by funding projects such as roads and water systems. That's why I am proposing legislation to allow us to use the Dwelling Unit Revolving Fund for infrastructure development. We are also asking for a \$25-million increase to that fund in Fiscal Year 2017".

Governor David Ige, 2016 State of the State

"We're on track to meet our goal of 10,000 new housing units by 2020, with at least 40 percent affordable. I'm requesting \$100 million to maintain the momentum and produce more affordable homes across the state."

Governor David Ige, 2018 State of the State

Progress & Milestones

"We achieved our initial goal of building 10,000 new homes by 2020."

Governor David Ige, Capitol Connection 2021

According to the Hawai'i Housing Finance and Development Corporation (HHFDC), between 2015 and 2022, there were 9,489 affordable housing units produced in the state—63 percent of total production. Another 5,569 market-rate units were produced during that same period. Additionally, there are 1,761 total HHFDC-HCDA units currently in construction, and 9,094 housing units in the pipeline expected to be completed in the next three to five years.

Plan and Process

The Housing Agencies in the State of Hawai'i

In Hawai'i state government, there are three housing development agencies:

- Hawai'i Housing Finance and Development Corporation (HHFDC)
- Hawai'i Public Housing Authority (HPHA)
- Hawai'i Community Development Authority (HCDA)

Continuum of Housing

The Continuum of Housing recognizes that a variety of affordable housing programs are needed to address differing needs— from homelessness to homeownership and each step in between. While several state departments/agencies are responsible for housing programs which are typically grouped based on income of the person/family needing housing.

- No income to very low income: \$0 to <30% area median income (AMI)
 - Department of Human Services; Governor's Coordinator on Homelessness
 - Focuses on serving homeless individuals and families
- Low Income: 30 to 60% AMI – Government subsidized public housing.
 - Hawai'i Public Housing Authority

- Focuses on repairing, maintaining, and renovating facilities for low-income families and individuals
- Low to moderate income housing: 60% to 80% AMI
 - Hawai'i Housing Finance and Development Corporation
 - Focuses on financing and development of rental housing
- Moderate income & workforce housing: 80% to 140% AMI
 - Hawai'i Community Development Authority and the Hawai'i Housing Finance and Development Corporation
 - Facilitates the delivery of workforce housing
- Affordable housing for Native Hawaiians: 80% to 140% AMI
 - Department of Hawaiian Home Lands
- Market for sale units: >140% AMI; Private developers

Challenges Facing these Agencies

- There was no coordinated plan or goal to encourage statewide production of new units.
- Obtaining the permits and government approvals needed to build housing was extremely burdensome.
- HPHA was recovering after nearly being placed under federal receivership, and a vast number of vacant units were in disrepair.
- HCDA was under public scrutiny for reportedly permitting too many luxury high-rise condos and not enough affordable units.
- HHFDC, the state's main means of facilitating private development of affordable rentals, had struggled to secure large capital infusions.

Multifaceted Approach to Addressing Housing Challenges

To address Hawaii's longstanding need for housing, the Ige administration took a multifaceted approach to address the following barriers:

1. Problem-solving through collaboration
2. Reducing regulatory obstacles
3. Increasing state financing for affordable units
4. Prioritizing building of regional infrastructure to encourage infill and density
5. Making more state lands available for housing

1. Collaboration: Establishment of the Governor's Affordable Housing Working Group

The Governor's Affordable Housing Working Group, which included nonprofit and for-profit developers, housing advocates and key state and county officials, was established in 2015 by Governor Ige. The working group was a first-of-its-kind venue in Hawai'i for surfacing issues as well as aligning state and private sector interests. Its members included Harry Saunders, CEO of Castle & Cooke, Stanford Carr of Stanford Carr Development, Kevin Carney of nonprofit EAH Housing and the late Rev. Bob Nakata, a former legislator and affordable housing advocate. The group identified ways to address the state's housing crunch, especially in the area of affordable homes.

Goal Set by Group

With the guidance of the Affordable Housing Work Group, the goal of building 10,000 new homes by 2020 was set and Governor Ige aligned his cabinet behind that mission.

2. Reducing Regulations: Balance Approach to Regulations Benefiting the Public and Incentivizing the Developers

Rather than compel the private industry to build below-market housing by fiat, the Ige administration took a more balanced approach, and formulas were developed that benefited the public while also incentivizing developers to include more affordable units into their developments.

Through legislation, a reduction of regulatory barriers and increased coordination between state and county agencies was established, thus shifting the conversation to focus on affordable development.

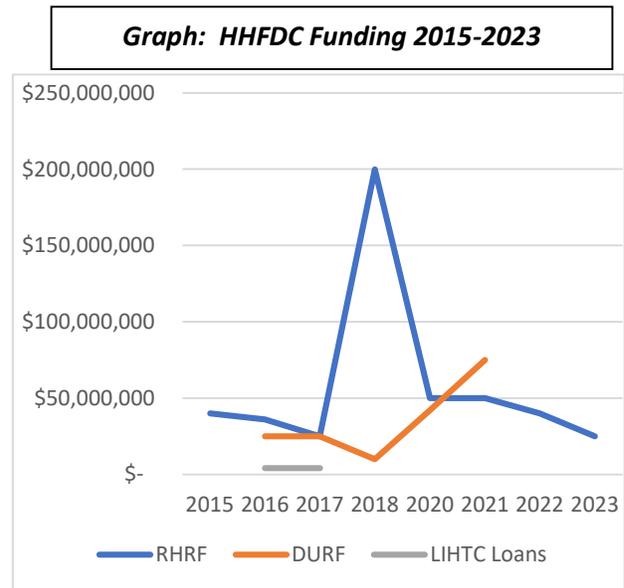
Act 130, SLH 2016 established the Hawai'i Interagency Council for Transit Oriented Development to coordinate planning to include mixed-uses and affordable housing along major transit corridors on all islands. The state housing finance agency, HHFDC, is co-chair of the council, ensuring that affordable housing is a focus of the council's work.

Act 127, SLH 2016 established the Special Action Team on Rental Housing to make recommendations on how to develop or vest the development of 22,500 affordable rental housing units between January 1, 2017, and December 31, 2026.

Act 131, SLH 2016, broadened HHDFC's powers to allow mixed-use developments, including Hale Kalele – a collaboration with the State Judiciary, and 690 Pohukaina, a site designated for the development of affordable housing and educational uses.

3. More Dedicated Funding and Support for Infrastructure Improvements

More robust legislative funding for affordable housing was achieved by including additional housing funds in the governor's executive budgets. As a direct result, HHFDC received substantial CIP allocations to subsidize more affordable rentals. These CIP requests are cash infusions in addition to the 50 percent of the state's annual Conveyance Tax, capped at \$38 million, that HHFDC already receives for its Rental Housing Revolving Fund (RHRF). The Ige administration's budgets also made public infrastructure a priority, ensuring that new roads, sewers, and electrical systems were being planned and built to encourage more housing, especially in the urban core.



Act 132, SLH 2016, authorized the HHDFC's Dwelling Unit Revolving Fund to be used for regional state infrastructure improvements to support the development of housing in areas of planned growth.

In 2016, and again in 2021, Governor Ige made state subsidies for affordable rental housing development more efficient by shortening the tax equity period for the state's low-income housing tax credits to make them more valuable, and to make private investment in affordable rental housing more attractive.

Act 129, SLH 2016, shortened the period over which the state LIHTC is taken from 10 to 5 years to make the LIHTC more attractive to investors and help raise more equity for financing affordable rental housing.

Table: HHFDC Funding 2015-2023

Year	RHRF	DURF	LIHTC Loans
2015	\$40 million		
2016	\$36.6 million	\$35 million	\$4.23 million
2017	\$25 million	\$25 million	\$4.2 million
2018	\$200 million	\$10 million	
2020	\$50 million	\$42 million	
2021	\$50 million	\$100 million (\$50 million for Neighbor Islands)	
2022	\$40 million		
2023	\$25 million	\$20 million	

Coupled with increased funding, legislation that imposed minimum affordability terms on projects that received tax exemptions were enacted. Act 95, SLH 2015, imposed minimum affordability terms on projects receiving GET exemptions to ensure that these projects will provide lower income households with housing for reasonable periods of time.

Sale of Aging Rental Apartments

In 2019, the state sold its vast portfolio of aging rental apartments known as the Rental Housing Portfolio to save millions of dollars. The maintenance needed to rehabilitate the 40+ year old structures made sale to a private entity more efficient. The state retains ownership of the land beneath the buildings, ensuring their continued affordability.

4. Prioritizing building of regional infrastructure

The infrastructure in 'Ele 'Ele on the island of Kaua'i for the Lima Ola Workforce Housing Development was renovated with a \$13 million DURF loan from HHFDC to the County of Kaua'i. This was the first DURF loan for offsite infrastructure improvements needed to support affordable housing.

In Honolulu, \$5 million in DURF funds have been approved for sewer, electrical, drainage, and road improvements for the Iwilei district. These improvements to the infrastructure are intended to support the development of more than 4,000 affordable housing units in the area.

Finally, in the Villages of Kapolei, the Backbone Roadway Rehabilitation is nearing completion. Road paving is completed, including roadway striping; and the City is maintain the sewer and water lines.

5. Making more state lands available for housing

Located in lower Makiki, Hale Kalele (fka the Alder Street project) was recently completed and has started accepting tenants. This mixed-use project is the result of a partnership between HHFDC and the Judiciary. The Judiciary got a brand-new juvenile services center and shelter, and HHFDC got 200 all-affordable rental housing units. The project is also significant because, until now, the site was underutilized state land.

The Iwilei Infrastructure Master Plan covers approximately 555 acres, although not all of it is owned by the state. Consequently, HHFDC is collaborating with the City, Kamehameha Schools/Bishop Estate, and Castle and Cooke, to improve the infrastructure and the development of the Liliha Civic Center.

HHFDC is currently evaluating responses to its Request for Proposals for the development of 690 Pohukaina Street, which is intended, in part, to be a multi-family affordable housing project. The project is on 2.167 acres of land and is slated for housing and educational services. The affordable housing units are targeted primarily to households earning more than 140% of Honolulu's Area Media Income (AMI) for the duration of the 75-year lease.

For Maui, HHFDC is preparing a Request for Proposals for the housing component of the Kahului Civic Center Mixed-Use Complex. This project will sit on 4.7 acres of state land and the housing component is expected to provide approximately 300 multi-family dwellings.

Progress & Milestones

2015

Hawai'i Housing Finance and Development Corporation

Housing Finance and Development: The Hawai'i Housing Finance and Development Corporation (HHFDC) completed 379 affordable for-sale and rental homes, including the 84-unit Hale Mohalu II, which offers two and three-bedroom units for rent to low-income families.

Financing and development approvals were given for the planned 180-unit Ohana Hale, which will offer opportunities for homeownership in Moili'ili, O'ahu.

HHFDC awarded approximately \$9.3 million in annual tax credits (federal and state Low Income Housing Tax Credits) and \$70.2 million in loans and bonds (tax-exempt revenue bonds) to leverage nearly \$251 million in total development costs. This commitment of state funds will deliver 802 affordable rental and for-sale units within the next two to three years.

Hawai'i Community Development Authority (HCDA)

The Hawai'i Community Development Authority (HCDA) set aside its own land for the development of two affordable rental buildings. In December 2014, the HCDA approved a 65-year lease agreement with Artspace to develop the Ola Ka 'Ilima Artspace Lofts at 1025 Waimanu Street. The project would include 84 units reserved for low-income artists, as well as a community center and art studio rental space. The developer proposes 104 micro-units reserved for low-income groups making less than 60 percent of the area median income.

2016

Refocus HCDA to Affordable Housing. New members of the Hawai'i Community Development Authority (HCDA) board focused on creating more affordable housing to help alleviate shortages. With available state land near rail transit sites and public-private partnerships, HCDA is supporting several hundred affordable rental units in high-demand areas of Honolulu.

2017

More Rentals. State departments/agencies worked with developers to produce approximately 1,050 units over the past two years, 92% are rentals because that's the greatest need. Over 4,000 more units in the pipeline, 76% of which will be rentals.

\$180 million was set aside in private activity bonds to develop these affordable rental units, more than double what was invested in the past.

2018

More housing for Hawaii's families

Affordable projects underway statewide –The Pacific Business News reported 16 of the 23 local housing projects underway statewide in 2018 were affordable rentals and for-sale units built with state-assisted financing.

“Smart Communities” on state land near transit hubs – The state has identified land for transit-oriented development (TOD) along the 20-mile O’ahu rail corridor and Transit-Ready Development (TRD) on the neighbor islands and in rural areas.

2019

More affordable housing built statewide

8,700 units completed (more than 62 percent affordable), 3,200 under construction and more planned.

More low- to middle-income rental units available - The lower rents help working families save for the future. “Reserved housing” policies also help local families buy a unit at reduced rates in a market-rate building.

The Hawai'i Public Housing Authority is streamlining its application process and working on projects to expand affordable senior rentals and new models for public housing.

2020

Reviving Housing

HHFDC completed the leasehold sale of its six-property, 1221-unit Rental Housing System Portfolio. The properties were sold to a partnership consisting of local developer Stanford Carr Development LLC, and Los Angeles-based Standard Communities. The sale achieved the dual goals of rehabilitating the properties and fulfilling the state’s promise to minimize the displacement of existing tenants. (See Appendix)

Other complexes that broke ground or are already completed are Hale Kalele, a 200-unit rental project for families earning 30 to 60 percent AMI — the state’s first interagency collaboration between HHFDC and the Judiciary. Other complexes include Ola Ka ‘Ilima Artspace Lofts and Nohona Hale micro-housing in Kaka’ako; and Hale Moena Kupuna in Kapolei for seniors.

Hale Kalele – Affordable Mixed-Use, Interagency Collaboration Breaks Ground

Hale Kalele, developed by the Kobayashi Group and MacNaughton Holdings, is their first affordable project and the state’s first interagency collaboration between the Hawai’i Housing Finance and Development Corporation (HHFDC) and the Judiciary. The project is a 200-unit rental for families earning 30 to 60 percent of the area median income (AMI). The aging building will be replaced with a brand-new juvenile Services Center and Shelter with a separate entry from the residential units in the 20-story structure.

Hale Kalele is also located within the radius of the Ala Mana Rail Station and is considered a Transit-oriented Development project. Rents will range from \$584 for a studio at 30 percent AMI to \$1,575 for a two-bedroom unit at 60 percent AMI. The \$90 Million project which is built on State land received financial assistance from HHFDC in the form of \$40.5M in Low-Income Housing Tax Credits, \$24.5M in Rental Housing Revolving Fund loan and \$25M in Hula Mae Multi-Family Tax-Exempt Bonds.

Kaka’ako Construction. In Kaka’ako, construction of housing projects has continued despite of COVID-19 shutdowns. In 2020, construction of the 5th residential tower in Ward Village Master Plan, A’ali’i, is nearing completion. A’ali’i provides 150 affordable housing units for families with household income of less than 140% of the area median income. Also, under construction is the 6th tower,

Koula. Howard Hughes Corporation is planning to add another 700 affordable housing units in Kaka’ako in the next few years.

Another landowner in Kaka’ako, Kamehameha Schools, is planning on developing more than 1,000 affordable housing units under its Kaiāulu O Kaka’ako Master Plan. For the next few years, development in Kaka’ako will generate much needed construction and construction-related jobs and affordable housing in the urban core of Honolulu.

Pandemic Relief

The Rent Relief and Housing Assistance Program (RRHAP) provided tens of millions of dollars in aid to renters and homeowners to avoid eviction. Using federal Coronavirus Relief funds, the program, launched by the state’s Hawai’i Housing Finance and Development Corporation (HHFDC), aided those impacted by the pandemic.

2021

State forges ahead on building and keeping people housed

The state achieved its initial goal of building 10,000 new homes by 2020. In 2020 and 2021, HHFDC has been actively involved in 29 housing construction projects statewide, which are expected to deliver 2,950 more housing units.

Helping renters and homeowners – Using federal coronavirus relief funds, the Rent Relief and Housing Assistance Program (RRHAP) provided \$58 million to 13,663 renters and homeowners for rent or mortgage payments or homeowner association dues. In a January 2021 article, “Rent Relief Needed Fast. Hawai’i Shows How,” Forbes magazine reported on how the state overcame bureaucratic hurdles to get help to people and described it as a model for other states.

Looking Ahead

The future continues to be challenging, but the state legislature allocated additional funds for affordable housing projects, and the state will continue its drive to provide for the housing needs of its residents. For example, the legislature passed S.B. 3048, which will infuse \$300 million into HHFDC's Rental Housing Revolving Fund and allow for the infusion of another \$45 million into the Dwelling Unit Revolving Fund. HHFDC, developers, and other critical entities will continue to collaborate and to sensibly invest state funds to provide more affordable housing for Hawaii's residents