2017 Maui County Affordable Housing Summit
Executive Summary

Background
The alarming results of the most recent Housing Demand Study revealed that Maui needs an additional 13,949 housing units within the next ten years (2015-2025) in order to keep up with demand. With an increasing population and increasing costs of housing, there is a dire need to break down the barriers and create a friendly landscape that invites growth for affordable/workforce housing.

Based on the 2016 Hawaii Housing Demand Study, impediments to production include:
- Lack of "reasonably priced" developable land
- Lack of major off-site infrastructure
- High construction costs
- Government regulations
- Community opposition
- Growing environmental requirements

The intent of the Summit is to bring issues preventing housing production to the forefront. We believe if they are taken in totality, and we seriously dive into the economic realities, a political will of building affordable housing can emerge. The Summit will allow for the people who can make change explore ways for Maui to overcome obstacles and determine how to best move forward.

Solutions to Maui's housing shortage will be explored at the Summit. Takeaways will dovetail into action items, determination of next steps and assignment of responsibilities.

What Happened - Where are the Affordable Housing Units?
Prior to 2005, housing production in Maui was keeping up with demand. In the past, large projects such as Dream City and Waiehu Heights delivered thousands of homes. More recently, promising large projects such as Kehalani and Maui Lani were approved, but in the last 10 years government has imposed more regulations which has translated to roadblocks and costly delays for other prospective projects.

In particular, policy change requiring workforce housing, requiring developers to find their own source of water for housing, the implementation of SMA rules and the creation of the State Land Use Commission have added to the complexity and cost of building homes.

In 2006, Maui County adopted Chapter 2.96, Maui County Residential Workforce Housing Policy. This ordinance required any project with 10 or more units to provide 50% of the units as affordable. The law also required a 25 year deed restriction. This resulted in only one workforce housing agreement executed between December 2006 until December 2014 where 3 homes were produced. In 2014, the ordinance was amended to require 25% requirement and 10, 8 or 5 year deed restriction depending upon the income level targeted. Since then, we've seen 11 workforce housing agreements executed and hundreds of homes being proposed. Yes, this is promising. Yet, Maui has a very long way to go.

An additional consideration worth mentioning is that more people are moving in than new births in Maui. In other words, our net migration exceeds natural increases as depicted in the table below.

Natural Increase	Net Migration

1990-2000	11,301	16,436
2000-2010	10,729	15,954
2010-2014	3,815	4,434

Another factor is that more out-of-state real estate sales take place on Maui each year than the entire State.

	In-State	Out-of-State
2008-2015	48.3%	51.7%

What these tables depict is that with more outsiders moving in over natural births and more non-residents purchasing real estate; there are significant outside forces that compete with local residents for housing stock.

<u>Barriers to Creating Affordable Housing</u>

There are two Constraints to Building Homes – Natural vs Man-Made (Policy):

- Natural constraints
  - Limited land available for housing
  - Geography, terrain, water availability, etc
  - Note: Other municipalities have similar natural constraints, but they are making housing work.
- Man-Made (Policy) constraints
  - Approval process
  - Density restrictions
  - Open space requirements
  - High Fees & Exactions
  - Uncertain legal environment
  - Local political pressure
  - Onerous deed restrictions
  - Unreasonable conditions
  - Note: The effects of policy constraints are evident by the serious shortage of housing

Certain factors that have contributed to the economic viability of building homes in Hawaii. These facts and statistics don't lie…

STATISTIC: UHERO Economic Study - Proof of Hawaii Restrictive Regulatory Policies
UHERO economic study finds that inclusionary zoning has not worked in a number of jurisdictions around the United States and is not currently working in Oahu. Overall, inclusionary zoning policies actually reduce the number of affordable housing units, while raising process and reducing the number of market priced homes.

STATISTIC: The Wharton Residential Land Use Regulatory Index – Hawaii Overregulated
The Wharton Residential Land Use Regulatory Index gauges the severity of the regulatory impositions posed on home building. The State of Hawaii is the worst of 50 states by far.

SATISTIC: The Bloomberg Chart – Most Expensive Area to Build
The Bloomberg urban cost-to-build chart shows Honolulu is the highest on the list as having the most expensive urban areas in which to build. When you add the expense to ship items from Oahu to Maui; the cost to construct in Maui County is even higher than Honolulu.

These sobering facts reveal what we already suspect…it's expensive to build and our regulatory impositions only exacerbate the problem.
Case Study: A small 16-unit development in Wailuku incurred over $270,000 in unanticipated costs such as lead and asbestos mitigation, State Historic Preservation Division rulings, an on-site archaeologist and water issues. From the developer standpoint, many of their costly delays

stem from regulations and ordinances that have been passed over the years without cleaning house. It is time to do away with outdated policies.

Prices are High: Home prices grows faster than incomes. Every year the amount of subsidy needed to make a home affordable grows.

The Entitlement Process: The entitlement process is an aspect that hinders development. On average, it takes 7 years (an entire real estate cycle) and is very costly to get through the process. State agency review often also impact timing of projects, for instance SHPD had 85 applications from Jan –June 2017 with a 9% review rate.
For example, a property that is zoned ag while the general plan says housing, the necessary entitlement steps could likely entail:

- Environmental Impact Survey – a couple of years and $650,000-$700,000
- State Land Use Commission review – 1-2 years and $450,000-$500,000
- County process – 4 years and $200,000-$300,000

Infrastructure Limitations: Maui's current infrastructure can barely keep up with demand and the County provides for just enough money for it to work. Therefore, ideally development projects have better chances of success in urban areas. While the land is more costly, it is better for long-term utility viability. The further away from the urban core, the more expensive utilities are long-term. It's costly to set up utilities in rural areas where they are not already set up.

Zoning: Zoning conditions impact projects as well. A review of some of the zoning conditions that have resulted in nothing built needs to be undertaken.

Developers Discouraged: The factors above have discouraged several great developers from continuing to develop homes on Maui. These are developers who have a solid track record of building homes here. They have thrown up their hands and left town due to time and costly delays, anti-development sentiment and permit issues. In addition, developers who have been successful in building homes in other Counties refuse to work on Maui. Some of them have sited specific policy issues:

  - Water availability bill
    (yet Maui has more sustainable yield than Oahu - 247 MGD and only uses 35-40 MGD)
  - Workforce housing ordinance
  - Maui Island Plan & Community Plans

Rental Housing Production Issues:
Rental housing is necessary for the lower income levels (80% AMI and below) whose economic situation may not make them suitable candidates for homeownership. Historically, government rental housing has not been addressed and the situation has only gotten worse. Private sector generated very few rental projects because it does not make financial sense. Not one single non-subsidized rental projects over 300 units since Statehood.

Low Income Homebuyer Issues:
Half of low income homebuyers commit 50% or more of their income to mortgage payments, making them cost burdened. They tend to purchase older homes in less desirable areas & homes appreciate more slowly. In addition, half of all low-income first time homebuyers are renting again within 5 years

Gap Group Issue:

There is a need to address the gap group – 80-140% AMI. While lower income level production have available certain Federal and State subsidy programs (201H, GET exemptions, DURF, RHRF, LIHTC), there are no programs to make housing for this target group feasible.

Lack of Political Will:
The fact that there were only 55 housing bills introduced last legislative session, reveals that Housing is not a priority.

Lack of Land:
Only 5% of land in the State is urban, the rest is conservation and agriculture. We struggle between ag lands and urban development

<u>On Consumer Issues to Purchasing Homes:</u>
In addition to addressing the barriers to building, we also need to address the issue of consumer affordability. If we build more homes to keep up with demand, will residents be able to afford them?

The result of the burst housing bubble and the great recession is that there are now a new set of stricter rules for banking institutions. No longer can we get 10 credit cards and max them out, nor is it easy to qualify for a mortgage today. In order to pave the way for homeownership, there is a strong need for homebuyer education and financial counseling.

The number one reason people can't own their own home is its too expensive, number two reason is they can't afford the down payment followed by the don't qualify for a mortgage (2016 Hawaii Housing Demand Study). It's a 30-year commitment and the largest investment in a person's life

Homebuyer counseling and financial literacy courses educates on how to save for a home, understanding the steps in the homebuying process and how to make the right financial decisions so that people can maintain their homes.

There are various ways to obtain down payment, but it takes planning and saving money. Federal Home Loan Bank Des Moines provides several down payment assistance programs and there are several zero-down mortgage programs. There are also Mortgage loan options such as zero-down payment loans are available (USDA and VA) and low down payment loans (FHA and Fannie Mae). In any case, consumers need to do their due diligence in researching and shopping for the right fit.

In addition to affordability issues, not every buyer who qualifies for workforce housing ends up buying. For some, the deed restrictions imposed by Chapter 2.96 are an impediment, as they do not how what the future would hold for them during the deed restriction period. Being locked in for 10 years in a starter home for a young family could be problematic as their family grows.

<u>On Inclusionary Zoning (IZ):</u>
There are at least 500 inclusionary zoning programs nationwide, mostly in high cost markets. IZ is where there is a requirement that a market rate housing development must also have affordable housing units (where the price is fixed to serve a certain AMI or income group). In most places, inclusionary is not the primary way affordable housing gets built…it's just one piece of the overall strategy. Most affordable housing is built using low-income housing tax credits, tax programs and housing trust funds

IZ only works where there is growth in the market….as it piggybacks on market rate development. (Note: Maui has limited growth). It is succeeding in high opportunity areas. Basically, IZ requires developers to provide a certain amount of housing for less than it costs to produce (the market units pay for the affordable units). These requirements act to reduce the rate of land price increases (when housing prices rise, developers pay more for land - land owners make money, not developers).

Problems arise when jurisdictions are constantly debating and changing the rules. The clearer and easier you can make it for developers, the more likely you are to get benefit for low income families. More options for developers lends to better production and more units.

IZ requires attention to detail. Well thought out administrative rules and administrative capacity to manage the program are key. Successful programs pay close attention to economic feasibility, offer incentives and invest in staffing for administration. Incentives are key. The biggest incentive is density…it makes projects more profitable. It is also advised to provide developers with options on how to meet AH requirement. This could happen via in-lieu fees (which shouldn't be punitive, as encouraging fees will encourage participation or land donations.)

STATISTIC: Half of low income homebuyers commit 50% or more of their income to mortgage payments. Half of all low income first time homebuyers are renting again within 5 years.

Preserving affordability is another policy decision. Long term affordability is becoming standard (typically through resale restrictions). This method limits a homeowner return, so another homeowner will have same opportunity. If the point of homeownership is for asset building and we are making policy to limit people's return, doesn't it defeat the purpose? These programs work best when serving buyers who are otherwise priced out of the market and are discouraged.

The other side of the coin is that price restrictions create a stock of homes that appreciate more slowly. These price restricted units (when not priced significantly below market) result in difficulty in finding buyers. Limiting wealth building defeats the purpose of homeownership

<u>What Tools are Needed:</u>

Existing tools that Maui utilizes to keep homes affordable include:

- Na Hale O Maui: Addresses low to above-moderate income levels. Funds invested remain invested in the property forever. The trust buys, rehabs and resells homes – uses income to reinvest in more housing for income-qualified residents. Land Trust owns the land. 99 year ground lease
- Habitat for Humanity Model: Addresses extremely low to low income levels (25-80% of AM), Requires 500 hours of sweat equity and maintains a 30 year deed restriction.
- Government owned leasehold – the affordability period is in the lease. Works well with Public-Private Partnerships – long term affordability low income, maximize density, development powers, favorable financing & profit.

Financial Tools available to developers: In 2016, new legislation broadened HHFDC's ability to increase interagency partnerships with State and County agencies to develop mixed-use developments on State & County lands. In addition, Dwelling Unit Housing Fund may now be used to finance infrastructure projects. Other finance tools include 201H, GET exemptions, te Federally run HOME and National Housing Trust Fund subsidies, Low Income Housing Tax Credits and the Rental Housing Revolving Fund (RHRF).

Affordable by Design: Constructing homes that are designed to be entry level (affordable by design) is key to providing sustainability and continuous affordable homes. Homes need to be built for demographics so they can build equity, gain value and move on.

Economic Freedom: Certain entities advocate for economic freedom that will provide for the market to work in the most free and natural way, harnessing the forces of supply and demand with the least amount of government interference. Research shows wherever the world economic freedom principles are implemented, the economy flourishes in all areas of society.

<u>How Do We Move Forward:</u>

The resounding message throughout the Summit is that the system is broken, existing conditions and rigid rules are not working, we need a paradigm shift and rethink policy to create more incentives versus penalties. Government is crippling the ability to build workforce housing and needs to stop adding requirements to developers.

In terms of moving forward, the following elements were shared:

- Listen to the local experts -- local homebuilders. These are the individuals who have the expertise in building, as development of affordable housing is a very complex field.

- Get involved with legislation and support good policy. Legislation cannot direct or force private sector economy to do anything that doesn't make economic sense.

- Review existing policies and implement incentives versus penalties and restrictive policies. There are no constraints on home sales, yet there are constraints on building homes. If we make it less costly to build, people will.

- Be cautions with inclusionary zoning. Housing is the only place we implement inclusionary zoning – the only place we adjust pricing based on income level. People are treated differently based on their income.

- Public/private partnerships are win-win to creating additional affordable housing and keeping them affordable.

- There are two sources of housing: Government & private sector – it's important to allow for both, both are needed.

- When considering housing, the housing ladder should be considered on how we build homes to address various income groups
  - Homeless
  - Extremely Low Income, below 30% AMI (Section 8, Public housing)
  - Very Low Income, 31-50% AMI (Subsidized rental housing)
  - Low Income, 51-80% AMI (Subsidized rental housing)
  - Moderate Income, 81-100% AMI (Rental or for sale)
  - Workforce Reserved, 101-140% AMI (Rental or for sale)
  - Market (For sale)
  - Luxury (For sale)

<u>Action Items</u>

- Consult with the experts

- Improve County & State policy-making & legislation
- Remove barriers and delay tactics
- Increase outreach & education to the public and elected officials
- Increase incentives to developers, reduce prescriptiveness
- Create opportunities versus barriers
- Encourage private/public partnerships

Ideas

- Change the economics of building & operating housing projects to increase housing
- Implement comprehensive zoning in areas that make sense
- Who should build what:
  - Government & nonprofits handle low income housing (below 100%)
  - Developers handle workforce housing (100-140%) (need to address gap group)
- Create rent-to-own programs
- Reinstate down payment assistance program for first time homebuyers
- Create a resort residential real property tax classification
- Create a community facilities district ordinance
- Raise real property taxes across the board
- Eliminate inclusionary zoning and ease development regulations
- Audit zoning code