



February 5, 2014

Council Member Ikaika Anderson, Chair  
Council Member Breene Harimoto, Vice Chair  
Committee on Zoning and Planning  
Honolulu City Council

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**Opposition to Resolution 13-202, Proposed Committee Draft 1 (CD1)  
Requesting that the Department of Planning and Permitting Amend Its  
Affordable Housing Rules for Unilateral Agreements**

**Regular Meeting of the Committee on Zoning and Planning  
Thursday, February 6, 2013, 9:00 a.m., at Committee Meeting Room**

The Land Use Research Foundation of Hawaii (LURF) is a private, non-profit research and trade association whose members include major Hawaii landowners, developers and a utility company. LURF's mission is to advocate for reasonable, rational and equitable land use planning, legislation and regulations that encourage well-planned economic growth and development, while safeguarding Hawaii's significant natural and cultural resources, and public health and safety.

LURF appreciates the opportunity to express its **opposition** to Resolution 13-202, Proposed CD1.

**Resolution 13-202, Proposed CD1.** This Resolution proposes to alter the current City Affordable Housing Rules for Unilateral Agreements, as follows: Provides that the restriction period for affordable for-sale units shall be no less than 15 years; that the restriction period for affordable rental units shall be no less than 50 years; and that at least 30 percent of dwelling units required to be provided to households earning no more than 80 percent of median income shall be affordable rental units.

**LURF's Position.** LURF recognizes and appreciates the importance of providing realistic housing opportunities for Oahu's residents in all income levels, and the desire to enact policies, legislation, rules, incentives and enforceable conditions to support affordable housing. However, LURF must **oppose** this Resolution based on the following:

- **Resolution 13-202, CD1 is NOT based on a transparent and collaborative effort, does NOT include input from affordable housing stakeholders, experts and City representatives of the City Administration and City Council.** This Resolution did not include the

opportunity for a transparent, collaborative and cooperative process between government, those with affordable housing expertise and experience and other affordable housing stakeholders; and did not involve the input and a consensus of affordable housing stakeholders, including government agencies, nonprofits, private developers, and other housing and other experts. It appears that the intent and effect of the Resolution appears to be inconsistent with the ongoing efforts of the City's Department of Planning and Permitting, Department of Community Services, Office of Housing, State Hawaii Housing Finance and Development Corporation and other government agencies involved with providing affordable housing.

- **This Resolution ignores facts, data and expertise relating to the development of affordable housing and did not consider prior City and State affordable housing studies, reports and recommendations.** This Resolution did not consider facts, data and expertise relating to the development of affordable housing and did not consider prior City and State affordable housing studies, reports and recommendations, including, among others,
  - *Final Report and Recommendations of the Affordable Housing Advisory Committee, City and County of Honolulu, April 2006;*
  - *Comprehensive Housing Strategy for the City and County of Honolulu, by the Mayor's Affordable Housing Advisory Group, 2008; and*
  - *Final Report of the Governor's Affordable Housing Regulatory Barriers Task Force, 2008.*
- **Resolution 13-202, CD1 is inconsistent with the current City Affordable housing policy and contrary to ongoing government efforts relating to affordable housing.** This Resolution is not consistent with the goals and objectives and implementation of the existing affordable housing policy of the City and County of Honolulu, as expressed in City Council Resolution 09-241, CD1.
- **According to economic experts, further inclusionary zoning (IZ) requirements such as Resolution 13-202, CD1, will reduce the overall supply of affordable housing units and increase the price of housing.** Carl Bonham, the Executive Director of the University of Hawaii's Economic Research Organization (UHERO), has submitted testimony in opposition to a similar IZ proposal (specifically Resolution 13-168) and has published a UHERO Forecast research paper regarding the "*Unintended Consequences of Affordable Housing Policy*" (collectively referred to as the "UHERO Report"). The UHERO Report concludes that further inclusionary zoning requirements (such as those proposed in Resolution 13-202, CD1), will reduce the overall supply of affordable housing units and increase the price of housing. Among other things the UHERO Report includes the following economic conclusions:

*“While requiring developers to set aside a fraction of a project to be sold at below market prices may seem like a reasonable way of dealing with the problem of affordable housing, economic theory and years of experience suggest exactly the opposite. Such requirements, known as inclusionary zoning (IZ), act as a tax on developers with the proceeds used to subsidize housing for gap income households earning between 80 and 140 percent of the median income. But that tax reduces incentives for developers to produce all forms of housing, and will reduce the overall supply of housing units and increase the price of housing.”*

*“In 2010, UHERO conducted a comprehensive review of studies that analyzed IZ policies across the United States. **Approximately 90% of the studies concluded that IZ increases the market price of housing and decreases housing units available in the market...**UHERO’s report concluded that “Inclusionary Zoning policies have failed in other jurisdictions, and are failing on Oahu.” Such policies have not delivered substantial numbers of affordable housing units to households the programs were designed to help.”*

*“The undersupply of housing services relative to household formation on Oahu is a chronic problem. **While IZ policies are politically appealing, they mistakenly tax housing to encourage more of it! The effect of a tax on the production of any product, housing included, is relatively straightforward. The extra tax imposed by IZ increases the cost to developers and limits the supply of housing provided.** Facing the additional cost, developers will build fewer housing units, all else equal. In the worst case scenario, if the expected loss on the affordable units does not allow developers to meet their required rate of return, then projects will never get off the ground. The primary means of insuring the project is viable is to produce more upscale, higher priced homes to offset the loss on the subsidized housing. **So, the IZ tax not only reduces the overall supply of housing, it also changes the mix of housing by encouraging higher end and more expensive housing developments.***

*“IZ policies will endanger project viability by squeezing profit margins, especially as other construction costs rise and home prices flatten out. The result is that less housing will be produced than otherwise would be the case.”*

*“**Reducing or eliminating overly burdensome regulation on development, including inclusionary zoning, will increase affordability of housing** for two reasons. First, it will encourage building, increasing the overall stock of housing, which will help hold down the market price of housing. Second, **removing IZ will facilitate the natural “filtering” process, with newer units going to higher income households and older depreciating units being***

***increasingly occupied by lower income households. Finally, IZ policy misses the basic fact that affordability problems arise not just due to the high cost of housing. The affordability problem is a dual problem of high prices and low incomes. Just as is done in Federal Housing Assistance programs, affordability could be addressed through housing subsidies that help households purchase or rent housing units."***

- **Instead of Resolution 13-202, CD1, LURF supports Resolution 14-28, which is based on a transparent and collaborative effort of affordable housing stakeholders, experts and City representatives of the City Administration and City Council.** LURF believes that the City Administration and the Council should first consider implementing the recommendations made in the past City and State affordable housing studies. LURF believes that Resolution 14-28 is a step in the right direction, because it is based on a transparent, collaborative and cooperative process; is consistent with government policies; is based on facts, data and expertise relating to the development of affordable housing; and considers prior City and State affordable housing studies, reports and recommendations

For the above reasons LURF respectfully requests that Resolution 13-202, CD1 **be held** in this Committee.

Thank you for the opportunity to provide comments in **opposition** to this Resolution.