

NAIOP

COMMERCIAL REAL ESTATE
DEVELOPMENT ASSOCIATION
HAWAII CHAPTER

June 28, 2017

City Council
City and County of Honolulu
530 King Street, #202
Honolulu, Hawaii 96813
Attn: Councilmembers

RECEIVED
CITY CLERK
C & C OF HONOLULU
2017 JUN 29 PM 12:39

**Re: Opposition to Bill 58, Establishing an Affordable Housing Requirement
Support of Bill 59, Relating to Affordable Housing Incentives**

Dear Councilmembers,

On behalf of the NAIOP Hawaii Chapter, we are writing to notify the City Council of our general opposition to Bill 58 (Establishing an Affordable Housing Requirement), and general support of Bill 59 (Relating to Affordable Housing Incentives).

The NAIOP Hawaii Chapter is a commercial real estate organization comprised of over 150 local members including developers, real estate owners, investors, lenders, asset managers, contractors, planners, architects, lawyers, brokers and other consultants. We are the folks that build Hawaii's housing and we more than anyone appreciate the financial risks and what it takes to actually bring new rental and for-sale homes online. We understand and fully support the City's commitment to increasing the supply of affordable housing units in the City and County of Honolulu, which all agree is sorely needed. It's not just the low unit counts that speak for themselves, but we all see the struggles of the low- and middle-income families that play out in our neighborhoods. Accordingly, the development industry is supportive of legislation that will encourage and allow it to build more affordable housing for the community.

However, Bill 58 and Bill 59, taken together, while well intentioned, will not produce or encourage more affordable housing. There are no developers we have spoken with who say they can or will build under these new rules. More specifically:

(1) Bill 58 will have the opposite effect of what is intended (increasing unit counts) and will discourage housing construction because it makes development economically infeasible in every area with the possible exception of the Ala Moana area where luxury housing can be sold at a high enough price to offset the losses incurred in building affordable units. The City's own studies reach this conclusion (not to mention that the City's study is faulty because its assumptions are too aggressive and therefore it is likely that even the Ala Moana district won't bear any new units). Developers of at least 3 projects in the Ala Moana area have told us they cannot proceed under these rules and have

already, or will be forced to shortly, put their projects on hold. If no market housing projects are built, no affordable units will be built; and

(2) Bill 59 is helpful in offsetting a small portion of the losses incurred in building each affordable unit, but those incentives are nowhere near sufficient enough to make a project feasible.

(3) The proposed amendments to Bills 58 and 59 that are posted to the agenda for today's meeting, unfortunately, will make it even harder and less feasible for the development and rehabilitation of housing.

There are some simple things that the City can do to achieve its goal of increasing Honolulu's affordable housing stock now:

(1) Allow housing projects offering units at or below median pricing levels to be built without any exactions. We should be encouraging and not making it more difficult to build housing priced for our workforce.

(2) Don't count the square footage associated with affordable units against site floor area ration (FAR) limits. This provides "free land" for the affordable units, making them more feasible to build.

(3) Provide flexibility on the timing for affordability restrictions such that if the affordable units are not purchased or rented to qualified residents within a reasonable period of time, those units can be offered to the broader market. This will reduce construction and market risk and increase the likelihood that a project can be financed.

Some longer term funding solutions are also needed to really move the needle on housing development:

(1) Get the rail line funded and built as quickly as possible to incentivize housing production along the rail line with easier access to transportation and jobs.

(2) Fund other necessary utility infrastructure along the rail line and other urban areas where additional housing wants to get built. Relieving a project from off-site infrastructure costs can make projects economically feasible and incentivize housing development.

(3) Ultimately, solving the affordable housing crisis will require cooperation, and most importantly FUNDING, at both the State and City levels. To understand the depth and breadth of subsidy needed, we asked ourselves how much housing could be produced for

each \$100 million in government subsidy available. For example, if the City wants to focus on rentals at 80% of the area median income, we estimate the necessary subsidy to make such a project feasible is \$328,000 per rental unit, so the City could get 304 units. If the City wants for-sale units at 120% of area median income, then a subsidy over \$66,000 per unit will generate 1,515 units. If you split the subsidy amongst rentals (at 80% median) and for-sale units (at 120% median), then you can produce 150 rentals and 750 for-sale units for each \$100 million in government subsidy available. Bottom line, without government funding, affordable housing will not get built in any meaningful amount and our residents will continue to suffer.

We ask the City Council to defer any further action on these bills until a plan addressing all of these requirements and meeting the common goals of all the constituencies can be adequately vetted and met.

If the City Council moves forward with these bills as written, they will be conducting an experiment on the businesses and communities of Oahu and the only real life example of what has happened when this type of legislation was passed in our State (Maui) has proven that this will be a colossal failure, with no new housing, let alone affordable housing, being built over the next decade. Please don't do this to our community. Let us all work together to come up with a plan that will actually result in the construction of the 20,000 units we are in desperate need of.

Sincerely,



Scott W. Settle
President