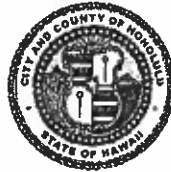


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DEPARTMENT OF PLANNING AND PERMITTING
CITY AND COUNTY OF HONOLULU

650 SOUTH KING STREET, 7TH FLOOR • HONOLULU, HAWAII 96813
PHONE: (808) 768-8000 • FAX: (808) 768-8041
DEPT. WEB SITE: www.honolulu.gov • CITY WEB SITE: www.honolulu.gov

RICK BLANGIARDI
MAYOR



DEAN UCHIDA
DIRECTOR

DAWN TAKEUCHI APUNA
DEPUTY DIRECTOR

EUGENE H. TAKAHASHI
DEPUTY DIRECTOR

March 2, 2021

The Honorable Esther Kia`āina, Chair
and Members
Committee on Housing and the Economy
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

Dear Chair Kia`āina and Councilmembers:

SUBJECT: Bill 1 (2021), Relating to Grants Incentivizing the Construction of
Affordable Rental Housing

Bill No. 1 (2021) is a proposed amendment to the original Bill No. 7 (Ordinance 19-08). The original intent of Ordinance 19-08 was to establish a temporary program to accelerate the construction of affordable rental housing in the apartment and business mixed-use zoning districts by relaxing certain zoning and building code standards, and offering certain financial incentives.

The original bill targeted a specific potential untapped resource to create more affordable rental units on Oahu. The bill focused on existing apartment zoned properties up to 20,000 square-feet in size. The proponents of the bill believed that with the appropriate "incentives," landowners would be motivated to develop more affordable rental units on their properties.

Ordinance 19-08 allowed for significant increases in height and density, reduced setbacks, reduced zoning, parking and loading requirements and some building code requirements, and waived permit fees, park dedication fees, and real property taxes¹, for projects that meet the following qualifications:

- 80 percent of the units must be rented to households earning 100 percent Area Median Income (AMI) or less; while 20 percent of the units may be rented at market rate or occupied by family members.

In 2020, the Ordinance 19-8 was amended (Ordinance 20-13) to further "incentivize" eligible landowners. The lackluster response to the original Ordinance 19-08 was probably due to the requirement that the affordable units be kept affordable in perpetuity.

¹While real property taxes are frozen for the entire property during construction, the ongoing annual property taxes are waived only for the units rented to households earning 80 percent AMI or less.

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Reducing this requirement to fifteen years would motivate eligible landowners to create more affordable rental units.

To date, the Department of Planning and Permitting (DPP) has approved two permits under these ordinances with another thirteen in process. The administration seeks an economic model that will significantly stimulate and increase investment in affordable housing by proposing to provide an additional financial incentive of \$11.25 per square foot of floor area (not to exceed \$9,000.00 per unit), contained in the building permit, to developers of affordable rental housing, to accelerate construction under current economic conditions. The aggregate of grant payments made under this article shall not exceed \$10 million dollars. Under this proposal, presuming the full \$10 million dollars in payments are made, Honolulu would realize no less than 1,111 new additional affordable rentals.

The administration sees this as another "tool" to address our critical need for more affordable housing, especially as it attempts to incentivize the investment of private capital. By comparison, the cost to the City of two recent City housing projects breaks down as follows:

806 Iwilei:

Total Cost: \$17,200,000
Homeless Resource Center: \$8,341,201
Residential Tower (27 units): \$8,858,799
Cost per unit: \$328,103
Residential sq. ft.: 15,586 sq. ft.
Cost per sq. ft.: \$568.38

West Loch Modular:

Total Cost: \$20,550,000 (including commercial kitchen with dining room)
Cost per unit (58 units): \$354,310
Total sq. ft.: 28,551
Cost per sq. ft.: \$719.76

The proposed \$9,000.00/Unit direct subsidy would be a worthwhile investment for the City to partner with the private sector to provide more affordable units when compared to City funded affordable projects.

The administration believes that the current economic and social effects of the COVID-19 pandemic have and continue to exacerbate that shortage, and there is a near-term need to consider a multitude of different models to increase the supply of affordable housing on Oahu. It still appears that owners and developers considering the development of affordable rental housing projects under Ordinances 19-8 and 20-13 are hesitant to move forward due to the economic uncertainties presented by the COVID-19 pandemic. Government subsidies are usually focused on the lower income groups, less than 60 percent AMI. In our view, this latest initiative is a "Pilot Project" to see how government might stimulate the production of more affordable rental units through direct public subsidies to smaller projects, and incentivize landowners and developers to build more affordable rentals.

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Should this initiative, targeted at a limited number of properties, result in an increase in the number of affordable rental units on Oahu, then perhaps similar types of government subsidies should be considered for other types of affordable rental housing projects. As such, the DPP supports Bill No. 1 (2021), as proposed.

Should you have any questions, please contact me at 768-8000.

Very truly yours,



Digitally signed by
Uchida, Dean
Date: 2021.03.01
18:01:40 -10'00'

Dean Uchida
Director

APPROVED:



Michael D. Formby
Managing Director