BILL 1 (2021), CD1
Testimony

MISC. COM. 232

HEcon

From:	CLK Council Info
Sent:	Friday, March 26, 2021 8:09 AM
Subject:	Housing and the Economy Testimony
Attachments:	20210326080905_Testimony_for_Bill_1_Ryan_Tanaka_wOverview_v3.pdf

Written Testimony

Name	Ryan Tanaka
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Meeting Date	03-29-2021
Council/PH Committee	Housing and the Economy
Agenda Item	Bill 1
Your position on the matter	Support
Representing	Organization
Organization	Island Business Management, LLC
Written Testimony	
Testimony Attachment	20210326080905_Testimony_for_Bill_1_Ryan_Tanaka_wOverview_v3.pdf
Accept Terms and Agreement	1

IP: 192.168.200.67

IBMH
Island Business Management Hawaii 4355 Lawehana Street, Unit #6 Honolulu, HI 96818

Councilmember Esther Kia'aina, Chair
Councilmember Calvin Say, Vice-Chair
Councilmember Radiant Cordero
Councilmember Augie Tulba
Councilmember Andria Tupola
Committee on Housing and the Economy

Monday, March 29, 2021

Testimony by Ryan Tanaka in Strong Support of Bill 1 CD1, Relating to Incentivizing the Construction of Affordable Rental Housing

Dear Chair Kia'aina, Vice Chair Say, and members of the Committee on Housing and the Economy, thank you for the opportunity to submit testimony in support of Bill 1 CD1.

I see the lack of affordable housing firsthand: my financial consulting company specializes in real estate and corporate finance, with clients that include employee-owned companies with diversified land and business holdings. And, I am personally vested in the issue as a born-and-raised local person who cares about his community and wants to alleviate the suffering caused by the lack of affordable housing. After attending bank presentations and learning about Bill 7 in May 2019, we led two of our clients to acquire two separate parcels suitable for Bill 7. We have completed the design process and submitted permit applications for both Bill 7 projects. Combined, these projects represent 57 affordable housing units. In addition, we are consulting as concierge developers for one, possibly two more Bill 7 projects. Our teams have dedicated time and resources to these projects because of the need for affordable housing, especially the < 100% AMI "gap group." These individuals and families will directly benefit from Bill 7 Projects to be built. I believe we need to do our part to help further Hawaii's independence and sustainability as a destination island economy for future generations, and to help them climb the housing ladder.

To provide some context on previous comments made regarding rent affordability and capping future rent increases for Bill 7 Projects, please consider the following:

- Bill 7 already says that the renters cannot make more than 100% AMI. This is a forever requirement so by definition these units will be affordable. Separately, Bill 60 places a rent cap on Bill 7 Projects for the first 15 years where rents cannot be more than 100% AMI rents. Because of the forever requirement that renters cannot make more than 100% AMI, the rent cap is unnecessary but provides additional reassurance to the City that these units will be affordable.

- Any more severe rent affordability requirements shouldn't apply to Bill 7 but to projects that receive far larger public subsidies (i.e., >$350,000 state/federal vs. $9,000 per unit). For example, when you talk about inclusionary housing in a high-rise tower, you can artificially restrict rents and rent increases. The conversation is much different than when you're talking about Bill 7 walk-up apartment buildings.

- Moreover, the physical product is what will determine market rents, meaning that rents for units in these buildings are already determined by the physical limitations and constraints of each building and their units, which already limits them to at or below market rents.

- Last, the City doesn't have an enforcement mechanism in place to implement something like this. If a requirement to cap rental increases were to be added, there would need to be a claw back provision on any Bill 1 funds. How long would this claw back provision be in place and who would be responsible to audit this information? The uncertainty behind these new restrictions would very likely deter any Bill 7 projects from pursuing the incentive bonus and would confuse the spirit of Mayor Blangiardi and administration's Bill 1.

The business rationale of Bill 7 is/was that these will be utilitarian, working class buildings and units limited in size, parking, and amenities so will not command much in rent – i.e., they will be affordable. Add the dense neighborhoods that they will likely be located in, the market will not allow rents in Bill 7 buildings to be higher than HUD guidelines.

As you can see from Table 1 below, Bill 7 projected rental rates are ~40% under 2019 HUD rental caps. Because the HUD mandated rental caps are much higher than what is being advertised in the market, the rental cap provision is unlikely to affect actual rents that are charged.

Table 1: Bill 7 Projected Rents vs. 2019 HUD Rental Caps

	BILL 7 RENT*	2019 HUD **	Difference
Studio	$1,200/mo.	$2,110/mo.	(-43%)
1BR	$1,400/mo.	$2,260/mo.	(-38%)

** Projected rents do not include utilities*
*** 2019 HUD maximum rents (rental cap)*

Achieving the original Bill 7 objective of 500 new affordable housing units per year over the next five years will take a community-minded approach. Bill 7 is still in "proof of concept," and owners/investors continue to evaluate its viability especially with recent escalating construction costs. For example, the intended effect of numerous Bill 7 concessions was to reduce the overall cost of Bill 7 projects. In reality, landowners of Bill 7 suitable properties have listed their properties for sale and baked in a 20-30% premium. The sellers and their realtors justify this premium because of the concessions (City and DPP) that Bill 7 claims to offer – regardless of whether a Bill 7 project is done or not after the purchase of the property and regardless of whether these concessions actually occur.

There are a number of other risks associated with Bill 7 projects. The Bill 7 Risk Chart in Table 2 below was prepared by Bill 7 stakeholders as an illustration for the Council to see the various challenges owners/investors face. Couple this with new uncertainty around a 15-year rental cap period.

Table 2: Bill 7 Risk Chart

Bill 7 Case Study: 5,000 SF parcel valued at $1 million = Five story, 10,000 SF, 25-unit building.

Stage	$ Actual		Spirit of Bill 7	Market Conditions
Land	+$100,000	+$300,000	City/DPP offered numerous concessions	Sellers baking concessions into sale price and charging a 10-30% Premium
Feasibility Risk	$200,000	$600,000	Hire qualified developers, architects, engineers	High upfront cost with no guaranty of permit
Permitting	3 months	6+ months	90-day maximum	Uniqueness of each project presents many unforeseeable permitting issues
Construction	+$50 psf	+100 psf	$225 psf target due to City/DPP concessions	Already paid premium at land purchase. Places pressure on negotiations between owner and general contractor
Rentability	+$5,000/ unit	+$10,000/ unit	Building w/limited amenities, parking	Renters will likely expect A/C, W/D, full kitchen/bath, thoughtfully selected finishes and fixtures.
Maintenance	+$500/unit	+$1,000/unit	80% of renters at 100% AMI or less	Higher turnover expenses for reduced pool of renters.
Rental Cap	15 yrs.	30 yrs.	0 yrs.	Large uncertainty and "forever" risk

Significant downside risk for Bill 7 Projects ($500,000 - $1,000,000) without rental cap already deter new projects.

This is a pilot program that lasts only 5 years – with nearly two years already gone and only two building permits issued. Part of the reason is the longer than 90-day permitting process and overall mounting costs and uncertainty associated with Bill 7 Projects, which is why I believe an additional financial incentive to complete these buildings will help add to the supply of affordable housing in Honolulu County.

We are facing a housing crisis, and the City has a growing need to create new affordable housing. Bill 7 is an important and necessary step (one of many that are needed) to create new affordable housing solutions in an effort to retain our workforce. Bill 1 is equally important and necessary because of the completion bonus incentivizing the construction of affordable rental housing.

Thank you for the opportunity to submit testimony and for all of your efforts to serve the people of Honolulu County as our elected leaders.

Sincerely,

Ryan Tanaka, President
Island Business Management, LLC
ryan@ibmhawaii.com

OVERVIEW OF BILL 1 – CITY & COUNTY OF HONOLULU
FEBRUARY 9, 2021

Summary

A State study in 2018[1] found that 22,500 additional affordable rental units will be needed in the State of Hawaii by 2026 – 9,002 of which will be needed on Oahu. The State has declared that "although many reasons contribute to the lack of affordable rental housing units for low- and moderate-income households, the primary reason the poor rate of return for investments in affordable rental housing projects … simply put, affordable rental housing is unprofitable, so the market won't address the need by itself."

There is no one "silver bullet' to solve our affordable rental housing shortage; it's a multi-faceted problem which requires a multi-faceted approach. The State and the City have each devoted resources to providing more affordable rentals on Oahu because both acknowledge that building affordable rental units is not profitable for the private sector. One of the approaches to get more affordable rentals built is contained in Ordinance 19-8 (Bill 7). Bill 7 affordable rental units will be (1) built in areas already zoned for multi-family dwelling and will not exacerbate the "monster homes" problem in single family residential areas, (2) will not contribute to urban sprawl but will be built on infill sites in primarily urban areas such as Moili'ili, McCully, Makiki, Waikiki, and Kalihi, and (3) will piggy-back on existing infrastructure and transportation and will not require expensive new infrastructure and transportation networks.

The Problem

- Our unemployment has become the highest in the nation and our residents are at increased risk of finding and holding onto affordable housing because of the loss of jobs.
- Returns on Bill 7 projects were projected to be "skinny" when passed but represented a way out for generational owners needing to redevelop old, dilapidated buildings who could afford to hold onto these properties for a longer period of time.
- COVID-19 and its effect on construction has caused a pause in new developments such as Bill 7 projects that are dependent on small landowners and developers who are hesitant to move forward in times of additional risk. The skinny returns have been put at risk with the new uncertainties caused by COVID-19.

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[1] Ten Year Affordable Rental Housing Report and Ten-Year Plan, DBEDT 2018

- Honolulu is on a Homeless Scenario unless it gets a new supply of low wage rental housing on a constant annual basis.

The Opportunity

- These new uncertainties could be alleviated with an incentive to build using $9,000 per unit of public monies, with an overall cap of $10 million. The incentive is needed to convince landowners and small developers who are reluctant to move forward with their Bill 7 projects because of the added risk caused by the COVID-19 pandemic, to go ahead with their projects.
- Bill 7 projects give the City "more bang for the City's buck" since they are private sector driven projects that do not require government subsidies such as tax-exempt bond financing, tax credits, government land grants, and other government subsidies to be built.
- Government subsidized projects have a per unit cost of about $450,000 while Bill 7 projects are estimated to have a per unit cost of about $225,000 or <u>one-half</u> the cost.

Estimated Impact

- $10 million in incentives over next 3-4 years will result in +1,100 new affordable rentals, having a construction cost of +$200 million for ~30 Bill 7 projects.
- Construction will take 12-14 months per building and job sites have ~30 workers per day.
- Provide new jobs and specialized job training.

From:	CLK Council Info
Sent:	Friday, March 26, 2021 11:30 AM
Subject:	Housing and the Economy Testimony
Attachments:	20210326112934_Bill_1_Support_Letter_Tim_Johnsson.pdf

Written Testimony

Name	Tim Johnsson
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Meeting Date	03-29-2021
Council/PH Committee	Housing and the Economy
Agenda Item	Bill 1
Your position on the matter	Support
Representing	Self
Organization	
Written Testimony	
Testimony Attachment	20210326112934_Bill_1_Support_Letter_Tim_Johnsson.pdf
Accept Terms and Agreement	1

IP: 192.168.200.67

photonworks
ENGINEERING

March 26, 2021

Councilmember Esther Kia'aina, Chair
Councilmember Calvin Say, Vice-Chair

Testimony by Tim Johnsson in Strong Support of Bill 1, Relating to Incentivizing the Construction of Affordable Rental Housing

Dear Chair Kia'aina and Vice-Chair Say,

Thank you for the opportunity to submit this testimony. My name is Tim Johnsson, founder and owner of PhotonWorks Engineering, LLP, a local general and electrical contracting firm which employs approximately 35 full-time staff. I strongly support Bill 1 and ask all City Council members to vote in favor of this program.

The cost of construction continues to rise in Hawaii. The pandemic and resulting increased demand for housing in the mainland US has had significant impacts on construction material prices. Based on our own gross receipts for materials over the last 12 months, we have seen lumber prices increase ~60%, steel prices increase ~35% and other metals commodities-based material prices which impact plumbing and electrical materials increased an average of 38%. Drywall and fiber-based materials have also increased over 40%. Price increases are nearly across the board; aggregated across all construction materials, it's the highest year over year increase we have ever been privy to in the last 20 years. This has had a pronounced effect on overall construction costs on our projects including our proposed 35-unit Bill 1 project located at 939 McCully Street.

In addition to the spike in construction costs, the lack of availability of product has been a detriment to the industry. Materials and finishes which normally present 3-4 or 6-8 week lead times have in many cases doubled. Because of these delays, we have been often forced to go with higher cost alternative products and materials. In most cases the project would suffer long delays ultimately increasing the cost to both the contractor and the owner.

We are hoping that the delays we are currently experiencing will improve as we emerge from the pandemic and supply chains catch up with demand. But we are not as hopeful that construction material costs will normalize.

There are many other arguments to be made in support of Bill 1, but my testimony is only intended to highlight the rise in construction costs and how I believe it will disproportionately impact future affordable housing projects relative to other classes of real estate development. I believe the realized increase in construction costs for other classes of real estate development will be largely offset by higher sales prices resulting from increased demand for urban, suburban and rural single family homes as well as larger condo units which allow comfortable work from home opportunities. Developers of Bill 1 projects have not been afforded this same cushion. Bill 1 projects consist of smaller, low-amenity apartment units which have become less desirable as a result of the "new normal". Further, Bill 1 projects cannot be condominiumized ("CPR'd") into individual units for resale and therefore can only return an investment based on the aggregated income the individual units in a project generate.

The potential return for landowners embarking on affordable housing projects was already meager prior to the pandemic. The combination of reduced demand for smaller sized urban units and the spike in construction costs presents significantly increased risk to developers. I believe the proposed completion incentive reduces some of this risk and is critical to move more Bill 1 projects forward.

Thank you so much for the opportunity to submit testimony and for all of your efforts to serve the people of Hawaii as our elected leaders.

Thank you,

Tim Johnsson
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From:	CLK Council Info
Sent:	Saturday, March 27, 2021 4:37 PM
Subject:	Housing and the Economy Testimony
Attachments:	20210327163708_HI_Budget_and_Policy_Center_Testimony_SUPPORTING_Bill_1_March_29th.pdf

Written Testimony

Name	Kenna Stormogipson
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Meeting Date	03-29-2021
Council/PH Committee	Housing and the Economy
Agenda Item	2
Your position on the matter	Support
Representing	Organization
Organization	Hawaii Budget and Policy Center
Written Testimony	
Testimony Attachment	20210327163708_HI_Budget_and_Policy_Center_Testimony_SUPPORTING_Bill_1_March_29th.p
Accept Terms and Agreement	1

IP: 192.168.200.67

Testimony of the Hawai'i Budget and Policy Center
SUPPORTING Bill 1 – Affordable Rental Housing
City and County of Honolulu, City Council Chamber
Tuesday, March 29th, 2021 at 2:30 PM

Dear Chair Kia'āina and the Committee on Housing and the Economy,

Thank you for the opportunity to provide testimony **supporting Bill 1 with comments**.

Bill 1 would provide up to $10M in incentives for completion of rental housing targeted at households earning up to 60% of the area median income (AMI) or 100 percent of AMI for Honolulu, which in 2020 was $101,600 for a four person household.[1]

This bill is **a step in the right direction** and represents an effort by the County to take a greater role in supporting the construction of affordable housing.

This will incentivize construction of much needed rental housing

This County effort is significant because the only other major contributor to new rental housing construction is the State and Federally subsidized Low-Income Housing Tax Credit (LIHTC) program. The LIHTC program helps to fund hundreds of affordable homes a year on Oahu (approximately 500 homes per year), but it is dependent on State and Federal subsidies and the State contribution can range from between $100,000 to $300,000 per home depending on type of construction, affordability level, and other factors. As a result of these deeper and more substantial subsidies, LIHTC rentals have pricing that is below-market and in Hawai'i they generally have 60+ year affordability periods.

This County incentive program does not provide as many subsidies or supports as LIHTC, so in the current design it is infeasible to require long-term affordability. Hopefully, many of these rental projects will be operated by landlords who raise rents by reasonable amounts that do not outpace inflation (1-2% a year), so that prices remain affordable over time. While it is encouraging to see the County take an active role in housing development, **further efforts are needed.**

Now is the time to create a *comprehensive and sustainable affordable housing* strategy for local residents across the income spectrum (from houseless to middle class) who are spending too much of their monthly paychecks on housing and too little on other important costs of living.

Federal infrastructure spending presents a big opportunity

Also on the agenda today is our Hawai'i congressional delegation, which is reporting on a **massive** once-in-a-generation federal infrastructure package. This infrastructure funding provides the opportunity for the County to significantly lower the cost providing housing at even deeper affordability levels than current programs. However, any infrastructure investment must be part of

HAWAIʻI BUDGET & POLICY CENTER

Testimony of the Hawaiʻi Budget and Policy Center
<u>SUPPORTING Bill 1</u> – Affordable Rental Housing
City and County of Honolulu, City Council Chamber
Tuesday, March 29th, 2021 at 2:30 PM

a larger affordable housing strategy or we could repeat the mistakes of Kaka'ako, where lots of housing was built but too little is affordable to local residents.

Kaka'ako shows that simply building housing is not enough

As a result of over $280 million dollars was spent by the public on infrastructure, there were almost 9,000 for-sale homes built over the past 12 years. Unfortunately, by 2022 only 7% of for-sale homes will be under an affordability restriction and almost all the homes on the market are unaffordable to middle-income residents. Fortunately, there were also almost 900 rentals built with long-term affordability periods so overall about 15% of housing in Kaka'ako could be considered affordable. However, for <u>85% of the housing that was built in Kaka'ako to now be unaffordable for most local residents is not good policy</u>. We will never achieve affordable housing goals with this approach.

Housing plan should address demand of local residents: 66% of homes for below 100% AMI.

According to the 2019 Hawai'i Housing Planning Study, two-thirds of the total homes needed for Honolulu residents is for household earning less than 100% AMI and only one third is for households above the area median income.[2]

We need a ***<u>bold and comprehensive housing strategy</u>*** that leverages historic infrastructure funding, the opportunity presented by county owned properties, and the energy and optimism of this new council and administration to create a full-service affordable housing plan.

The Hawai'i Budget and Policy Center looks forward to working with this committee and other stakeholders in creating a plan to provide affordable housing ***for all*** Honolulu residents.

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[22] Dec. 2019, Hawai'i Housing Planning Study prepared for DBEDT, pg. 39
https://dbedt.hawaii.gov/hhfdc/files/2020/01/FINAL-State_Hawaii-Housing-Planning-Study.pdf

From:	CLK Council Info
Sent:	Sunday, March 28, 2021 4:02 AM
Subject:	Housing and the Economy Testimony
Attachments:	20210328040221_Testimony_-_Bill_1.pdf

Written Testimony

Name	Ave Kwok
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Meeting Date	03-29-2021
Council/PH Committee	Housing and the Economy
Agenda Item	Bill 1
Your position on the matter	Support
Representing	Self
Organization	
Written Testimony	
Testimony Attachment	20210328040221_Testimony_-_Bill_1.pdf
Accept Terms and Agreement	1

IP: 192.168.200.67

KC Management, LLC

March 28, 2021

Dear Chair Kiaaina, Vice Chair Say, and Members of the Committee,

Thank you for taking time to find solutions on affordable housing, such as the Bill 1.

During this unprecedented time, most people are lost about their future, adding tremendous development risk to any development. The demand on affordable housing is always high. While the tax money is focusing on helping the sinking economy, Bill 7 becomes a viable way to provide affordable housing and without burdening the government financial system. Hence, we need a leader who want to provide incentives for the Bill 7 landowners to reduce the development risk.

I would like to state the challenges on debt financing during my Bill 7 development. Out of 31 potential land sites, there are hand full of landowners who carry loans and pay mortgages. And most of the landowners work hard in their entire life to carry those loans in their late 30s and now into their 50s. Some of them earned the land free and clears through 1031 exchanges, a lot of hard work and risk. Now, they want to do Bill 7 building because they discover that the existing rental capacity is low. Unless taking the land to do Bill 7, it won't make any sense on the current code.

However, the landowners did not know most of the Bill 7 projects will roll the current owners into another $6M to $8M loans on completion. The loan is used to cover the soft costs, construction costs, and financial charges from the lender.

My McCully location will give me a $8M loan after 2 years of construction work and risk taking. My monthly mortgage payment will be $45000. With the current rising interest rate, material costs and construction costs, the month payment might go up to $51000. Our monthly rent collection for 34 units is $65000. Recent rising interest rate throws the project at higher risk and possibly at halt. Most of the new Bill 7 developers would not see that until they are half time into the construction. In short, developing their own lands into a Bill 7 takes the landowners a lot of guts to decide.

With the incentive of Bill 1, the approximately $250,000 will quickly help the landowners in the beginning cash flow, finding tenants and reduce mortgage non-payment risks.

Being a late 30 years old landowner and trying to pay off the $2M loan is not easy. Now when the landowners are 40s and 50s and hesitate to start a Bill 7 project, because he or she has to take a deep breath and tell the other half: here we go again, we are going to borrow $8M! It is plenty risk for a landowner when he find out his building is worth about $10M. Or he will tell himself "why I want to risk my life once more time with a bigger loans and why don't I just hold the old buildings for few years and I will make one million dollars more!"

Bill 1 incentivizes the landowners upon their project completion and reduce any development risks. We look forward to support the Mayor Blangiardi's Bill 1 which sees there will be more interests among the landowners by giving strong incentives. Hence more projects will be built when the landowners see less risks.

Sincerely,

Ave Kwok
Owners of

- Jade Dynasty Seafood Restaurant
- Pacific Resources, LLC
- KC Management, LLC

From:	CLK Council Info
Sent:	Sunday, March 28, 2021 8:07 AM
Subject:	Housing and the Economy Testimony
Attachments:	20210328080654_Bill_1__John_Adversalo_written_testimony_210328.pdf

Written Testimony

Name	John Adversalo
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Email	john@architectspacificinc.com
Meeting Date	03-29-2021
Council/PH Committee	Housing and the Economy
Agenda Item	Special Meeting at 2:30 pm
Your position on the matter	Support
Representing	Self
Organization	
Written Testimony	
Testimony Attachment	20210328080654_Bill_1__John_Adversalo_written_testimony_210328.pdf
Accept Terms and Agreement	1

IP: 192.168.200.67

March 28, 2021

To:
Councilmember Esther Kia'aina, Chair
Councilmember Calvin Say, Vice Chair

Re: Bill 1

Dear Chair Kia'aina and Vice Chair Say

I am an architect who personally has developed a few projects. With my number of years of experience, there has been a reduction for new smaller development throughout the City. When I first started in the business, building permits were approved quickly and were not really a major factor for development. At that time, there were no sewer fees, no water development fees, no park dedication fees, no fire department fees, no erosion control fees, and no plan review fees. Also, there have been more code requirements and regulations added, such as accessibility requirements (ADA), fire department access, vehicle and truck maneuverability and accommodations within the property, sewer capacity adequacy, and special inspection to name just a few. These have been accumulated onto the process over the years and contributed to time to acquire building permits within a reasonable time and adding to cost for new development. With the added process constraints and costs, it has been difficult for smaller developers or owners with limited experience and financial resources.

I recently purchased a property, and one of my initial thought was to build market multi-family housing. However, under Ordinance 19-8 (Bill 7) and Ordinance 20-13 (Bill 60), there were several incentives which makes a difference. These incentives were increased floor area, no parking requirement, ability to build up to 5 feet from the property line. One major factor was that the property is in a special design district which would not be scrutinized under Ordinance 20-41 (Bill 60). Because of these Ordinances, I am in the design process to develop an affordable housing project.

In summary, Bill 1 is another step which would help ease some of the burden and costs to develop new affordable housing. Therefore, I am full support of this Bill which hopefully would incentivize more other developers and owners.

Respectfully,

John A. Adversalo, AIA

From:	CLK Council Info
Sent:	Sunday, March 28, 2021 9:25 AM
Subject:	Housing and the Economy Testimony
Attachments:	20210328092524_Kiaaina_ltr_2021.03.29.pdf

Written Testimony

Name	Melvin Y Kaneshige
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Meeting Date	03-29-2021
Council/PH Committee	Housing and the Economy
Agenda Item	Bill 1
Your position on the matter	Support
Representing	Self
Organization	
Written Testimony	
Testimony Attachment	20210328092524_Kiaaina_ltr_2021.03.29.pdf
Accept Terms and Agreement	1

IP: 192.168.200.67

March 29, 2021

Councilmember Esther Kia`aina
Chair, Housing and the Economy Committee
City Council
City and County of Honolulu
530 South King Street, Room 200
Honolulu, HI 96813

Re: Bill 1, CD 1 (2021)

Aloha Chair Kia`aina and Members of the Housing and the Economy Committee:

My name is Mel Kaneshige, and I am submitting my testimony in general support of Bill 1 CD 1 (2021).

There is no one "silver bullet' to solve our affordable rental housing shortage; it's a multi-faceted problem which requires a multi-faceted approach. The State and the City have each devoted many resources to providing more affordable rentals on Oahu because both acknowledge that building affordable rental units is not profitable for the private sector.

One of the approaches to get more affordable rentals built is contained in Ordinance 19-8 (Bill 7). Bill 7 affordable rental units will be (1) built in areas already zoned for multi-family dwelling and will not exacerbate the "monster homes" problem in single family residential areas, (2) will not contribute to urban sprawl but will be built on infill sites in primarily urban areas such as Moiliili, McCully, Makiki, Waikiki, and Kalihi, and (3) will piggy-back onto existing infrastructure and transportation and will not require expensive new infrastructure and transportation networks.

We currently have enormous challenges facing the City:

- Our unemployment has become the highest in the nation and our residents are at increased risk of finding and holding onto affordable housing because of the loss of jobs.
- Returns on Bill 7 projects were projected to be "skinny" when passed but represented a way out for generational owners needing to redevelop old, dilapidated buildings who could afford to hold onto these properties for a longer period of time.
- COVID-19 and its effect on construction has caused a pause in new developments such as Bill 7 projects that are dependent on small landowners and developers who are hesitant to move forward in times of additional risk. The skinny returns have been put at risk with the new uncertainties caused by COVID-19.

We also have an opportunity to meet those challenges:

- These new uncertainties could be alleviated with an incentive to build using $9,000 per unit of public monies, with an overall cap of $10 million. The incentive is needed to convince landowners and small developers who are reluctant to move forward with their

Bill 7 projects because of the added risk caused by the COVID-19 pandemic, to go ahead with their projects.

- Bill 7 projects give the City "more bang for the City's buck" since they are private sector driven projects that do not require government subsidies such as tax-exempt bond financing, tax credits, government land grants, and other government subsidies to be built.
- Government subsidized projects have a per unit cost of about $450,000 while Bill 7 projects are estimated to have a per unit cost of about $225,000 or one-half the cost.

If Bill 1, CD1 is passed, it will have an enormous impact:

- $10 million in incentives over next 3-4 years will result in +1,100 new affordable rentals, having a construction cost of +$200 million for ~30 Bill 7 projects.
- Construction will take 12-14 months per building and job sites have ~30 workers per day.
- Provide new jobs and specialized job training.

This Bill creates an incentive for the private sector to get involved in a more meaningful way to develop badly needed affordable rentals in Honolulu at an average cost of $225,000 rather than the publicly funded projects costing on average $450,000 per unit.

Aloha,

Mel Kaneshige

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(808) 223-9786