Bill 1
Testimony

MISC. COM. 241

April 11, 2021

Councilmember Tommy Waters
Chair, City Council
City and County of Honolulu
530 South King Street, Room 200
Honolulu, HI 96813

Re: Bill 1, CD 1 (2021)

Aloha Chair Waters and Members of the City Council:

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

melkaneshige@gmail.com
(808) 223-9786

From: CLK Council Info
Sent: Sunday, April 11, 2021 11:48 PM
Subject: Council Testimony

Written Testimony

Name	Hirofumi Yamaguchi
Phone	+81-70-1371-1592
Email	h.yamaguchi@re-adworks.com
Meeting Date	04-14-2021
Council/PH Committee	Council
Agenda Item	Bill 1(2021) CD1
Your position on the matter	Support
Representing	Self
Organization	
Written Testimony	Dear Chair Waters, Vice Chair Kia'aina, and Members of Honolulu City Council, thank you for the opportunity to submit testimony in strong support of Bill 1(2021) CD1. My name is Hiro Yamaguchi from ADW Hawaii LLC and we've been working on 29-Units affordable housing project in Punchbowl area since December 2019. As well as other affordable housing developers, we are now facing the problem regarding the huge increase of construction cost for our project due to COVID-19. I believe this Bill1(2021) CD1 should be a great help for all the developers to move forward the projects and achieve SDGs in Hawaii. Sincerely, Hirofumi Yamaguchi ADW Hawaii LLC
Testimony Attachment	
Accept Terms and Agreement	1

IP: 192.168.200.67

Marshall W. Hung – **Former Developer for Honolulu**
215 N. King Street, Suite 1000, Honolulu, HI 96817
W: 808.526.2027   F: 808.526-2066

April 8, 2021

To: Chair Tommy Waters
Honolulu City Council

Re: Support for Bill 1 CD1

The small apartment building product is in great need for Honolulu's neighborhoods. They offer a low cost of living for a mixed age group and a mixed household type group to live together. All who want housing in a new building with new plumbing, new electrical, no roof leaks and fire sprinkler safety. These lower income households do not want to live in the larger buildings with the wealthy. Maybe one day, some will climb the ladder and want to live in the luxury building.

Fate has it that Honolulu has 7,000 small land parcels governed by Bill 7. DPP's study shows that 3,200 parcels are ghetto status with improvements assessed at 30% of their assessed land values by the property tax division. DPP did a sewer availability for these 25 to 50 unit projects and concluded they are shovel ready. With these apartment and business zoned properties being on bus lines, low cost living becomes possible. The demographics show the middle income group shrinking by 20 to 30 percent, and the lower income group increasing by this amount. Providing this apartment rental product in many Honolulu neighborhoods has become more important than ever.

Chapter 42 (Bill 7) rules allow landowners a chance to redevelop their ghetto properties if they are willing to commit to the financial and construction risks. This new building code for these small apartment buildings can allow a $225,000 to $250,000 per unit cost. Be it known that this general target for feasibility is subject to material cost increases, mistakes, market timing, etc. Be it known, that the building code prevents the lowering of standards for safety and general living. The exception being the constructing of homeless shelters.

Bill 7 requires rentals to 100% of median income households and below, with a 20% unit exception for the landowner's family. There is no need for the higher dollar incentive for the lower income group, because the housing ladder will make the 50 year old rentals lower their rental amounts with enough new rental supply. In the real world, it is the housing product type and the neighborhood that attracts the type of households that occupy a rental building. Just knock on any existing walk-up apartment building in Honolulu and this market knowledge can be confirmed with many renter interviews.

The hope is that the Mayor's completion incentive of $9,000 per unit motivates 30 landowners, so Honolulu can see 1,000 rental units before this pilot program ends.

Sincerely submitted,

Marshall Hung

I B M H

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

Councilmember Tommy Waters, Chair
Councilmember Esther Kia'aina, Vice Chair
Councilmember Andria Tupola, Floor Leader
Councilmember Radiant Cordero
Councilmember Brandon Elefante
Councilmember Carol Fukunaga
Councilmember Calvin Say
Councilmember Heidi Tsuneyoshi
Councilmember Augie Tulba
Honolulu City Council

Wednesday, April 14, 2021

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

Dear Chair Waters, Vice Chair Kia'aina, and members of Honolulu City Council, thank you for the opportunity to submit testimony in support of Bill 1.

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.

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 (on the following page), 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.

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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.