

DEPARTMENT OF HOUSING AND LAND MANAGEMENT
KA 'OIHANA HO'OLĀLĀ KŪKULU HALE A ME KA HO'OKELE 'ĀINA
CITY AND COUNTY OF HONOLULU

650 SOUTH KING STREET, FLOOR 3 • HONOLULU, HAWAII 96813
PHONE: (808) 768-4277 • FAX: (808) 768-4296 • WEBSITE: www.honolulu.gov/dhlm

RICK BLANGIARDI
MAYOR
MEIA



KEVIN D. AUGER
DIRECTOR
PO'O

CATHERINE A. TASCHNER
DEPUTY DIRECTOR
HOPE PO'O

March 27, 2026

The Honorable Tommy Waters
Chair and Presiding Officer
and Members
Honolulu City Council
530 South King Street, Room 202
Honolulu, Hawaii 96813

Dear Chair Waters and Councilmembers:

SUBJECT: University of Hawai'i Economic Research Organization
Analysis of Chapter 32 of the Revised Ordinance of Honolulu
Relating to Affordable Rental Housing

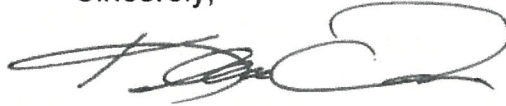
Please find attached the preliminary findings from the University of Hawai'i Economic Research Organization (UHERO) analysis regarding Chapter 32 of the Revised Ordinances of Honolulu relating to Affordable Rental Housing. We would like to note that the report is a draft, which UHERO intends to further develop based on additional feedback and analysis. Additionally, the report's conclusions and recommendations are not final from the Department's standpoint and should not be understood at this stage to represent the Department's position. In developing its recommendations for Chapter 32 reform, the Department will consider the UHERO analysis alongside stakeholder feedback and the Department's own ongoing review.

We welcome the opportunity to work with the Council to further develop and advance changes that will strengthen Chapter 32 and improve its effectiveness in supporting housing that contributes to vibrant and welcoming communities in Honolulu.

The Honorable Tommy Waters
Chair and Presiding Officer
and Members
March 27, 2026
Page 2

If you have any questions, please contact me or Gavin Thornton, Director of Housing Policy, at (808) 768-4277.

Sincerely,

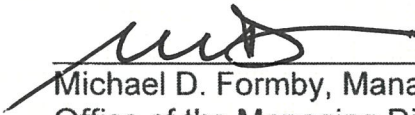
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Kevin D. Auger
Director

Attachment

cc: Council Vice Chair Andria Tupola

APPROVED:

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Michael D. Formby, Managing Director
Office of the Managing Director

Executive Summary

Honolulu's housing crunch is squeezing households in the 60 to 120 percent AMI range between subsidized housing programs they cannot qualify for and a private market they struggle to afford. Because the city's housing deficit exceeds what can realistically be met through limited public funding, workforce housing policy must play a central role. This report evaluates Bill 7 (2019), codified in ROH Chapter 32, as Honolulu's main infill workforce housing tool for the "missing middle." In exchange for providing rental housing affordable to moderate-income households, eligible projects receive regulatory relief and financial support, including parking exemptions, added density, fee waivers, and expedited permits. Bill 7 has already produced 189 workforce housing units and permitted hundreds more, showing that small-lot infill housing can be delivered under the program, even if it has not yet reached its goal of 500 units per year.

A prototype parcel-level pro forma simulation, adapted from the Turner Center's housing supply modeling framework, suggests that standard zoning makes most small urban sites financially nonviable, while Bill 7 moves many of those same parcels into a feasible range. Under base zoning, expected production across 62 tested parcels is about 102 units; under Bill 7 assumptions, expected production rises to roughly 1,685 units. Bill 7 projects are also concentrated in transit-rich, less car-dependent neighborhoods, suggesting that the program's parking exemptions generally align with actual neighborhood conditions. UHERO also finds that Bill 7 projects are concentrated in transit-rich neighborhoods where households are less car-dependent than the county overall, suggesting that the program's parking exemptions are generally well matched to actual neighborhood conditions.

Where Bill 7 has fallen short is implementation. Although the ordinance promises a 90-day permitting pathway, observed timelines have been far longer: for mature cohorts, median processing times ranged from 518 to 1,000 days, and among permitted pending projects the average time from application to permit issuance was 661 days. In other words, Honolulu has created a program whose incentives may be strong enough to make projects pencil, but whose administrative performance often erodes much of that value. The report's central conclusion is not that Bill 7 is misguided, but that its operational model is underperforming.

The report concludes by exploring possible options for strengthening Bill 7. These include creating a genuinely distinct permit pathway for Chapter 32 projects, reassessing which current exemptions still deliver real economic value under present market conditions, and developing a second-generation TOD or rail-oriented tier with greater intensity near Skyline stations. Over time, the city could also pair Bill 7 with new land access and revolving finance tools, such as public site disposition, loan guarantees, interest-rate buy-downs, or subordinate recoverable loans. Initial outcomes from the Bill 7 program show that targeted land-use reform can make workforce housing feasible on small urban parcels. The next challenge is to make that system fast, reliable, and scalable.

Background: Honolulu's workforce housing shortage

Working families are caught in a widening gap between subsidized rentals and homeownership

Housing scholars have opined that “in well-functioning housing markets, middle-income families shouldn't need subsidies” (Schuetz and Ford, 2019). Honolulu is not one of those markets. To buy a typical single-family home on Oahu today, a family needs to make 215% of the typical household income. Put another way, housing is so unaffordable that at this point it would usually take the combined efforts of 2 families to purchase 1 home. Condominiums, long seen as the first step on the housing ladder, are also out of reach for the majority of Honolulu households¹. For most residents, therefore, renting is the only housing option.

Yet renting offers little relief. On Oahu, the typical renter spends more than one-third of household income on rent, and nearly three in ten renters spend more than half (Tyndall et al., 2025). Middle-income renters, defined as 60–120% AMI, are in a particularly difficult position: they earn too much to qualify for conventional affordable housing programs—such as public housing, vouchers, or LIHTC units—but not enough to comfortably afford market rents or home prices. They are caught in a widening gap between the two.

Honolulu needs more housing, faster, at nearly all income levels

The 2024 Hawai'i Housing Planning Study estimates that the City and County of Honolulu would have needed to build an additional 25,710 housing units by Dec. 2027 to meet demand (Ward Research, 2024). Importantly, that estimate includes all 10,359 units that are expected to be completed by then. In other words, Honolulu would need to build housing roughly 2.5 times as quickly as it does now to address its longstanding deficit. As shown in the table below, demand exceeds supply at every income level except the highest, 180+ AMI.

¹ These figures are unpublished county-level estimates from the 2025 UHERO Housing Factbook.

TABLE 39: HOUSING UNITS NEEDED BY TENANCY, TYPE, AND PRICE SEGMENT, STATE OF HAWAII, 2023-2027

	Total Units Needed, 2023 through 2027								
	HUD Income Classification								
	LT30	30 to 50	50 to 60	60 to 80	80 to 120	120 to 140	140 to 180	180+	Total
State of Hawai'i	17,242	11,166	4,589	9,103	8,547	4,396	4,346	5,101	64,490
Ownership Units	4,808	3,539	2,175	5,863	5,196	3,059	2,660	2,687	29,987
Single-Family	3,980	2,738	1,627	4,450	3,655	2,782	2,629	4,037	25,898
Multi-Family	828	801	550	1,413	1,540	277	32	-1,350	4,091
Rental Units	12,435	7,625	2,415	3,240	3,351	1,337	1,685	2,413	34,501
Single-Family	6,288	4,035	1,588	3,030	1,951	1,121	912	1,557	20,482
Multi-Family	6,149	3,591	827	210	1,398	215	773	855	14,018
Honolulu	7,314	4,912	1,869	4,581	4,036	1,201	1,907	-110	25,710
Ownership Units	1,442	1,483	1,036	2,992	2,483	949	1,011	-1,109	10,287
Single-Family	871	920	682	2,006	1,459	972	1,381	692	8,983
Multi-Family	571	563	354	986	1,024	-23	-370	-1,801	1,304
Rental Units	5,873	3,428	833	1,589	1,553	251	896	999	15,422
Single-Family	2,174	1,054	335	1,012	603	302	447	624	6,551
Multi-Family	3,699	2,374	498	577	950	-52	449	375	8,870

Source: 2024 Hawai'i Housing Planning Study

More than half (55%) of the need is below 60% AMI, the focus of most federal housing programs. Another third is between 60 and 120% AMI, aligning with the gap noted above. Because federal policies do not address this segment directly, it falls to states and localities to develop supplemental policy solutions. The Hawai'i Housing Finance and Development Corporation (HHFDC) provides gap financing for both for-sale and rental housing projects in this range from its suite of revolving funds and through multifamily revenue bonds. These programs have produced, on average, 1,100 units per year across the state since 2019, according to HHFDC annual reports (HHFDC, 2026). While every unit helps, these volumes still fall far short of the need in Honolulu.

Accelerating workforce housing production requires a combination of evidence-based, contextual policy tools

Recognizing this, City elected officials have allocated historic amounts to affordable housing in recent years. The City's FY2026 capital budget included over \$135M for this purpose: \$10M for the Affordable Housing Fund (AHF), \$100M for Affordable Housing Mixed-Use Development, and \$25M for Transit-Oriented Development housing and infrastructure. The Mayor's proposed FY2027 capital budget also includes \$127M for housing: \$27M for the AHF and \$100M for Affordable Housing Mixed Use Development (City and County of Honolulu, 2026). While significant, the FY2027 proposal still equals about \$127 per resident, or about \$4,932 per needed unit—far less than the amount needed to construct them.

These funds are mostly one-time appropriations. Future years could see priorities change or economic conditions worsen, making it more difficult for the City to sustain this level of investment. Of the \$127M proposed this year, and the \$135M authorized last year, only about \$9M (0.5% of real property tax revenue) is guaranteed to the AHF under Section 9-204 of the Revised Charter of Honolulu. The AHF is also limited to supporting rental housing for households at or below 60% of AMI, whether alone or in a mixed-use development.

Because the housing need at nearly all income levels is so large, because the discretionary funds available to address the housing crisis are necessarily limited by economic conditions and the many other demands on the General Fund, and because the Charter mandates that the City focus its limited guaranteed local funding on the lowest income tiers, if the City is to accelerate the production of workforce housing in the 60-120% AMI range it must employ policy tools beyond direct subsidy. To be effective, these tools should be based on evidence from Honolulu as well as comparable cities. Collectively, they must make below-market development financially feasible through some combination of higher revenues and lower costs.

Literature review: Workforce housing programs

Workforce housing programs aim to increase the supply of homes affordable to moderate-income households, usually by trading public benefits for private production. In exchange for meeting affordability rules, qualifying projects may receive faster approvals, flexible development standards, reduced fees, or other support. In high-cost urban markets, these programs often focus on infill sites that already have roads, utilities, jobs, and transit nearby. The academic literature suggests three main lessons for Honolulu: successful programs must remove the local barriers that block housing, they must be calibrated so projects remain financially feasible, and they create the greatest public value when they produce housing in high-access locations.

Lesson 1: Successful programs target barriers that matter locally

A workforce housing program works only if it addresses the main obstacles to development in its own jurisdiction. In Honolulu, recent state and local research points to a familiar set of barriers: infrastructure constraints, zoning rules, development fees and requirements, financing gaps, community opposition, and permitting delays (Hawai'i Housing Finance and Development Corporation [HHFDC], 2025). DBEDT estimates that permit delays in Honolulu imposed large costs from 2022 to 2023, including about \$202 million on private developers and \$56.7 million on the City's own projects; the report equates them to a ~7 percent tax on new development (Department of Business, Economic Development & Tourism [DBEDT], 2025). UHERO likewise finds that Hawai'i has unusually burdensome housing regulations relative to other states and counties, with approval delay and related rules adding materially to development cost (Inafuku et al., 2022; Tyndall and Kim, 2024). Any successful program in Honolulu, therefore, must include components related to zoning, permitting, and other mandates.

Lesson 2: Affordability requirements and incentives must be calibrated to project feasibility

Workforce housing programs only produce units when the affordability requirements are realistic and the incentives are large enough to offset their cost. Schuetz, Meltzer, and Been (2009) identify three core choices: how many units must be affordable, which income group they serve, and how long the affordability must last. The more stringent these requirements, the lower the project revenue relative to a fully market-rate project for a project of the same size and density. Jacobus (2015) describes the gap between market revenue and restricted affordable revenue as the developer's "opportunity cost." If that gap is too large, projects will not move forward unless the program provides enough value in return through tools such as added density, fee waivers, or faster approvals. This is especially important in Hawai'i, where baseline construction costs are already high and even modest affordability mandates can make projects difficult to finance (Inafuku et al., 2022).

Lesson 3: The greatest public benefit comes from building workforce housing in job-rich, transit-served locations

The value of workforce housing depends not only on price, but also on location. Bertaud (2015) argues that cities function as labor markets, and that urban productivity depends on preserving access to jobs across the metropolitan area. Durations of unemployment tend to be shorter when workers are located near to accessible job opportunities (Andersson et al., 2018). More recent research finds that access to affordable housing improves labor-market outcomes, including labor income, job quality, and unemployment, with stronger effects when housing has better access to employment (Dauth, Mense, and Wrede 2024). Blumenberg and Siddiq (2023) find that when affordable housing is scarce near jobs, lower- and middle-wage workers commute farther. Hsieh and Moretti (2019) show more broadly that when high-productivity places do not allow enough housing, the resulting spatial misallocation reduces overall economic output. A well-designed workforce housing program should not aim only to add units, but to add them in places where households can more easily reach jobs, schools, services, and transit. Infill workforce housing can therefore advance both housing affordability and broader goals such as increasing economic opportunity, reducing vehicle miles traveled, and using existing infrastructure more efficiently. In other words, infill development is better for both its own residents and the city at large.

Analysis: Outcomes of the Bill 7 program to date

Honolulu's Bill 7 program, codified in ROH Chapter 32, is the city's main infill workforce housing tool for the "missing middle." First enacted as Ordinance 19-8 and currently set to expire in 2030, it creates a voluntary, by-right development pathway for small, underused urban parcels that are often too constrained for conventional market-rate projects. The program applies only to lots of 20,000 square feet or less in apartment, apartment mixed-use, and business mixed-use

districts, and is designed to make small-lot rental housing feasible for local landowners and smaller developers. In exchange for providing workforce housing—generally requiring that 80 percent of units be rented to households earning no more than 100 percent of area median income for at least 15 years—eligible projects receive a package of incentives, including an exemption from off-street parking requirements, higher allowable density and height, fee waivers, and expedited permit processing. Together, these provisions are intended to lower development costs, reduce delay, and increase development potential to make workforce rental housing feasible here. A longer description of the Bill 7 program is contained in the *Appendix*.

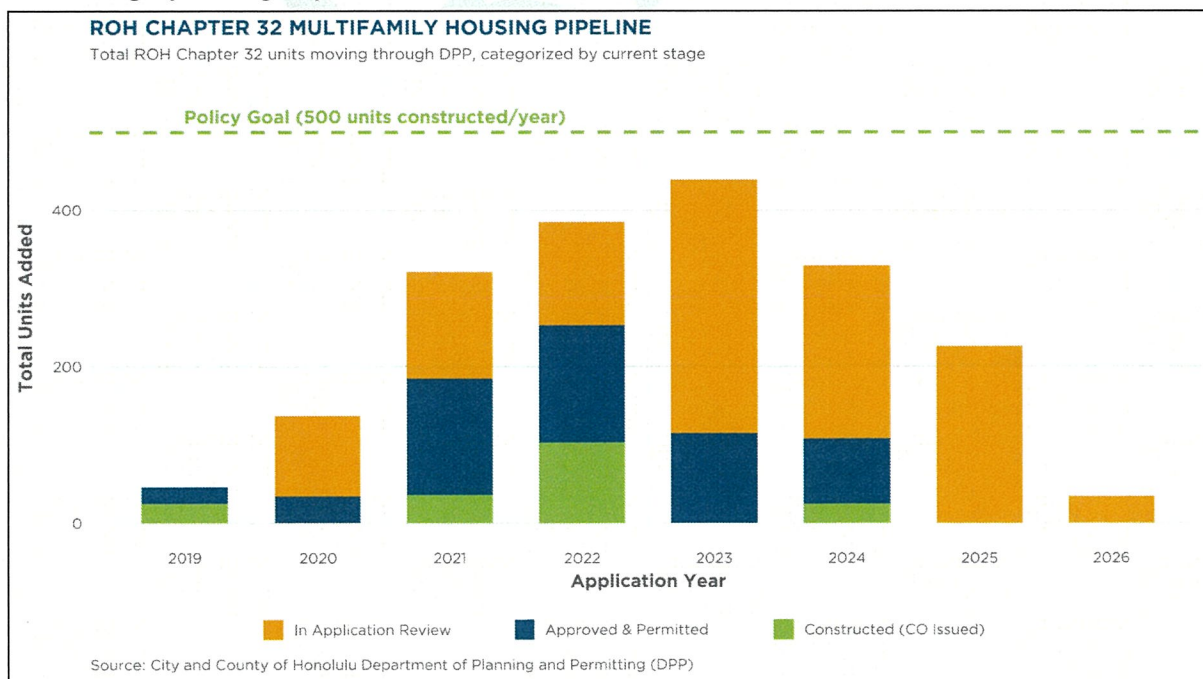
To understand how the Bill 7 program has performed relative to its original intent, and whether its design incorporates the lessons noted above, we analyze 4 key questions:

- How many units has Bill 7 delivered? (target: 500 units per year)
- How quickly are Bill 7 projects being permitted (target: 90 days)
- Is Bill 7 concentrated in job-rich, transit-served locations?
- Are program incentives calibrated to project feasibility?

We address these questions with a combination of federal, state, and local administrative data; interviews with Bill 7 developers; and a prototype feasibility simulator developed by UHERO.

Production volume and pipeline

Methodology. Bill 7 established a target of 500 units per year. We review building permit data from DPP, categorizing permits into Bill 7 multifamily, non-Bill 7 multifamily, and other. Then we compare the total number of units and projects reviewed, permitted, and constructed by year in each category, noting any distinctive trends.

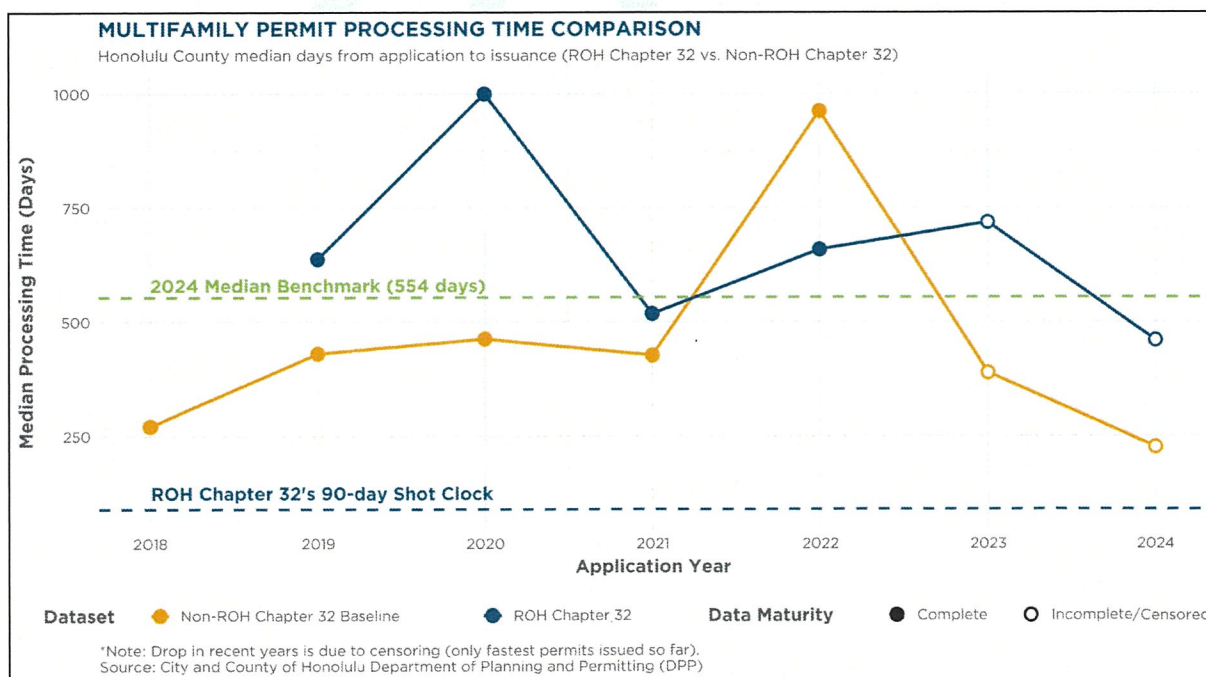


Findings. While the Bill 7 program has succeeded in producing 189 workforce housing units to date and permitting hundreds more, it has not reached the proposed benchmark for units produced in any year to date. Assuming that all “Approved & Permitted” units are completed, the program will have achieved its best year in 2022, achieving more than 50% of its goal—though more recent years may still be too soon to tell. Permit applications peaked at more than 400 units in 2023, when the program represented more than one-quarter of all proposed multifamily housing units. That proportion has fallen even while non-Bill 7 projects remain steady, signaling a concerning decline in developer appetite for Bill 7 projects specifically.

While the vast majority of other multifamily projects in a given year receive their permits and are constructed within a few years, Bill 7 projects seem to linger in the application review phase. The challenges in reaching the annual 500-unit target and the decreasing number of proposals in recent years suggests that administrative friction and market conditions (such as high interest rates) may be outweighing the policy’s incentives. Inexperience with the program rules on both sides of the permit counter may also play a role in prolonging reviews. A closer analysis of interactions between DPP and Bill 7 developers is warranted to understand these trends.

Permitting times

Methodology. In this section, we analyze project and building permit data provided by the Department of Planning and Permitting (DPP) on Chapter 32 and other multifamily projects to understand whether the 90-day shot clock contained in Honolulu’s Chapter 32 (Bill 7) program is functioning as intended.



Findings. A review of the permit processing data reveals a disconnect between the bill's 90-day processing mandate and the actual timelines experienced by developers. Data shows that ROH Chapter 32 projects have consistently faced delays at DPP rather than benefiting from the mandated expedited pathway. For mature data cohorts between 2019 and 2022, median processing times for ROH Chapter 32 applications ranged from 518 days to 1,000 days, far from the 90-day shot clock. Of the 59 pending projects, only 19 have received building permits. For those 19, the average time from application to permit issuance was 661 days (median 548 days), or nearly two years of processing time². Projects still under review are excluded from this calculation as no issuance date exists.

The data further suggest that the policy has underperformed standard processing routes in most years. While processing times appear to be trending down in recent years, this is primarily a result of selection bias: only the exceptionally fast applications from those recent cohorts have reached issuance so far. Ultimately, the empirical evidence indicates that the policy intent to insulate Bill 7 projects from permitting delays has not been achieved, neutralizing one of Chapter 32's primary developer incentives.

Transit access and parking context

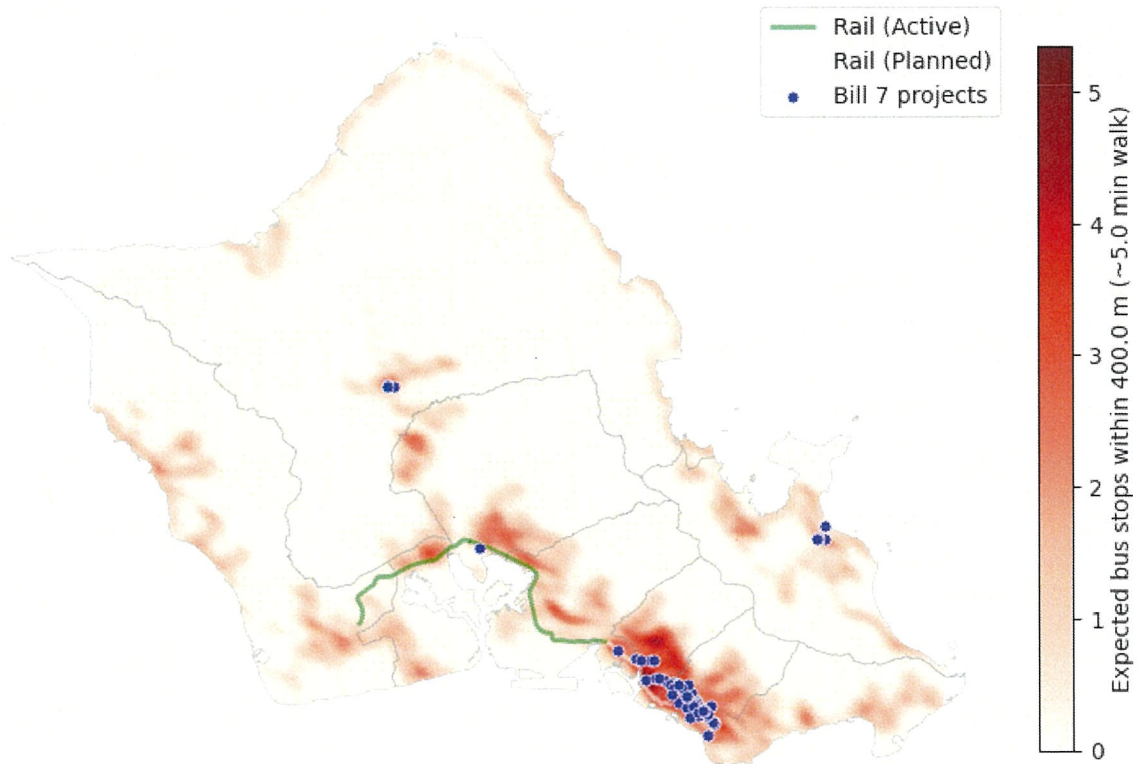
Methodology. This analysis combines project, transit, and U.S. Census data to compare the transportation context of Bill 7 projects with countywide and earnings-based benchmarks. Project locations, unit counts, and development status were provided by the Department of Planning and Permitting (DPP). Transit features, including bus stops, the Skyline route, and transit-oriented development (TOD) plan areas, were drawn from the Honolulu Open Geospatial Data Portal. Transportation indicators came from the 2020–2024 American Community Survey 5-year estimates, including tables on vehicle availability, commute time, and means of transportation to work. Each Bill 7 project was mapped to its census tract and matched to nearby transit features. Tract-level transportation indicators were then compiled for the tracts containing Bill 7 projects and compared with two benchmarks: countywide averages and an earnings-based benchmark intended to approximate the Bill 7 population island-wide. Portfolio summaries were weighted by the number of affordable units in each project so that larger projects counted more than smaller ones.

Findings. A common criticism of Chapter 32 projects is that they do not provide enough parking. The transportation data point in the opposite direction. These projects are not scattered randomly across O'ahu. They are concentrated in places that are already well served by transit and less dependent on private automobiles than Honolulu County as a whole. All 65 projects in the portfolio are within 400 meters (0.25mi) of a bus stop, and the typical project has 10 bus stops within that distance. The average distance to the nearest stop is about 120 meters, and the median is about 109 meters, roughly a 90-second walk. As the following figure shows, the

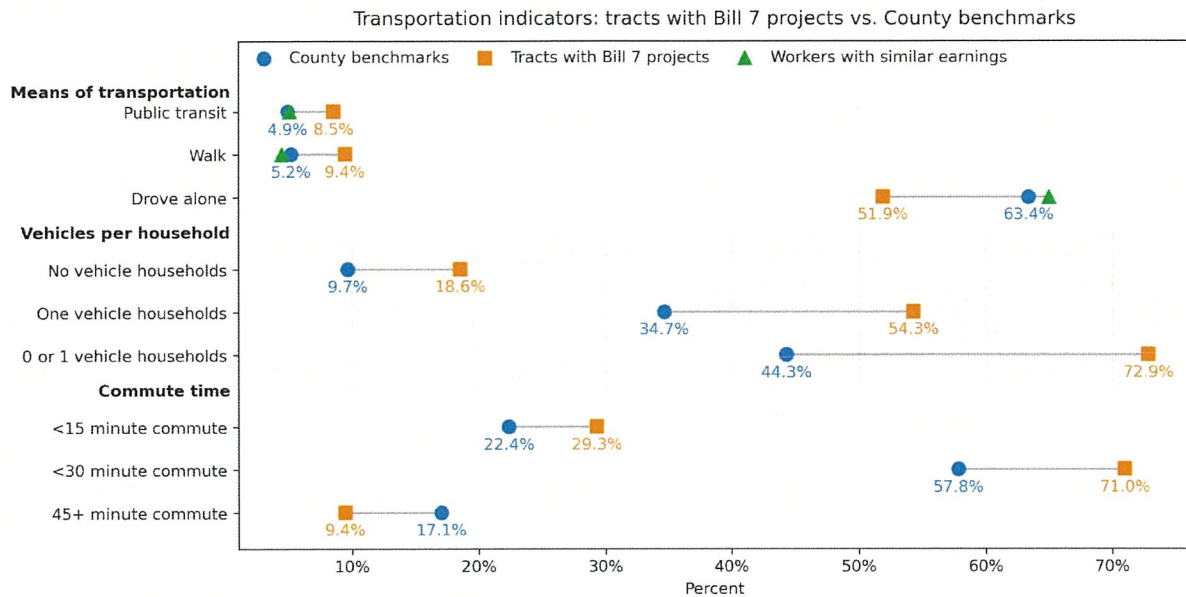
² Many Bill 7 projects proceed under Special Assignment Inspection (SAI), which "allows construction to proceed prior to obtaining a building permit," subject to ROH § 18-3.1(c). With approval and for an additional fee, SAI allows a developer to proceed at their own risk and petition for their permits after the project is complete. The current analysis does not account for differential use of SAI in its comparison.

projects are concentrated in the island's transit-rich urban corridor rather than in isolated, auto-oriented areas. Six projects, accounting for nearly 15 percent of all units in the program, are also within one-half mile of Skyline stations in the Kalihi, Downtown, and Ala Moana TOD areas. Notably, the program's future portfolio is more transit-oriented than its built record to date: projects still in the pipeline are 30 meters closer to bus stops on average than completed ones.

Bus Stop Density in Honolulu (stops within a 5 min walk)



Census tract-level transportation indicators tell the same story. Across 1,949 affordable units in 65 projects spanning 35 census tracts, project tracts are materially less car-dependent than the county overall. In project tracts, 51.9 percent of residents drive alone to work, compared with 63.4 percent countywide. Public transit use is 8.5 percent versus 4.9 percent countywide, and walking to work is 9.4 percent versus 5.2 percent. The share of households with no vehicle is 18.6 percent in project tracts, nearly double the county benchmark of 9.7 percent. The share of households with zero or one vehicle is 72.9 percent, compared with 44.3 percent countywide. Reported commute times are also significantly lower: 71.0 percent of workers in project tracts commute in under 30 minutes, compared with 57.8 percent countywide, while the share with commutes of 45 minutes or more is 9.4 percent versus 17.1 percent. In short, neighborhoods with completed or proposed Bill 7 projects are neighborhoods where residents already own fewer cars and commute in ways that rely less on solo driving. The same pattern holds when the comparison is narrowed to an earnings-based benchmark that approximates likely residents of workforce housing. The following figure summarizes these differences.



This pattern is broad across the portfolio, not the product of a few unusually urban sites. Fifty-six of the 65 projects, representing 85.3 percent of affordable units, are in tracts with a lower drove-alone share than the county benchmark. Fifty-three projects, representing 80.8 percent of units, are in tracts with a higher transit share than the county. Sixty projects, representing 91.3 percent of units, are in tracts with a higher share of zero- or one-vehicle households. Fifty-seven projects, representing 87.1 percent of units, are in tracts with a higher share of sub-30-minute commutes. This does not prove that parking demand is zero, and it does not mean every project can function with the same parking supply. The Census measures describe surrounding tract conditions, not the behavior of residents in the projects themselves, and the earnings benchmark is based on worker earnings rather than AMI eligibility. Still, the evidence strongly suggests that conventional suburban parking assumptions do not fit this portfolio. For Bill 7 projects, parking exemptions are best understood not as a giveaway, but as a reasonable response to small lots, strong transit access, and neighborhood travel patterns that meaningfully differ from the island norm.

Incentives and development feasibility

UHERO is constructing a parcel-level simulation model of the City that estimates what kind of housing is likely to be built, and how much, under different regulatory and market conditions. The inspiration for this model is the Turner Center's Housing Policy Dashboard for Los Angeles, which was designed to help planners and policymakers test how changes in land-use rules and other inputs affect housing supply (Casey et al., 2022). Conceptually, it layers a real estate pro forma over parcel-specific zoning and development rules: for each site, it tests the building envelopes and unit counts that are legally allowed, estimates development costs, revenues, and returns for those alternatives, selects the financially optimal project, and then uses those financial results to infer the likelihood of development and expected unit yield. That matters because debates over zoning, parking, height, fees, and permitting often proceed without a

disciplined way to connect policy choices to whether projects actually pencil. For this demonstration of the model, we compare the standard pipeline and Bill 7 on real Chapter 32 parcels, so the exercise is grounded in sites that have already demonstrated real-world feasibility.

Base zoning. Under the base zoning assumptions, very few new units would pencil. Across 62 parcels, the model shows a median legal project size of just 8 units and a total of 565 maximum units, with only 183 affordable units. The financial side is thinner still: only 13 of 62 parcels show positive modeled profit, the median modeled profit is a loss of -\$1.6 million, and the median probability of development is 0.00. Expected production therefore is only 102 total units and just 36 affordable units. Interpreted plainly, base zoning appears to make most small-lot sites non-viable. On these parcels, development standards often allow too little housing to overcome the fixed costs of land, design, financing, and construction.

Bill 7 program. Under the Bill 7 pipeline assumptions, the picture changes sharply. Across 65 parcels, the model selects a median legal project size of 29 units and a total of 1,948 maximum units, including at least 1,594 affordable units. Fifty-nine of 65 parcels show positive modeled profit, the median development probability rises to about 0.95, and expected production factoring in financial considerations rises from about 102 to about 1,685 units (17x). In other words, Bill 7 is moving a large share of small infill parcels from marginal or infeasible into a range where development becomes financially plausible.

Table 1: Simulated development outcomes under base zoning and Bill 7 assumptions

Metric	Base zoning scenario	Bill 7 scenario	Difference	Interpretation
Median selected project size (units)	8	29	+21	Bill 7 allows a much larger viable project on the typical site
Total legal maximum units	565	1,948	+1,383	Bill 7 greatly expands theoretical buildout on these parcels
Parcels with positive modeled profit	13 of 62	56 or 57 of 62*	large increase	Feasibility improves on most sites
Median probability of development	0.00	~0.95	—	Base zoning rarely pencils; Bill 7 often does
Expected total units	102	1,685	+1,583	Bill 7 changes not just paper capacity, but likely production

In the Turner framework, the key test is not simply whether a policy allows more units on paper, but whether it improves the financial outcomes enough to raise the probability that projects are actually built; expected units are therefore most useful as a portfolio-wide measure rather than a prediction for any one parcel. By that standard, the prototype results strongly suggest that Bill 7's combination of added development capacity and cost relief is what makes these small urban parcels pencil. At the same time, the results also show that the program is not universally sufficient: a small number of Bill 7 sites still have low or zero modeled probability, and some remain only weakly profitable.

Discussion: Strengthening the Bill 7 program

With nearly 200 units delivered and 2,000 proposed, Bill 7 has demonstrated that Honolulu can use targeted land-use reform and financial incentives to produce workforce housing on small urban parcels. To help the program meet its goal of 500 units per year in future years, policymakers can address weaknesses in implementation, including reducing permitting delays, updating building code exemptions, and increasing feasibility near Skyline stations. They can also add new tools to the Bill 7 program inspired by other jurisdictions such as facilitating land access and providing public financing.

Weaknesses in implementation

Permitting delays. A by-right or streamlined pathway loses much of its value if review times remain long and uncertain in practice. Developer interviews conducted for this report consistently identify permitting delay, internal handoffs, and infrastructure coordination as major sources of cost and risk. Preliminary UHERO analysis of building permits suggests that Bill 7 permits are actually issued even more slowly than their typical multi-family counterparts. Any revisions to the program should first seek to understand and address the reasons for these continued delays.

For process comparison, Austin, Texas combines fee waivers and affordability requirements with separate review lanes and concierge assistance for workforce projects in its SMART Housing Program. Its published commercial plan review schedule includes a 7-business-day review track for SMART Housing projects, compared with longer review times for standard projects (City of Austin, n.d.-a, n.d.-b). The City's housing staff help developers resolve issues with other city departments, including permitting. Honolulu does not need to replicate Austin's program wholesale, but it should treat Chapter 32 permitting as a distinct operating system rather than simply another permit category within the existing queue.

Code exemptions. Some regulatory aspects of the program may also need to be recalibrated to align with modern codes and market conditions. Some incentives are less valuable than they appear once labor standards or other conditions are applied, while other code accommodations may not yield real savings unless architects, engineers, and insurers are prepared to use them. Honolulu should therefore conduct a provision-by-provision review of Chapter 32 and distinguish between incentives that still create meaningful value and those that now function mainly on paper in consultation with design, construction, and development professionals. That review could also be paired with regular performance monitoring. At present, the law requires periodic reporting, but a program that is still evolving would benefit from more public visibility of applications, approvals, completions, permit timelines, and the rents and unit types actually being produced.

Feasibility in rail districts. A stronger second-generation program would also be more intentional about where it expands. The transportation analysis in this report suggests that Bill 7 already performs well in bus-served urban neighborhoods, but it appears less tailored to Skyline

station areas and larger opportunity sites. Minneapolis offers a useful comparison. Its 2040 reforms did not rely on a single special housing program; instead, they allowed multifamily housing by-right on public transit routes, with higher densities near transit stations, and later moved toward eliminating off-street parking minimums as part of a broader package of housing reforms (Local Housing Solutions, 2021). Honolulu could extend the current program into business zones, but it need not extend Chapter 32 citywide to draw the lesson. A practical next step would be to create a TOD or rail-corridor tier within Bill 7 that offers additional height, FAR, and unit yield near Skyline stations or in adopted transit-oriented districts, including on somewhat larger urban parcels where mid-rise workforce housing is likely to be more economical.

Additional tools to consider

Land access. Bill 7 currently depends on a narrow pool of willing owners and workable privately held parcels, which limits the program's long-run scale. Washington, D.C. offers a more relevant model for this problem. Through its Property Acquisition and Disposition Division, the District acquires vacant, abandoned, and deteriorated residential properties through negotiated sale, eminent domain, donation, or tax-sale foreclosure, then disposes of those sites to individuals or developers for rehabilitation into affordable and market-rate housing (District of Columbia Department of Housing and Community Development [DHCD], 2024). The related Vacant to Vibrant initiative used that inventory more strategically, including auctions and other disposition tools aimed at producing workforce housing on publicly controlled sites (DHCD, n.d.). Likewise, Honolulu could identify publicly-owned parcels, chronically vacant or blighted properties, adaptive-reuse candidates, and corridor sites, and pair these with Chapter 32 through ground leases, requests for proposals, or other disposition tools.

Financing. Interviews and UHERO simulations suggest that the supply of available financing for Bill 7 projects is another binding constraint on expansion. Current city assistance under Chapter 32 relies mainly on waivers, tax relief, and grants, which are useful but may become less valuable over time as development costs increase. In a higher-interest-rate environment, many projects appear to be constrained less by rents than by lender caution, equity requirements, and the cost of construction debt.

Philadelphia's Workforce Housing Program addresses this by adding a workforce housing credit enhancement that partially guarantees eligible construction loans—up to 25 percent of loans covering as much as 85 percent of construction costs, subject to a cap—which HUD describes as a way to make projects feasible with only a light draw on municipal funds (City of Philadelphia, 2019; HUD USER, 2020). Honolulu could consider a similar revolving finance tool for Chapter 32, such as partial construction loan guarantees, interest-rate buy-downs, or subordinate recoverable loans. Unlike one-time grants, these tools can reduce the cost of capital directly and may allow scarce local dollars to support more projects over time.

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Appendix: An Overview of Honolulu's Bill 7 Program

ROH Chapter 32 (Bill 7) originally enacted as Ordinance 19-8, is Honolulu's primary infill/workforce housing program that incentivizes development for the "missing middle" housing in the city's underutilized urban land. Expiring in 2030, it operates as a voluntary, by-right pathway that incentivizes small-lot development where standard market-rate projects may be financially infeasible.

Applicability

Unlike the city-wide Affordable Housing Requirement (ROH Chapter 29), Bill 7's scope is geographically and physically constrained to specific underutilized land. The program applies exclusively to lots of 20,000 square feet or less within the apartment, apartment mixed use, and business mixed use zoning districts (Ordinance 19-8). By targeting these smaller areas, the policy focuses on land that major developers typically ignore due to economies of scale. Consequently, the program heavily relies on small landowners and emerging developers who may lack the capital or experience of the large scale firms. The policy creates a unique opportunity for small developers introducing them to a unique implementation dynamic who are often more sensitive to interest rate fluctuations and infrastructure costs than larger firms.

Intensity and affordability

In order to qualify for the program's incentives, a developer must adhere to a number of requirements. Firstly, the development must primarily be residential. Mixed use projects are permitted in the condition that the non-residential component is restricted to the ground floor only. The property also cannot be subsidized into individual condominium units for sale, as it needs to remain a rental project to ensure the preservation of rental stock.

Additionally, the program's affordability requirements target "workforce housing" rather than deeply subsidized low income housing. Specifically, developers must have 80% of the total units rented out to households earning 100 % area median income (AMI) or less. A critical distinction of ROH Chapter 32 is duration of adherence to covenants. The specific affordability covenant must remain in effect for at least 15 years. This is significantly shorter than the 30-year requirement in ROH Chapter 29 or the perpetuity requirement of some state programs.. This 15-year tier is policy concession designed to align with the financing realities of small developers, which allows them to refinance or exit the investment on a timeline that private lenders find acceptable (Ordinance 19-8).

Flexibility and incentives

The city offers regulatory and financial incentives designed to lower the costs of construction in exchange for the constraints:

- **Regulatory Relief:** One of the most significant incentives is the elimination of off-street parking requirements (ROH §32-2.3). On smaller lots, the space and planning required for parking ramps often makes housing physically impossible and financially straining. Waiving this requirement allows for maximizing the building structure. Furthermore, the program allows for a density of up to 4.0 Floor Area Ratio (FAR) and building heights up to 60 feet, overruling tighter underlying zoning limits.
- **Process Streamlining:** To reduce holding costs, the policy mandates a statutory 90-day processing deadline for building permits. If the building official fails to act within this window, the application is considered approved. This provides permitting certainty to lenders (ROH §32-1.5). However, the practical application of this time limit has faced significant challenges, with many developers reporting approval times extending to two years due to backlogs at the Department of Planning and Permitting (DPP).
- **Financial Subsidies:** The program waives building permit fees, park dedication requirements, and wastewater system facility charges, providing major upfront savings to small developers. Additionally, developers have a choice of either a post-construction grant or pre-construction subsidy. Ordinance 24-23 provides post-construction cash grants of \$12,000 per standard affordable unit and Ordinance 25-19 provides a pre-construction subsidy of up to \$50,000 per unit to cover prevailing wages. Both of these ordinances offer the incentives to bridge the gap between construction costs and workforce rents.