



Implementing an Affordable Housing Requirement

More than 50 years after the post-statehood construction boom that transformed Hawaii, the island of Oahu finds itself in a housing crisis and needs to build more than 24,000 housing units to meet current demand. Over three quarters of the demand is for households earning less than 80% of the area median income (AMI), or \$83,700 for a family of four. The Mayor's Affordable Housing Strategy addresses these needs with new and revised policies, incentives, regulations, and investments in partnership with developers, builders, and other stakeholders. Key priorities include the use of city lands for affordable housing, rental housing funding, the accessory dwelling unit program, transit-oriented development (TOD) infrastructure investments to support affordable housing, and new TOD zoning around the future rail transit stations.

Two related bills have recently been adopted by the City Council. Both bills, accompanying director's reports, and extensive background research and analysis are available on the Mayor's Office of Housing website at: www.honolulu.gov/housing/affordable-housing.

Affordable Housing Requirement (AHR). Bill 58 (2017) was recently adopted by the City Council and signed into law by Mayor Caldwell. It establishes an affordable housing requirement on residential development projects to help address the critical affordable housing shortage on Oahu.

- The AHR applies to for-sale projects of 10 or more dwelling units, including subdivisions. It also applies to conversion of commercial buildings or rental residential buildings to for-sale residential units.
- Rental projects are exempted from the AHR, but affordable rental units may be provided to meet the requirement of for-sale projects. Accessory dwelling units (ADUs), micro-units, special needs housing, group living facilities, and timeshares are also exempted. Project types that are already required to provide affordable units are also exempted. Building permits accepted as complete by April 3, 2018, are exempted; subdivisions and projects covered by unilateral or development agreements approved by April 3, 2018, are also exempted.
- The levels of affordability for the affordable units focus on homebuyers earning 120% of the AMI and below, and renters earning 80% of the AMI and below.
- Units are incentivized (with a lower required percentage of units) to stay affordable for 30 years to build up and maintain the affordable housing supply over time. Developers have options to provide substantially more affordable units in return for a shorter required affordability period. The required number of affordable units may be adjusted for varying unit sizes and lower income ranges.
- A series of "step-up" marketing periods after 120 days is provided in case developers are unable to find buyers or renters at the lower AMI levels. The step-up periods allow units to be sold to households at higher AMI levels, but at the original affordable price.
- The TOD areas will offer new mixed-use zoning with the potential for higher heights and densities, so the AHR is higher for projects wishing to use this additional height and density.

Development types and circumstances vary, so the AHR includes several options for compliance. These include for-sale or for-rental dwelling units, production on-site or off-site, and conveyance of improved land to the City or a third party (see the tables on the following pages for details).

An affordable housing agreement must be accepted by the Department of Planning and Permitting, and a declaration of restrictive covenant must be executed and recorded, prior to final approval of any permit or other entitlement. Once the affordable housing agreement is accepted, the project's affordable units become eligible for the incentives described below.

Affordable Housing Incentives. Ordinance 18-1 (Bill 59-2017) provides incentives such as fee and property tax waivers for creating affordable units. The incentives apply to affordable units in AHR projects and TOD permits, and to all units in qualifying affordable rental projects per new state legislation that applies to rental projects where all units are affordable to households earning 140% of AMI or below, including 20% of units at or below 80% of AMI (see attached summary sheet). The one-time fee incentives are estimated to range from \$35,000 to \$70,000 per unit, depending on unit size, location, and project type. On average, another \$69,000 per affordable rental unit in property tax may be waived over a 30-year affordability period.

Affordable Housing Requirement: TOD Areas

IPD-T, PD-T, or TOD Special District Projects seeking bonus height and/or density Interim Planned Development-Transit (IPD-T), Planned Development-Transit (PD-T), and TOD Special District permits are three types of transit-oriented development (TOD) permits that may request higher heights and densities in TOD zones. These projects seeking bonus height and/or density in TOD areas will be required to provide community benefits which must include additional affordable housing beyond the base requirements below (see applicable TOD special district permit type).				
Option	On-Site or Off-Site Production ¹	Affordable Housing In SAME Rail Transit Station Area as Principal Project	Affordable Units as a Percent of Total Units	Affordability Period ²
FOR-SALE PROJECTS: Affordable units SOLD to households at 120% AMI and below; one-half at 100% and below				
Option 1.a	On- or Off-Site	Yes	10%	30 Years
Option 1.b			20%	10 Years
Option 1.c			30%	5 Years
Option 2.a	Off-Site	No	15%	30 Years
Option 2.b			25%	10 Years
Option 2.c			35%	5 Years
RENTAL PROJECTS: Affordable units RENTED to households at 80% AMI and below				
Option 3	On- or Off-Site	Yes or Director approval	15%	30 Years
OTHER OPTIONS				
Option 4	Combination of two more options listed above, subject to Director approval			
Option 5	Conveyance of improved land if other options not possible, subject to Director approval ⁴			
* See footnotes on next page. See text handout for the types of projects affected and other details.				

Example: Principal Project using TOD Special District Permit with 300 units, located in the Ala Moana Station Area
<p>Option 1.a: 300 units x 10% = 30 for-sale affordable dwelling units, 15 units sold to households earning 100% and below of AMI, 15 units sold to households earning 120% and below of AMI, to remain affordable for 30 years.</p> <p><u>Combining Options:</u> If used, the declarant shall designate the proportionate share of the affordable housing requirement that each option will fulfill, and the sum of the proportionate shares must equal or exceed one.</p> <p>Option 1.a (80% of fulfillment): 300 units x 10% = 30 x 80% = 24 affordable for-sale units, 12 units sold to households earning 100% and below of AMI, 12 units sold to households earning 120% and below of AMI, to remain affordable for 30 years.</p> <p>+</p> <p>Option 3 (20% of fulfillment): 300 units x 15% = 45 x 20% = 9 affordable rental units for households earning 80% and below of AMI, to remain affordable for 30 years.</p> <p>= 100% of affordable housing requirement fulfilled</p>

Affordable Housing Requirement: Islandwide

All areas islandwide (excluding IPD-T, PD-T, or TOD Special District Projects)				
Projects in TOD areas that are <u>not</u> seeking bonus height and/or density are subject to these lower islandwide requirements.				
Option	On-Site or Off-Site Production ¹	Affordable Housing In SAME Rail Station Area or DP Area ³ as Principal Project	Affordable Units as a Percent of Total Units	Affordability Period ²
FOR-SALE PROJECTS: Affordable units SOLD to households at 120% AMI and below; one-half at 100% and below				
Option 1.a	On- or Off-Site	Yes	5%	30 Years
Option 1.b			10%	10 Years
Option 1.c			15%	5 Years
Option 2.a	Off-Site	No	10%	30 Years
Option 2.b			15%	10 Years
Option 2.c			20%	5 Years
RENTAL PROJECTS: Affordable units RENTED to households at 80% AMI and below				
Option 3	On- or Off-Site	Yes or Director approval	5%	30 Years
OTHER OPTIONS				
Option 4	Combination of two more options listed above, subject to Director approval			
Option 5	Conveyance of improved land if other options not possible, subject to Director approval ⁴			
<i>* See footnotes below. See text handout for the types of projects affected and other details.</i>				

* Footnotes	
1.	"On-site" means construction or other activities that occur on the site of the Principal Project. "Off-site" refers to a site other than where the Principal Project is located. Any on-site or off-site affordable dwelling unit provided through substantial rehabilitation will count as one unit.
2.	For for-sale units, begins on the date when the unit is initially sold to a qualified buyer. For rental units, begins on the date that the unit is initially rented to a qualified renter.
3.	Affordable housing must be located in the same Rail Transit Station Area, Development Plan Area or Sustainable Communities Plan Area as the Principal Project, OR the higher AHR percentage is required.
4.	The appraised value of the real property conveyed must, at a minimum, be equal to an amount that will be established and may be periodically adjusted by rules adopted by the Director pursuant to Section _-1.11.



Affordable Housing Incentives – Ordinance 18-1

Ordinance 18-1 (Bill 59 (2017)) provides financial incentives to help stimulate affordable housing production, especially rental housing, and to offset impacts of the proposed Affordable Housing Requirement (AHR, Bill 58 (2017)). The incentives include exemptions to real property taxes and waivers for wastewater system facility charges (connection fees), plan review and building permit fees, and park dedication requirements for projects providing affordable dwelling units. The incentives are available for the affordable units provided by three types of projects:

- 1) The AHR, recently adopted by City Council as Bill 58 (2017). Incentives apply to the project's required affordable units (onsite or offsite).
- 2) The Planned Development-Transit (PD-T) permit (ROH 21-9.100-10) and the Interim Planned Development-Transit (IPD-T) permit (ROH 21-9.100-5). Incentives apply to the project's required affordable units (onsite or offsite). The AHR regulates the minimum affordable housing required under the IPD-T or PD-T permits, and incentives will be provided per #1 above.
- 3) Qualifying affordable rental housing projects (per HRS 201H-36(a)(5)). This legislation also provides incentives for projects in which all units are rented at or below 140% of area median income (AMI) and 20% of units are rented at or below 80% of AMI. Incentives apply to all of the project's residential units.

While the financial incentives vary widely depending on location, project type and size, the **average value could range from \$35,000 to \$70,000 per unit** for one-time waivers, and **another \$2,300 per year in real property taxes for affordable rental units (or \$69,000 over a 30 year affordability period)**. The financial incentives will expire on June 30, 2027, except that the real property tax exemption for affordable rental units will continue for the entire required affordability period.

Incentive Type	Description	Value
Waives wastewater system facility charges	One-time, per-unit charge for new construction.	\$6,616 per unit
Waives building permit and plan review fees	Waives fees proportionately for the affordable units.	Based on construction costs. Could average \$2,200 per unit .
Waives park dedication requirements	Most new projects required to dedicate 110 SF of land per unit, or pay a fee equivalent to fair market value of land that would be dedicated. Waives the requirement for affordable units.	Varies widely based on value of the land in the project. Range could average from \$24,000 to \$57,000 per unit .
Exemption for real property tax increases during construction	Tax holiday (during construction) for projects with affordable units. Real property taxes kept at current assessment during construction, for up to three years or until construction is completed	Varies widely based on location and value of the existing buildings and land. Could average up to \$1,000 per unit during construction period.
Exemption for real property taxes (affordable rental units only)	Ongoing annual exemption for affordable rental units; continues during the affordability period, per an affordable housing agreement.	Varies widely based on location, unit size, and project value. Could average \$2,300 per unit per year, or \$69,000 per unit over a 30-year period.

Note: At Mayor Caldwell's request, the Board of Water Supply (BWS) is exploring how to provide similar incentives for affordable housing. As a semi-autonomous city agency, the Board of Directors for the BWS determines any rate changes. Therefore, no waiver for water hook-up charges was included in this bill.