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**AFFORDABLE HOUSING POLICY
AND HAWAII'S FOR-SALE
HOUSING MARKETS**

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EXECUTIVE SUMMARY

This report is intended as a contribution to affordable housing policy discussions in Hawaii. It focuses attention on maintaining and increasing the supply of housing for sale to Hawaii's families, asking whether affordable housing regulations work to help families find housing at reasonable cost. It draws on research on fee simple residential sales over a twenty-year period, and on interviews with experts in government and the private sector. Innovative aspects of the research include: studying the resale history of particular housing units, to see whether units sold at reasonable cost resell at prices within reach of low- to moderate-income buyers, and analyzing sales data in terms of affordability, the amount which, in each year's economic climate, households can pay for housing. Market trends are discussed for the City and County of Honolulu, Maui Island, Hawaii County and Kauai County.

County and State agencies have overlapping responsibilities to assure that Hawaii has a supply of safe housing available at a reasonable cost. Most of the regulation and enforcement of affordable housing falls to the Counties. While County rules and procedures vary, all four tend to require that housing developers price a share of their units as affordable for households earning from 80% to 140% of the local median income. Affordable units typically have conditions on occupancy and resale, so that buyers cannot profit from reselling an affordable unit.

Research

Hawaii's housing markets are small, and characterized by cyclic sales and price phenomena. Since the mid-1990s, new housing production accounts for about a fifth of fee-simple market transactions; the rest are resales. Consequently, affordable housing regulations mandating that a share of new production be affordable deal only with a small share of the market as a whole.

On all islands, new units are being produced at "affordable" prices (within reach of households earning from 80% to 140% of the local median income) and higher ones. Existing units are resold at prices that these market segments can afford. A closer look at resale histories shows some significant trends:

- On Oahu, housing that originally sold at an "affordable" price resells at an affordable price. There is a continuing supply of housing on the market for residents.
- In all the Hawaii markets, the least expensive housing – at prices that families earning well under 80% of the local median can afford -- tends to resell at a higher affordability level. In part, this may be due to subsidies: buyers are getting units of higher value at a reduced price. In part, this may be due to owner improvements. The trend also points to an imbalance of demand over supply that is felt most sharply below the "affordable" level.
- On Maui, Hawaii, and Kauai, resale data show both a tendency for units to become less affordable, and a sharp price rise in the last few years. The impacts of the long-term trend are small in most cases after ten years or so. The data do

support the idea that a large share of the housing stock on those islands is becoming so expensive that it is beyond the reach of most resident households.

- Out-of-state buyers account for a share of the current housing market throughout Hawaii, a large share on Maui, Hawaii and Kauai. They are buying units in all price ranges, not just the highest ones.

Some in Hawaii see overseas buyers as taking housing stock away from residents. That view is unrealistic, since resort units are being developed for that market, rather than for residents. More realistically, the overseas market ties up limited resources – land, capital, construction labor – some of which might otherwise go towards resident housing construction.

Recent housing price increases have occurred in an expanding economy with low interest rates. Those rates are expected to rise, and construction costs will go up with them. At the same time, higher mortgage rates mean that consumers can pay less for housing. Consequently, it will soon be harder to produce and buy affordable housing. Developers are concerned that current trends resemble those of the mid-1990s, just before demand, even for affordable units, fell sharply. When affordable housing units could not be sold, all new housing production was cut back.

Impacts

Affordable housing regulations affect only a small part of the housing supply, and do little to affect prices of resales, the great majority of the housing market. The City and County of Honolulu market continues to have a variety of units within the affordable price ranges. This is not because of regulations – until this month, Honolulu’s affordable housing procedures were less stringent than other counties’ – but because of the size of the market and the economy that supports it.

Throughout Hawaii, affordable housing policies add to the permitting time and paperwork associated with development. Honolulu’s process, in its classic form, involved ten steps and three different departments in the production of affordable units. Now that the classic process is again in force, two different departments are responsible, and they have not been staffed to process and monitor affordable housing production and sales.

Specific affordable housing regulations can have complex impacts. Buyer qualification rules have, at times, so limited the pool of would-be buyers that developers could not sell the “affordable” units. (In response, Honolulu suspended these rules. Maui and Hawaii have procedures to relax the qualifications if buyers cannot be found.) Resale restrictions that limit the equity that the seller of an affordable home can retain may make it impossible for that seller to stay in the housing market. (On Kauai, such restrictions work to insure that the next buyer obtains the house for a reasonable price. On Oahu, the house is resold on the market and “shared appreciation” goes into the City and County’s funds. In this case, shared appreciation does nothing to assure that housing is affordable, and makes it harder for some residents to own homes.)

Because affordable housing regulations drive up the cost and time needed to produce housing, a fast-track process has been developed. The “201G” process (under HRS 201G-118) allows the State to grant exemption from regulations and exactions that drive

up the cost of affordable housing, and limits County review of these projects to a narrow 45-day period.

On Maui, the County has encouraged developers to use the 201G process, and County officials hope to see hundreds of units produced under it in the next few years. However, members of the Maui County Council have expressed unwillingness to support this approach again, since it rules out negotiation by the Council,

On the island of Hawaii, the impact of affordable housing regulations was twofold: (a) projects with State Land Use Commission (SLUC) conditions calling for most units to be affordable simply were not built; (b) nearly all the other projects, permitted under County regulations, paid in-lieu fees rather than build affordable units. Revisions to the County Code in early 2005 raised those fees in order to insure that affordable housing is built in areas with active development.

On Kauai, a major developer has been producing housing under the SLUC conditions. Production is slow, as can be expected in Kauai's small housing market. An important factor limiting demand, and hence new supply, is the rehabilitation of much of the island's housing stock after Hurricane Iniki. Much of the older housing was renovated, lessening residents' wish to move to bigger and better homes.

On Oahu, several affordable housing conditions were relaxed under Ordinances 99-51 and 01-33, but the "moratorium" that simplified the sale and resale of affordable housing ended in August 2005. Currently, administrative rules compiled in 1994 are once again to be followed, until the Planning Commission and City Council approve new regulations.

Recommendations

The major factors affecting the affordability of housing in Hawaii are the size of the market and interest rates. The most important way to assure that homes are produced, sold and resold at reasonable prices that residents can afford is to help to increase the housing supply.

LURF recommends creating incentives for developing affordable housing over and above the level required by land use permits, e.g., through General Excise Tax exemptions or credits.

LURF supports development of a set of subdivision standards for affordable housing projects. To speed the development and sale of affordable housing, LURF supports the use of non-government agents to certify compliance with regulations and to recruit and pre-qualify affordable housing buyers.

LURF has recommended that the City and County of Honolulu continue its moratorium on certain affordable housing regulations (involving buyer qualification, shared appreciation, and buy backs) in order to gain time to move to an incentive-based, rather than a regulatory, housing policy.

LURF also recommends that that the State and Counties invite developers to propose innovative strategies to deliver affordable housing in volume in Hawaii.

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1. OVERVIEW

This report is intended to contribute to discussions on affordable housing policy in Hawaii. It focuses attention on maintaining and increasing the supply of housing for Hawaii's families, asking whether affordable housing regulations work to help families. It brings together information about past and present government policies, housing production, and housing markets over twenty years' time.

Affordable housing is the leading policy issue in Hawaii. In 2004, the Housing and Community Development Corporation ("HCDCH") convened an Affordable Housing Task Force in response to Senate Concurrent Resolution No. 135, S.D. 1. The Task Force developed recommendations to increase production of and access to housing for low- and moderate income families in Hawaii. Key policies recommended by the Task Force were included in Senate Bill No. 179, S.D. 3, H.D. 2, C.D. 1, which passed the State Legislature this year and was enacted as Act 196. In the meantime, housing prices and rents have steadily increased. Demand for housing is strong, but many find themselves priced out of the market. Homeowners worry that real property taxes will soar along with values.

This report was initially triggered by City and County of Honolulu Ordinance No. 01-33. That ordinance continued a moratorium originally established by Ordinance No. 99-51 on certain affordable housing conditions, to expire in August 2005, and called for both a report from the Department of Planning and Permitting (DPP 2005) and a marketing study by proponents of an extension. Research on the Oahu housing market was presented in a submittal by the Land Use Research Foundation of Hawaii ("LURF") to the Department and the City Council (SMS 2005). The present report provides similar information for Maui Island and Kauai and Hawaii Counties, and draws on information about affordable housing regulations and development throughout the state.

On Oahu, LURF argued that continuing the moratorium would be more effective than reinstating conditions on buyer eligibility, shared appreciation and buy backs. The Department of Planning and Permitting has indicated that there are drawbacks to the buyback and shared appreciation conditions, and there may be benefit to extending the moratorium while the City develops new housing policy and completes a "management review" to see whether the City has the assets to supply for affordable housing. The moratorium should therefore be extended for 9 to 12 months, or to June 30, 2006.

This report deals with housing for sale, not rent. Rental housing is very important for Hawaii's quality of life, but it involves a wider range of policy questions and research problems than can be addressed in this study.

The report draws on interviews with government and private-sector housing experts, and on analysis of real property tax data. See Appendix A for a list of interviewees and Appendix B for an account of the real property tax data used for the analysis.

1.1 THE POLICY ISSUE: KEEPING HOUSING AFFORDABLE FOR RESIDENTS

Hawaii policy-makers and other residents are concerned that the price of housing is so high that residents with low- to moderate-range incomes cannot come to own their own

homes. Many fear that increasing numbers of young people will leave Hawaii, never to return.

A national effort to identify and limit regulatory barriers to affordable housing is under way. The Department of Housing and Urban Development's Policy Development and Research branch is encouraging research in this area (2005a). Academic studies have found, for particular areas, that regulations can add from \$40,000 to \$80,000 to the price of a home. Delays in permitting can significantly reduce the amount of construction put in place.

In Hawaii, the Report to the Legislature from the Affordable Housing Task Force convened in 2004 began by noting:

Hawaii is at a critical housing juncture. Rents and sales prices have reached an all time high. Homelessness has increased. . . .lower income families have been priced out of the market. The high cost of housing serves as a major workforce recruiting, retention, and expansion challenge. (Housing and Community Development Corporation of Hawaii, 2005)

The recent increase in real estate prices continues to concern policy makers, who fear that Hawaii's skilled workers may no longer afford to live in the islands. (See, for example, the *Economic Forecast* for Hawaii County and Maui from First Hawaiian Bank, (at www.fhb.com) and a similar warning for Kauai (Schaeffers, 2005b).) Elected officials and housing specialists have reviewed housing policies, with an eye toward getting affordable housing build, or toward limiting the use of island land for vacation homes.

Since the Affordable Housing Task Force report was published, rents and housing prices have increased further. Some of the report's recommendations (discussed below) have been implemented. Still, the problem remains critical.

Hawaii residents and policy makers agree on the importance of developing housing that island residents can afford to buy, and of maintaining an affordable housing stock.¹ They

¹ In policy discussions, "affordable" housing for sale is housing subject to government conditions that it be sold at prices for which households earning 80% to 140% (or 80% to 120%) of the County median income can gain mortgages. The "affordable" price hence depends on incomes and mortgage rates. In general discussions, an "affordable" home is one that residents believe to be within their reach, i.e., it is more a matter of perception than calculation. In this report, a distinction is made between a perceived "reasonable" price and the calculated "affordable" price. However, any discussion of "affordable housing supply" blurs the distinction, since it refers to the total housing supply, not just units produced under a development agreement.

Housing officials commonly separate income groups by income, treated as a share of the County median income. "Very low-income" families earn less than 50% of the median; "low-income" families earn between 50% and 80%, "moderate-income" families earn 80% to 100% (or 120%) . Those earning 120% to 140% of the median are sometimes termed the gap group, based on the idea that they earn too much for price-controlled affordable homes yet too little to buy homes on the market.

For the analysis, SMS has created "affordability" measures using standardized assumptions for all counties, over a twenty-year period. (See Appendix C.) These are not equivalent to the calculations made by each county, since each county may make its own assumptions about family size, down payments, and mortgage rates. The counties can change those assumptions

may disagree on the steps to be taken to advance those aims. Even if they agree on a broad policy approach, they may disagree over who has lead responsibility to advance and implement the policy. New policy initiatives have been proposed by the Governor, the State Legislature, and the Counties. The Legislature recently passed Act 196, including several policies backed by the Affordable Housing Task Force. The County of Hawaii has passed a new Affordable Housing Ordinance (No. 05 23), and other Counties are examining it closely.

At the County level, government involvement in for-sale housing is largely a matter of regulation of new housing production. Few agencies are interested in developing housing. When government bodies do seek to actually develop housing, they do so by donating land and entering into partnership with developers (e.g., the Department of Hawaiian Home Lands [DHHL] and various developers; County of Hawaii with UniDev LLC, for the Waikoloa Workforce Housing Project).

The central question of this study is: What is the impact of affordable housing conditions and regulations? Do they help to assure residents the chance to own homes at reasonable cost?

In policy debates, two points of view are widespread:

- For some, housing prices and availability are part of a market phenomenon, and the best way to promote housing is to let the market function smoothly. Regulation creates additional costs and hence reduces production.
- For others, the housing market is likely to serve various ends – developers' profits, non-residents' desire for vacation homes – and affordable homes may be a casualty of the market. Regulation is needed, then, to get affordable housing produced and to keep housing on the market at prices residents can afford.

These views are stated in extreme form in order to highlight some of the issues that need to be understood to assess the impact of regulations. Specifically:

- What are basic characteristics of housing markets in Hawaii?
 - Is there housing that residents can afford? How does it come to market (as new units or resales)?
 - Does speculation lead housing prices to increase beyond levels that residents can afford? In other words, does housing that sells within the affordable range later resell for higher prices, beyond the levels reasonable for residents?
 - Are market conditions much the same in all areas, so that the same regulations might be expected to be effective across the state?
 - Are market conditions stable enough that regulations can be expected to have much the same effect from year to year?

from year to year independent of each other. While the counties depend on income estimates from the federal Department of Housing and Urban Development, and tabulations of rental and sales prices by family or unit size by the State's Housing and Community Development Corporation of Hawaii, each makes its own determination as to how to use those resources.

- Does the imposition of conditions lead to production of housing at affordable prices?
- Do conditions on affordable housing work to help low- and moderate-income families buy and keep their own homes? Can they continue to participate in the housing market in later years, or are they limited to their “affordable” housing?
- Do all conditions have much the same impact, or are there clear differences?

We do not have all the information needed to answer all these questions fully. Still, an account of both affordability regulations and of market behavior can help to clarify the challenges and opportunities that Hawaii’s people face.

1.2 REGULATORY FRAMEWORKS

1.2.1 Agencies

The State and Counties have overlapping involvement with housing issues:

- The State’s housing agency, the Housing and Community Development Corporation of Hawaii (HCDCH), has broad powers to develop, encourage, own and operate housing. As a State agency, it can approve projects and waive a wide range of exactions and requirements in order to promote affordable housing through the fast-track “201G” process.
- The State Land Use Commission reviews petitions to change the classification of land, notably for large development projects. When it approves a change, it can attach detailed conditions to the approval, including demands that a share of housing be priced for low- or moderate-income Hawaii resident buyers. A typical condition may be that the developer must develop an affordable housing plan acceptable to the County before the property is zoned or subdivided. However, the Commission could impose its own guidelines, and has done so in the past. In the early 1990s, the Land Use Commission imposed the 60% affordable criterion for housing projects.²
- The Department of Hawaiian Home Lands (DHHL) controls more than 200,000 acres. Its mission is to use its assets on behalf of Native Hawaiian beneficiaries, who may be awarded residential, agricultural or pastoral leases. As a State agency founded by an Act of Congress, DHHL is not subject to County authority. In the past, the Department’s most common form of transfer has been a 99-year lease for a dollar a year.
- The Hawaii Community Development Authority (HCDA) has oversight and planning authority for lands at Kakaako and Kalaeloa on Oahu. It can develop

² In December 2004, representatives of Bridge Aina Lea, LLC appeared before the Commission, arguing that the affordable housing requirements attached by the Commission to their project in 1991 should be reduced to comply to current County standards. The Commissioners showed no inclination to undo their predecessors’ ruling.

and implement its own rules, and the HCDA Board can reach its own decisions about affordable housing exactions on a case-by-case basis.³ HCDA rules have been broadly similar to those enacted by the Counties. To date, HCDA has had limited involvement in affordable housing production. However, it is proposing a change in rules whereby residential units could be built in the Kakaako Waterfront area and considering a draft master plan for Kalaheo that could allow development of some 6,500 housing units over 20 or more years. News of the master plan process is posted by HCDA at <http://www.hcdaweb.org/index.cfm?section=kalaheo>.

- The Counties control zoning, subdivision, and building permits. They have personnel to review plans and monitor construction. They administer the Section 8 rental program and several other programs to support renters and homeowners. They also maintain the Real Property Tax databases in which all the lands of the state are listed.

Over the twenty-year period studied here, responsibility has shifted between the State and Counties for regulation. In the 1980s, the Counties were largely responsible for the regulations discussed below. In the early 1990s, the State, under Governor John Waihee, promoted the idea of mixed-income communities. Not only were State projects such as the Villages of Kapolei to include a large share of affordable housing along with market housing, but the Land Use Commission included a 60% affordable to 40% market ratio in its conditions for permits for large residential projects. Under the Cayetano administration, responsibility for affordability conditions was once again treated as a County responsibility. In the last year or two, members of the Land Use Commission have discussed whether they may have a duty to set such conditions, although the Commission as a whole still defers to the Counties to set these conditions.

1.2.2 Key Regulations

Regulations could affect housing prices in many ways. In Hawaii, conditions are typically imposed at the time of initial permitting of a new project (State Land Use Boundary Amendment or County Zoning). Conditions may be standard or negotiated on a case-by-case basis. Next, the developer must work out how the conditions will be followed or implemented for upcoming increments of the project, and gain government authorization to proceed. At this point, specific units are identified as “affordable” to particular income groups. Their prices are set on the basis of schedules updated annually by HCDCH and the counties. Once a unit has been sold, conditions may still be imposed on the resale of the unit.

³ In principle, other State agencies could actively promote new housing. In the Lingle administration, the Department of Land and Natural Resources has reviewed its landholdings and offered to transfer lands to the Counties and DHHL on which new housing could be built. DHHL is currently planning development at the Villages of Leialii, outside Lahaina, on land that the State could not deliver to buyers in fee, since it was ceded land from the Kingdom of Hawaii. The Mayor of Kauai has announced his County’s interest in having new housing built on State land.

This section provides an initial listing and definition of mechanisms in use. Please see Appendix C for a more detailed comparative table developed by HCDCH.⁴ For each county, current regulations and the history of affordable housing conditions are discussed later in this report.

1. *Affordable housing requirement.* A requirement to provide affordable housing may be imposed, or accepted as a condition of permitting, for any development. For residential projects, the requirement may be inclusionary, i.e., the affordable units must be provided within the project. For resort, industrial or other projects, the requirement may take various forms. Sometimes, developers have been required to set aside land for affordable housing. Resort developers have at times been required to build or pay for new workforce housing located in the region of the resort. Often, a fee in lieu of land or units is calculated and accepted by the counties.

For residential projects, the requirement is often expressed as a share of total units. The standard Honolulu requirement, for example, is for 30% to be “affordable,” with 10% -- i.e., a third of the affordable units -- priced for families earning up to 80% of the median income and 20% priced for families earning up to 120% of the median.

2. *Housing Credits.* Affordability requirements can be seen as “credits” in two situations:
 - a. First, if a developer produces more affordable units than required, the county may allow those units to be counted as credits against future production, or transferred to count against other developments.
 - b. Next, instead of insisting that developers build units for sale at two or three price points, the counties may allow developers to meet their affordability requirement by providing a different mix, and credit developers for serving lower income groups. Hawaii County has recently instituted a comprehensive credit system
3. *Pricing.* Prices are set based on income levels for a family of the size appropriate for a given unit. A three-bedroom home could be occupied by families of as many as six people; in Honolulu, the price is set on the basis of the estimated income of a family of five persons at a given income level.

⁴ This discussion was drafted before Appendix C was publicized, and uses slightly different terminology at points. It is based on regulations and interviews concerning their implementation. Appendix C contrasts specific regulations with proposed changes under consideration in Maui and Kauai.

Exhibit 1-A: AFFORDABLE HOUSING CREDITS, HAWAII COUNTY CODE SECTION 11-5

	Income level of Household (in relation to County median income)				
	under 60%	under 80%	under 100%	under 120%	under 140%
Production and sale of Completed dwelling		2.0	1.5	1.0	0.5
Lot		1.0	0.5		
Production of rental unit	2.0	1.5	1.0		
Donation of land to a nonprofit for construction of dwellings					
For sale		1.0			
For rent	1.0				

4. *Buyer Qualification.* Buyers of affordable units are expected to be residents, with incomes within the range for which the unit was priced, who do not already own their homes. Pricing and income qualification can diverge because income levels are calculated on the basis of family size. At the 80% of median level, the range in affordable prices can vary by \$20,000 according to family size (2005 price thresholds, calculated by the City and County of Honolulu Department of Planning and Permitting [DPP]):

- One person: \$37,950
- Two persons: \$43,400
- Three persons: \$48,400
- Four persons: \$54,250
- Five persons: \$58,600.

5. *Time Limits on Buyer Qualifications.* In the event that qualified buyers are not able to purchase homes designated for their income level, county rules may allow for others to purchase the units. In the City and County of Honolulu, the 1999 moratorium set aside income qualifications when developers reported that, in the then current market, they couldn't find qualified buyers for the affordable units. Maui and Hawaii Counties insist on income qualification for the first ninety days of the sales period. If a qualified buyer has not emerged, the unit can next be sold to applicants who have previously owned a home (Hawaii County Code 11-9 (e)) or to ones with somewhat higher incomes (Maui County Code 2.86.610).

6. *Owner-Occupancy.* Buyers of affordable units must attest that they will occupy the unit and not rent it or leave it vacant. Owner-occupancy agreements may cover one year or longer. Owner-occupancy may also be a condition at the time a unit is resold, i.e., that the new buyer also be an owner-occupant.

7. *First-Time Homebuyer Rules.* Buyers of affordable housing may be limited to persons without existing homes or a share in existing homes.

8. *Limits on Resale.* Conditions on affordable units go with the deed, and can affect the resale of the units for several years (with terms varying by County, by the particular development agreements, and by the income level of the unit):
 - a. *Buy Backs:* The County may have the right to buy the property back from a would-be seller, paying a price based on the original affordable price, plus compensation for improvements, plus a limited return on the original buyer's investment. Maui and Honolulu have often waived their right to buy back housing. On Kauai, the County has arranged for new buyers to purchase units at the buy-back price (personal communication, Ken Rainforth, August 2005). Buy-back requirements may place a county in an undesirable position, should property values fall. In such cases, the buy-back price might be higher than market prices.
 - b. *Shared Appreciation.* Shared appreciation involves much the same calculation of the initial owner's rights in property as in the case of buy-backs. Shared appreciation occurs when the owner of an affordable unit sells the property in the market. The title company handling the sale then notifies that the County has a right to a share of the increased value of the property, and notifies the County. The County then has any improvements appraised. The original buyer receives income based on the original purchase price and any improvements, and the County "shares" the remainder, putting its income into housing development funds. (The City and County of Honolulu has a shared appreciation rule, administered by the Department of Budget and Fiscal Services.)

1.2.3 Incentives

While this report is concerned with *regulatory* strategies, alternative ways to grow and maintain the affordable housing supply deserve note:

- The "housing credits" discussed above provide an incentive for increasing production of affordable units.
- The County of Hawaii has instituted a "density bonus," whereby projects for which affordable housing is built can increase the number of units, and decrease the size of lots, by 10% (Hawaii Code 11-8).
- The County of Kauai has used housing funds to help first-time buyers qualify for mortgages. A similar program is now being proposed for Maui.
- The State of Hawaii has created incentives for affordable housing production through legislation to "fast track" these projects. Under HRS 201G-118, HCDCH can exempt an affordable housing project from statutes, ordinances and rules related to planning, zoning, and subdivision, so long as the project is not disapproved by the County Council and the Land Use Commission within a forty-five day period after submission. Both quick processing and exemptions from requirements can allow developers to produce units at less cost.

The fast-track process is risky for all concerned. On Maui, the Puunoa project has been submitted twice, and rejected twice by the Maui County Council. The Council approved the Hale Mua project, but found the process very difficult, since they had no way under 201G rules to change the project to respond to concerns of neighbors.

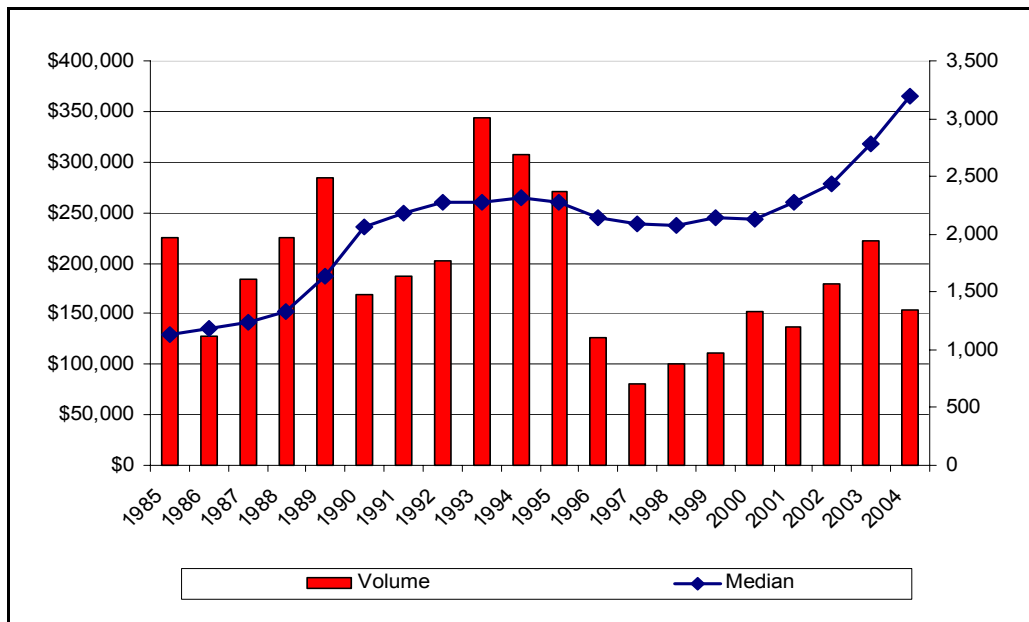
1.3 HAWAII HOUSING MARKETS

1.3.1 Market Characteristics

Housing markets over a twenty-year period on Oahu, Maui, Hawaii, and Kauai are discussed in later sections.⁵ This account points out key findings and trends in the data that provide the context for regulations:

1. The housing market is cyclic. Prices can boom, encouraging new production and sales, then stabilize or even fall. When they do so, production drops. Exhibit 1-B shows the median annual price for home sales (combining condo and single family sales in the database), the affordable price for a family of four with the median County income, and new housing units built by year.

Exhibit 1-B: MEDIAN HOUSING PRICES AND VOLUME OF NEW HOUSING, HONOLULU



2. At times, market prices are well within the reach of residents. Then, “affordable” homes may sell for about the same price as market homes. However, the

⁵ The analysis covers the period 1985 to 2004. While the data sets are very large, they are not guaranteed to be exhaustive. They are used, much as Multiple Listings Service (MLS) records are used, as large-sample indicators of a larger population. As a rule, the data should be close to, but not necessarily equivalent to, MLS data. For Maui, Hawaii, and Kauai, the available records for 2004 are clearly incomplete: some new units have not yet been entered into the database used by SMS. Further information is provided in the appendix on methodology.

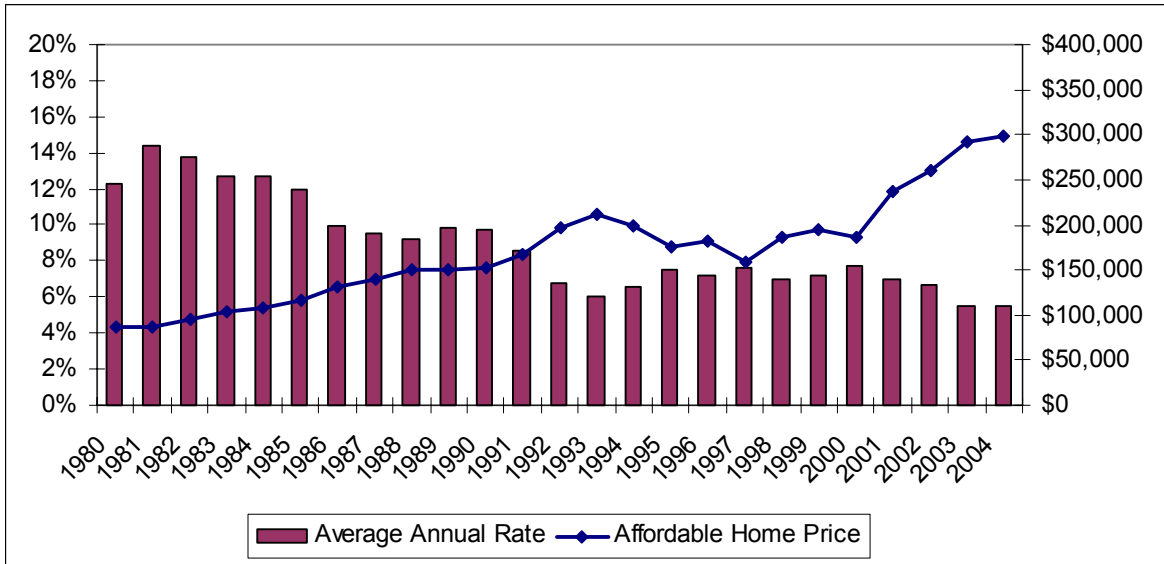
“affordable” homes are subject to resale conditions that make them less valuable to buyers than market homes. In that situation, the “affordable” homes do not sell quickly, increasing costs for developers, slowing the process of housing development, and reducing the number of units built.

3. Housing developers are not able to respond quickly to expansion of the housing market. This is in part due to the long time needed to gain permits. Also, the limited manpower and financing available in Hawaii can limit growth.
4. The housing markets on the Neighbor Islands are small. The smaller a market, the greater the impact of changes, internal or external, on the volume and price of transactions.
5. Part of the Hawaii housing stock is produced, sold and used for vacationers. Vacationers and investors may buy Hawaii real estate based on their assessment of what affluent people in Japan or California can pay, not what residents who need homes can pay. This segment of the market is present now on all islands, although it is still small on Oahu.

While resident housing demand reflects continuing local demographic and economic pressures, vacation housing demand depends on offshore economies, the relative price of homes in Hawaii and elsewhere, and different demographic trends. Since vacation homes are luxury items, demand for them can grow and disappear quickly. (Furthermore, rentals can be affected by the overlap: when visitor demand is low, vacation condos may rent to residents. When visitor demand increases, the supply of rentals shrinks. At the same time, the visitor industry workforce increases, adding to demand for the rental housing stock.)

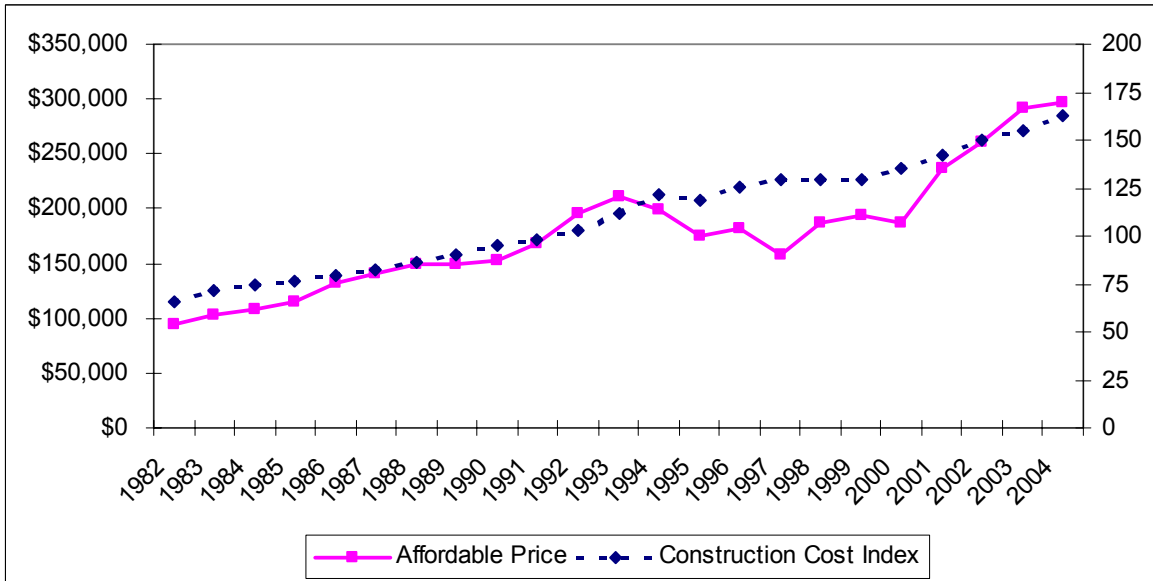
6. Interest rates are an important factor affecting affordable housing production. When rates rise, (a) construction costs rise with them; (b) the price that families with moderate incomes can afford falls. (See Exhibits 1-C and 1-D.) Consequently, developers of affordable housing can expect to pay more to build, and be paid less for the sale of units. When affordable prices declined and rates rose in the mid-1990s, new production cut back sharply. Current trends in interest rates and construction costs are reminiscent of trends just before those events.
7. Since the mid-1990s, resales account for about 80% of the housing market, and new production accounts for about 20% of the market. Affordable housing subject to government regulations constitutes a part of this small share of the market (e.g., if 30% of units produced by large developers are to be affordable, that amounts to less than 6% of the market (0.3 times 0.2 times whatever share of new production is due to major developers). Consequently, affordable housing regulations seem unlikely to exert much control over the market as a whole. Other regulations or procedures, that affect all sales or all units in new developments seem likely to have greater impact.

Exhibit 1-C: AFFORDABLE HOUSING PRICES AND MORTGAGE INTEREST RATES, HONOLULU



SOURCE: Adapted from SMS, 2003.

Exhibit 1-D: AFFORDABLE HOUSING PRICE AND CONSTRUCTION COST, HONOLULU



SOURCE: Construction cost index for single-family homes, Honolulu. DBEDT, 2005.

- Specific historical and geographic factors affect each island real estate market. For example, Kauai’s history of rebuilding after Hurricanes Iwa and Iniki has limited demand for additional housing among residents, thereby magnifying the importance of non-residents in the local real estate market. On the Big Island, the subdivision of large tracts in Puna and Kau in the 1950s with minimal

infrastructure has resulted in a large supply of lots and modest single-family homes, lowering islandwide average values.

Hawaii's housing markets are affected by the islands' isolation and size. The distance between Hawaii and the mainland increases the cost of materials. Each island is a small market, in which a few landowners and developers, drawing on a limited workforce, are responsible for much of the new housing. Land for housing is limited by availability of infrastructure and government designation.

On all islands, the capital, skilled workers and materials used to build resident housing can also be used for other projects, at higher profits or lower risk. The vacation home market is now significant in all the counties of Hawaii. On Oahu, military outlays for renovating and building family housing also compete for construction labor.

1.3.2 Resales of Existing Property

The dataset used for this study was designed to understand the resale history of housing units, including new units. It derives from the Tax Map Key data maintained by the Real Property Tax Branch in each county, so it includes new homes, which are not likely to be listed in the Multiple Listings Service.

On Oahu, units that sell at prices affordable to families with moderate incomes resell, years later, at higher prices but at about the price affordable to families with moderate incomes. Price and buying power go hand in hand, so the housing value—affordability for residents, not price—of mid-range homes changes little over time. Affordable housing stays affordable.

On the other islands studied, the value of the lowest-price homes has increased over time, and the value of all homes has spiked upward in the last few years. The least expensive homes resell at higher values (presumably with significant improvements, in many cases). Because the short- and long-term increases affect housing at all price levels, the data indicate a general phenomenon, not just the presence of a non-resident buyer group active in the higher price ranges.

Does the current price spike indicate a housing bubble (leading to a fall in prices)? Experts see a fall in prices – rather than a plateau – as occurring only if the housing supply keeps on increasing after prices rise, or if economic conditions worsen greatly (Schaefers, 2005; Sklarz and Miller, 2003). With a strong economy, extensive regulation of housing production (through designation, zoning, subdivision, and infrastructure fees), and local developers who are cautious about expanding inventories, a fall seems unlikely on most islands. However, demand for housing from non-residents could drop quickly, lowering the number of sales in the most expensive brackets, due to external factors. This change in the future composition of the market could affect median and mean sales price figures, but need not affect most market segments greatly.

1.4 DO AFFORDABLE HOUSING REGULATIONS WORK?

The data are complex, and much more information would be helpful. Still, some trends are clear, either in the data or in the views of experts.

1.4.1 Volume of Affordable Units

It is generally accepted that, without any affordable housing requirements, developers would likely produce fewer units at “affordable” prices: they can usually make more money on more expensive units. In that sense, the regulations work.

However, the regulations touch only a small part of the market.⁶ Most housing sales are resales, and not subject to the regulations. If residents find prices to be reasonable or at least attainable, it is because the market works to bring together buyers and sellers at mutually agreed prices, not because of affordable housing rules.

Oahu has the largest housing market, and the most extensive experience with housing produced subject to affordable housing agreements. Department of Planning and Permitting analysts have calculated that, by mid-2003:

- Permits had been granted for 63,787 housing units, of which half (31,344) had been built; and
- Of the permitted units, 17,097 (27%) were affordable units. Of the affordable units, 11,743 (69%) had been built. The built affordable units amounted to 37% of all units built under Unilateral Agreements.

The pace of affordable housing construction under developer agreements had been faster than the pace of market home construction. Affordable units have formed an important share of housing production on Oahu. However, the totals cover many years, and include the State’s Villages of Kapolei. The affordable housing produced amounts to less than 9% of the sales recorded over twenty years.⁷

In the other housing markets studied, affordable housing production has been much slower. For example, Hawaii Housing Director Ed Taira noted that nearly no affordable units have been produced since 1998. Nearly all developers paid fees in lieu of building affordable housing. (In 2005, the County of Hawaii increased in-lieu fees greatly, to assure that affordable housing does in fact get built.)

The impact of affordable housing requirements varies depending on market conditions, i.e., on housing supply, interest rates, employment and income levels. On Oahu, this meant that affordable housing did not sell when market housing was comparably priced in the late 1990s. On the Big Island, the housing stock has included large numbers of single family homes in outlying areas, and the median housing price is usually below the price at which a family with the median income can hope to qualify for a mortgage.

⁶ SMS did not succeed in gathering extensive quantitative data on the efficacy of various government-mandated procedures to make new housing affordable. The City and County of Honolulu has a computerized data set, based on submittals by developers on affordable sales, from which buyers’ income levels could be computed. However, the data set goes back only to 2001, after a moratorium on buyer eligibility rules was established.

⁷ The list deals with units produced under “Unilateral Agreements,” and hence excludes projects built under the 201G fast-track process or its predecessors. SMS was not able to obtain similar lists of projects from the other counties.

Currently, Hawaii County is experiencing an undersupply, not so much of housing, but of housing close enough to work sites to mitigate a serious problem of traffic congestion.

The historical analysis show that Hawaii's largest market, with the highest level of production, has steady resales without abrupt increases in resale value. On Oahu, the market is functioning well. Yet, this is the County in which key provisions of affordable housing rules – buyer qualification requirements, shared appreciation, and buy backs – were suspended for six years. Oahu has not been harmed by relaxing its affordable housing regulations.

1.4.2 Impacts of Specific Conditions or Rules

Buyer qualification rules limit the pool of prospective buyers of affordable units. They sometimes restrict the pool to those who have great difficulty qualifying for a mortgage. Maui County and Hawaii County have responded by including in their regulations provisions that loosen buyer qualifications if homes go unsold for a period, insuring that housing built to be affordable for residents will actually be occupied by residents who are willing and able to buy them.

Limits on resales are complex, and their implementation appears to be hit-or-miss. The City and County of Honolulu depends on title companies to tell it when a property with a shared appreciation clause in the deed is to be sold. All the Counties have had buy back regulations, but only Kauai has pursued buy backs. (According to its Housing Executive, Kauai does not actually buy back properties, but arrange sales to residents at prices computed according to the buy back rules.)

The market data for Oahu show: that the major concern motivating limits on resales – stopping speculation -- does not apply after a year or two. Data for a large sample of sales show that the value of homes that residents can afford stays close to the value of the initial purchase.

On Maui and Kauai, limited market supply has pushed prices and values up for all housing segments, at least in the short term. In the long term, the increases in value for housing that initially sold at prices affordable for a family making 80% of median or less (in Exhibits 3-J, 4-K, and 5-K) point to a severe shortage of supply: when demand outstrips supply, those who can afford more will be able to outbid others.

Shared appreciation rules deserve additional comment. If owners of affordable homes sell under these rules, they receive an amount based on their initial down payment and the initial price of the home. The difference between that amount and the market price for the home goes to the County. The County has not invested any equity in the property and has no risk, so there is no conventional economic basis for its share in the sale price.

It is important to note the impact of shared appreciation on the sellers. They probably cannot afford a similar home, since they are taking out little more than the equity they originally put into the home. In the meantime, home prices will have risen, so they will not longer be able to afford the sort of down payment they made the first time. Consequently, shared appreciation, as practiced in Honolulu, guarantees that some families are no longer financially able to be homeowners. (Kauai uses similar

calculations, but resells the home at a low price. In effect, this transfers the “windfall” to the next family, rather than the County’s accounts.)

All the Counties have been reviewing their regulations. In effect, they have been considering seriously the idea that the regulations do not work in today’s market. Hawaii County has developed new rules that offer developers a choice between building affordable housing or making much greater in-lieu contributions than in the past, contributions which are expected to fund new housing in the region of the development. Kauai is considering new rules, while Maui County administrators have been increasing the affordable housing requirement expected in new developments and Council members see themselves as developing a whole new housing policy.

1.4.3 Impacts of Regulations, or of Ways to Implement Them?

Affordable housing controls are never simply a set of regulations. Their implementation always calls for negotiation between a developer and the local government. On the one hand, the more specific the rules are, the more developers can plan to work with them. On the other hand, the more rigid the rules, the more likely it is that they will not apply well to changing market conditions.

As noted earlier, affordable housing policies mix incentives with regulations. The 201G process offers developers both speedy permitting and relaxation of some subdivision and land use rules in order to maximize production of affordable homes.⁸ Moreover, Hawaii affordable housing regulations often allow authorities and developers to negotiate the specific conditions of an approval. County Council members often feel responsible to the public for affordable housing. They value their role in negotiating an agreement tailored to the specifics of a project and the needs of the County. As a result, affordable housing plans and agreements vary greatly from case to case, even in the same county.

Clearly, neither the market nor regulators have produced enough housing at reasonable cost to satisfy Hawaii residents. Moreover, price increases in the smaller housing markets make it very hard to maintain, much less increase the amount of housing residents can afford. There is a very real problem. But are more regulations the answer?

1.4.4 The Length of the Approval Process

Developers have repeatedly insisted that the length of time needed to gain approvals for new projects harms housing development in Hawaii. The longer the approval process, the higher the cost, to be eventually recouped from development, and the more difficult it becomes to design a mix of products and a production schedule that will respond well to market conditions.

The process can easily take seven years or more, from the first presentation of a project proposal to its construction. If a contested case process or litigation ensues, yet more

⁸ Appendix D, the text of HRS 201G-118, shows the great leeway available under this “fast-track” procedure. Developer requests can include relaxation of specific land use and subdivision requirements and waiver of fees for County services.

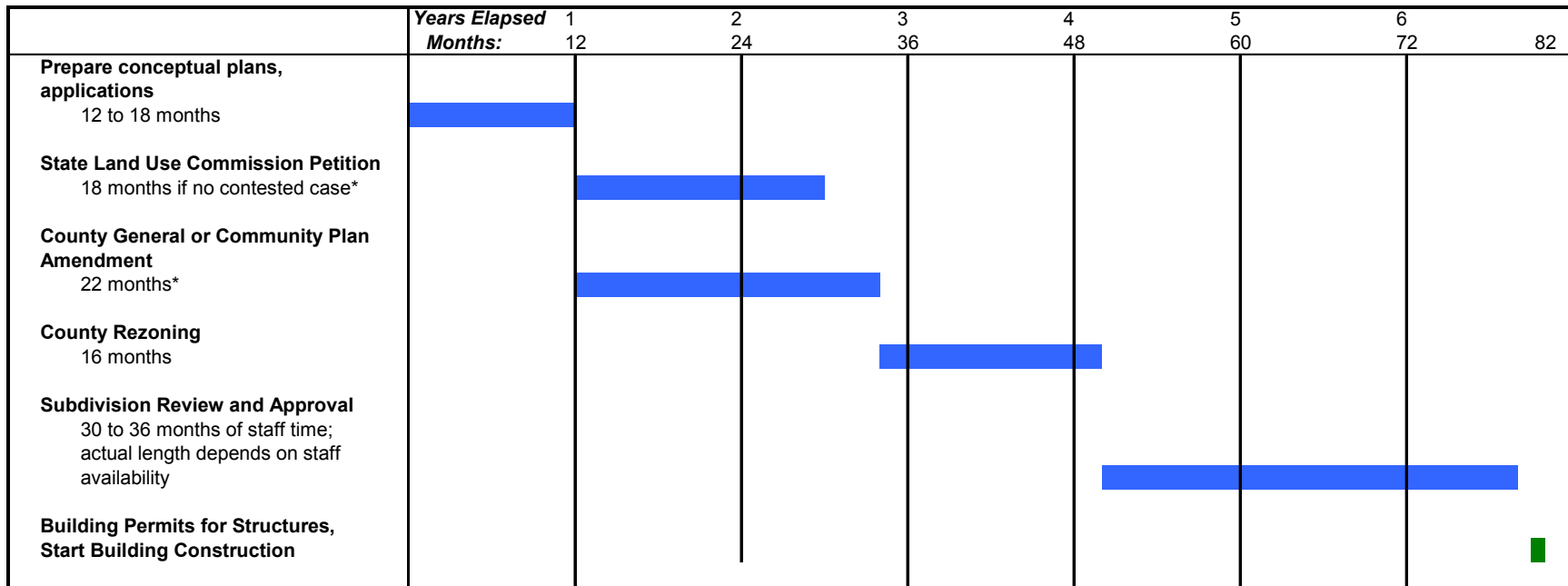
years can follow before anything is built. The steps vary from county to county. Because they are so intricate, a “fast track” process has been developed. The current enabling legislation, HRS 201G-118, allows a developer to request exemption from various land use and subdivision requirements in order to build affordable housing, and condenses the land use approval process to a single County Council approval and review by the Housing and Community Development Corporation of Hawaii. As noted in Section 1.2.3 above, this and earlier “fast track” processes have had limited impact and they remain controversial.

Appendix D is a summary of the steps in the land use entitlement process, from project conceptualization to actual construction. Appendix E provides an account of the issues examined, the stakeholders involved, and the duration of the process. Appendix F is the enabling legislation for the 201-G process.

The implications of slow processing time can be depicted and quantified. Exhibit 1-E offers two simple accounts of the time involved in permitting. It shows that, even with concurrent reviews by State and County agencies, it takes about seven years to get to the point where a major housing project can begin to be built. Exhibit 1-F provides more detail on the subdivision process, since this has not been a focus of attention in earlier discussions.

The steps listed in Exhibit 1-F are not formalities. Most involve close review of plans. They call on the expertise of several departments. The minimum length of time estimated here is based on a City memo that documented the work involved (Honolulu Department of Planning and Permitting, 2003) as well as the experience of LURF members. When there are competing demands for the time of the City’s staff, the time needed to review applications must necessarily grow longer.

Exhibit 1-E: ESTIMATED TIMELINE FOR DEVELOPMENT OF HOUSING PROJECT



NOTES: All estimates are very rough, but based on recent experience.

* Concurrent processing assumed. This is by no means automatic, and the two authorities may demand different data on shared topics.

Exhibit 1-F: SUBDIVISION APPROVALS, CITY AND COUNTY OF HONOLULU

Subdivision Process [City and County of Honolulu]	Years	1	2	3
	Months:	12	24	36
<p>Product Development Time required for this item will vary from project to project depending upon the complexity and final building footprint dimensions of the specific project.</p> <p>Preliminary Site Plan The Preliminary Site Plan is generally hand drawn by an architect or site planner, then converted to a CAD file for civil engineering design.</p> <p>Final Site Plan Time is for both the submission and review of the Preliminary Subdivision Map by the Department of Planning and Permitting (DPP). Tentative Approval of Preliminary Map</p> <p>The Preliminary Map and Mass and Pad Grading Plans may be submitted for review at the same time. Legally, approval of Pad Grading Plans is not permitted before approval of the Preliminary Map, although the Mass Grading Plan may be approved if it does not show lot lines.</p> <p>Submittal of Construction Documents Time includes both design and all required approvals. These plans are blueprints for all Roadway and Utility Plans, including all underground utilities and all surface improvements.</p> <p>Site Permitting Time includes processing of grading, grubbing, and stockpiling permits which can be obtained concurrently.</p> <p>Building Permits (Site Work) After the Roadway and Utility Plans are approved, a construction cost estimate based on final design needs to be submitted for review and approval. Building permits can take up to 6 months to obtain for site work, including walls and fences.</p> <p>Bonding of Improvements After the construction estimate is approved, a subdivision bond needs to be submitted and accepted by the County prior to final subdivision approval.</p> <p>Final Map Approval The Final Subdivision Map can now be approved, before the site improvements are constructed and certified, if a subdivision bond is obtained. This map must be filed within 1 year after tentative approval of the Preliminary Map has been received, although 6-month extensions may be allowed.</p> <p>Construction of Site Improvements Upon approval of Construction Documents, roadway and utilities site improvements can be constructed and, upon approval of as-built documentation and final inspection, be certified.</p> <p>Land Court Subdivision Recordation Allow 6 months for recordation.</p> <p>First Building Construction Building permits can be obtained after Final Map Approval, but do not require recordation. Building construction can commence after roadway and utility construction is complete and accepted by the City Chief Inspector.</p>				

The basic principle that time is money is well known. The longer an investment takes to earn income, the lower the value of the investment. If the return on an investment is, for example, \$1,000, the present value of that investment varies a great deal, depending on the time it takes to earn a return:

Exhibit 1-G: PRESENT VALUE OF A DELAYED RETURN ON INVESTMENT

	<i>Payment: \$1,000 at the end of:</i>			
	1	4	7	10 years
Present Value of Return	\$925.93	\$735.03	\$583.49	\$463.19
Share of Face Value of Return	93%	74%	58%	46%

NOTE: Analysis involves use of a discount rate, to allow for inflation and the lost opportunity cost involved. For this example, a standard discount rate of 8% was used.

Developers will wait to finalize loans, shortening the period in which they must pay interest, but they spend considerable effort, and must commit land and other resources, during the permit process. The result is increased cost, which is eventually passed on to customers.

1.5 WHAT IS WORKING?

First of all, elected officials, administrators, and staff, along with developers, are working hard and are often working together. Housing is getting built, and some of that housing is affordable.

In interviews for this project, it became clear that the counties' different resources and approaches yielded different types of results:

- Honolulu has a relatively large market. It has designated areas for urban expansion for decades, and has invested in some of the infrastructure needed to support it. When some of its affordable housing rules affected the volume of housing production severely, they were suspended. The result is a much larger volume of housing built than in other counties.
- Maui has a very limited urban land base. The County's approach to housing issues has involved informal policies. The administration encourages affordable housing proposals but does not have a consistent approach to them across all departments. Maui has welcomed 201-G projects and hopes to see significant results soon. However, the process of deciding on 201-G projects has convinced Council members that the County needs a more consistent set of criteria for decision-making, i.e., more detailed regulations. There is no evidence that more regulations will produce more housing.
- Hawaii County revised and tightened its affordable housing rules in order to get housing built, and to locate workers' homes within a short drive of their workplaces. It is too soon to tell whether the new rules will have their desired effects. However, it must be stressed that the Hawaii rules could eventually give developers and the County the tools to meet community needs. In contrast,

Honolulu urban growth has brought traffic congestion and long commute times that State and City transportation agencies cannot significantly diminish.

- Kauai's experience has been unique, because of the disasters it has suffered, because its housing officials have been able to try out different strategies to meet community needs, and because it is so small that the impact of any progress is widely felt.

The resale analysis in this report focuses attention on the amount of housing that remains affordable to residents. It shows that housing remains affordable – that an affordable housing stock is maintained and grown – on Oahu and Hawaii. On Maui and Kauai, modestly priced homes have resold at levels that few residents can afford.

Is the relative success of Honolulu and Hawaii due to their regulations? We see the availability of land as critical. On Oahu, large areas in Ewa and Central Oahu have been available for housing development. On Hawaii, the rural subdivisions in Puna and Kau have long provided residents the opportunity to find or build homes, at the cost of a long commute on narrow roads.

A regulatory regime can insist that **if** any housing is to be built, some will be affordable, but it can do little to encourage housing development. Moreover, rules on the production of new units can do little to affect prices and values in the larger market, except by limiting supply and hence increasing prices.

1.6 RECOMMENDATIONS

The answer to Hawaii's housing shortage is to increase the supply of housing. The County administrations are encouraging new housing development through a private-public partnership (in Hawaii County) and through a combination of exactions (on an industrial project, in addition to resort and residential ones) and fast-track permitting on Maui. Moreover, Maui County has asked developers to step forward and address the problem of affordable housing.

1.6.1 Recent Recommendations

The Affordable Housing Task Force convened in mid-2004 issued a series of recommendations, many of which can be grouped under four headings:

- Accelerate regulatory and permit processes:
 - Since Counties are understaffed, consider outsourcing the review of land use and building permits.
 - Eliminate duplicative reviews by the State Land Use Commission and County panels, redefining the Land Use Commission's role to emphasize policy development.
 - Create County design standards for workforce housing (i.e., rather than allowing standards to be waived under the 201G process, so that the resulting communities are treated as "substandard," identify a set of standards appropriate for mixed-income communities).

- Appoint County “expeditors” for affordable housing to steer applications through the permit process.
- Allow County review of boundary amendment petitions for developments up to 50 acres in size (rather than 15 acres).
- Create resources for affordable housing:
 - Make government land available for affordable housing development.
 - Increase the conveyance tax and the share of the tax dedicated to affordable housing.
 - Exempt affordable housing construction and development from the General Excise Tax.
- Lessen the challenge of infrastructure development:
 - Use public/private financing of new infrastructure.
 - Use State land for long-term leases or as collateral.
 - Use long-term plans to guide the allocation of Capital Improvements Project spending
- Create or increase incentives for financing affordable housing:
 - Find a dedicated source of funding for the Rental Housing Trust Fund.⁹
 - Provide incentives for landlords to maintain affordable rentals.
 - Improve coordination of funding sources within government and with the private sector.
 - Allow increased density for affordable housing projects.
 - Authorize the transfer of development rights or credits.
 - Allow developers to satisfy affordable housing requirements by building offsite in an area acceptable to the County.
 - Provide additional credits to developers who build affordable rental housing to satisfy affordable housing conditions.

The 2005 Legislature passed Act 196, in which some of the issues above were addressed. That Act further established a Legislative Task Force to report to the 2006 Legislature with further recommendations. The Counties have taken several steps to encourage developers to build affordable housing in the course of updating their regulations (notably allowing increased density, the transfer of credits, offsite development to satisfy affordable housing conditions, and bonus credits for housing for lower income groups, in the new Hawaii County rules).

1.5.2 Regulations vs. Incentives

No affordable housing program is purely regulatory. To work, it must include ways to adapt rules to varying conditions, and should offer developers incentives to address the greatest needs. Such incentives can include:

- Credits for producing housing for lower income groups;
- The ability to transfer or sell such credits; and

⁹ Several additional recommendations concerning rental housing are omitted, since this report deals with for-sale housing.

- Exemption from subdivision rules and other requirements and exactions that make it difficult to deliver a home for sale at affordable prices.

On this last point, a change of mindset is desirable. Currently, fast-track processes allow for case-by-case exemptions to subdivision rules. Alternatively, government and private sector experts could work towards agreement as to which rules define a safe, socially acceptable housing area, and which ones go further, and raise the cost of housing significantly. Subdivision standards that minimize costs without risking residents' safety should be seen as appropriate, not as substandard.

The State can provide additional incentives by waiving taxes on developers, reducing the cost of building new affordable homes, e.g.:

- Exemptions or credits can be offered if developers supply more than the share of affordable housing specified in their land use permits; or
- Exemptions could be offered to developers who target low-income groups.

LURF recommends that these incentives be extended, and that the State and Counties invite developers to propose innovative strategies to deliver affordable housing in volume in Hawaii.

1.5.3 The Length of Permit Processes

Steps have already been taken to shorten land use permitting, but more can be done:

- Remove some of the overlap between State reclassification and County zoning processes. One way to do that is to increase the area subject to County permit (above the current 15-acre limit) for affordable housing projects.
- Develop a set of agreed-on subdivision standards for affordable housing developments, reducing the time needed to negotiate exemptions and approve plans.
- Where agency staff time is overburdened, allow outside experts to review plans in support of the Counties.
- Allow developers to certify their compliance with standards and codes (subject to audit, and to penalties for non-compliance) in order to lessen the demands for government agency staff time.
- Allow housing advocates and home ownership development programs to prequalify buyers for affordable homes and to handle the paperwork involved in certifying sales as meeting affordable housing requirements. Again, this is a step to limit demands on County staff time. It also changes a process in which time is spent checking for non-compliance into one in which effort goes to help low-income buyers qualify for affordable homes.

1.5.4 Opportunities

Stakeholders throughout Hawaii are committed to address affordable housing problems. While much of their efforts are appropriately directed towards increasing the supply of rental housing, they can take or extend measures that help to increase the supply of affordable housing for sale to residents: Key steps already in place under HRS 201G-118 include:

- Faster permitting;
- Allowing affordable projects to be developed to rural subdivision standards rather than urban ones (e.g., without sidewalks); and
- Exempting affordable projects from exactions on new housing;

The State and Counties are exploring ways to speed and simplify processing. On Maui, all affected Departments are involved in early reviews of new affordable housing proposals. The aim is to have County administrators work with developers to make the projects feasible. Inclusion of Council members in the process could help to address their concerns over the fast track process.

The procedures for monitoring affordable home sales can be onerous and costly. County officials must review tax records, mortgage applications, mortgage documents and deeds before they certify that a sale counts for an affordable housing credit. Developers also incur additional work and loss of time in the process. Solutions to streamline the review process can involve simplifying the paperwork, reducing the amount of paperwork reviewed in all submittals, or relying on mortgage companies to do much of the review.

Counties have helped first-time homebuyers get their mortgages, and the State and Counties are supporting homeowner education programs, to help first-time buyers qualify for and succeed in paying off their mortgages. These programs can help to increase the affordable buyer pool.

1.5.5 Issues for Further Study

Policy-makers are understandably concerned that offshore buyers can outbid Hawaii residents for a limited good, the islands' housing supply. If offshore demand grows along with the housing supply, residents' situation will remain difficult. In response to offshore demand:

- The Counties have reduced tax-rates and increased exemptions for owner-occupants, so that other residential property owners pay a larger share of taxes; and
- Developers are increasingly using owner-occupant agreements to limit access to new housing, including market housing. This procedure can only be a stop-gap: it will likely no longer be followed if residents cannot afford to buy units at market price points.

It will be necessary to quantify the impact of offshore demand on housing markets in order to rationalize tax policies and justify other policies. This study should deal with the impact of offshore demand on both for-sale and rental housing, and recognize that the impact can change with economic conditions in Hawaii and elsewhere.

Next, a new ownership model will be introduced in Hawaii soon. UniDev, LLC, which will produce housing at Waikoloa for the County of Hawaii, limits buyers' ability to resell and withdraw equity from homes, in order to insure that these homes stay affordable to the local workforce. This model could have the drawbacks noted for shared appreciation rules, or could provide a new approach to insuring the affordable housing supply.

2. THE CITY AND COUNTY OF HONOLULU

This section deals with the history of affordable housing regulations in the City and County of Honolulu, characteristics of the local housing market, and the value of resales in terms of affordability for County residents. Much the same organization is followed in later chapters.

An earlier report analyzed buyer income data for housing sold as affordable after income qualifications were suspended in 1999 (SMS 2005). Rather than repeat that analysis here, a new study is included, dealing with TMK Zone 1-9, the region where most of the large developments with affordable housing conditions are located. This allows us to ask the key question – what happens over time to units residents can afford? -- specifically about the area where affordable units are concentrated.

2.1 OVERVIEW

The Oahu housing market is much larger than that of the other islands. Oahu has seen continuing work to develop housing in large subdivisions in Ewa and Central Oahu. Since these subdivisions are largely subject to Unilateral Agreements, affordable housing has been built in large numbers since the first one was executed, in 1973 (Department of Housing and Community Development, 1997).

Resort real estate is a much smaller part of the housing market than on other islands. Still, Oahu has seen production of high-end condos, largely aimed at off-shore buyers, and new residential projects are being developed at Ko Olina. The major factor affecting housing developers is not the lure of resort development but limited availability of workers and materials. Contracts for refurbishing and replacing military housing have been signed; work will continue on these projects over the next ten to twenty years.

Oahu has long been an expensive housing market. However, prices slumped during the 1990s, while prices in California and other markets continued to rise. In the last two or three years, Hawaii housing has been priced at or below California levels. In the meantime, investment in equities has promised few returns, so real estate investment, or simply devoting capital to a vacation home that might eventually be resold, has become increasingly attractive to off-shore buyers.

Currently, residential projects are being developed in several areas of Oahu. Within the Primary Urban Center, nearly all new development consists of upscale condominium projects. In Hawaii Kai, Central Oahu, Ewa, and Waianae, major developers are producing homes for a wide range of buyer segments.

2.2 AFFORDABLE HOUSING REGULATIONS

The City and County's affordable housing policy is largely implemented through "Unilateral Agreements," whereby a developer accepts conditions on the zoning of a project area. A summary written in 1997 for the Honolulu Department of Housing and Community Development (DHCD) shows the intricacies of the process:

1. The State Land Use Commission (SLUC) re-classifies a property "Urban" from "Agricultural" or "Conservation" classifications....
2. The City's Department of Planning amends the Development Plan, typically to "Residential" or "Apartment," to conform with the SLUC classification.
3. The City's Department of Land Utilization (DLU) approves the developer's petition for a change in the property's Land Use Ordinance (LUO) zoning designation. DLU solicits input from agencies, including DHCD, regarding conditions which may be included in the future zoning change. DHCD currently requests that 30% of any dwelling units be made affordable (10% to the 80% of median income target group; 20% to the 120% of median income target group).
4. The City Council enacts a zoning ordinance with a Unilateral Agreement attached, containing affordable housing requirements.
5. The developer submits an affordable housing marketing plan to DHCD for review and approval. DHCD requires that the marketing plan include an application packet containing a description of the City's affordable housing eligibility requirements, price lists, pre-sale notices, and various housing application forms.
6. When applicable, DHCD provides a letter to Real Estate Commission requesting permission for developer to conduct a lottery for the sale of condominium units.
7. The developer markets the affordable units. DHCD certifies the eligibility of each applicant to purchase affordable units.
8. Developer submits a final report to DHCD with escrow statements attached, documenting the delivery of affordable units.
9. When requested by DLU, DHCD reports to DLU on the developer's progress in fulfilling the affordable housing requirements. DHCD may also be required to report to the City Council on the developer's progress.
10. DHCD certifies to DLU that the affordable housing requirement has been fulfilled.

In 1994, DHCD had adopted rules for Unilateral Agreements, specifying matters such as eligibility criteria, shared appreciation terms and procedures, and reporting requirements.

As of 1997, a reported 30 Unilateral Agreements were in place (i.e., had reached at least step 4, above). Fifteen were listed as active on the DHCD summary.

The City's departmental organization was reshuffled under the 1998 City Charter amendments. After the dust settled, DHCD no longer existed, and the City had relinquished the role of a housing developer. DHCD and DLU roles had been transferred to three new departments. Currently, programs in support of rental housing and rehabilitation are in the Department of Community Services, while supervision of Unilateral Agreements is assigned to the Department of Planning and Permitting. The Department of Budget and Fiscal Services is responsible for collecting the City's revenues from shared appreciation clauses

Ordinance 99-51 suspended the rules on income qualification (although developers still had to gather information on buyers' incomes and share it with the City and County). Shared appreciation periods on affordable housing subject to Unilateral Agreements were reduced to three years, and buy-back requirements were suspended. The moratorium was extended in Ordinance 01-33 until August 5, 2005. Now that the moratorium has ended, the prior rules are in effect. The Department of Planning and Permitting has indicated that it will review buyer income data and credit developers for delivering affordable units if the buyers qualify. DPP staff expressed confidence that they would not hold up any sales while the documents were reviewed. This is not to say that

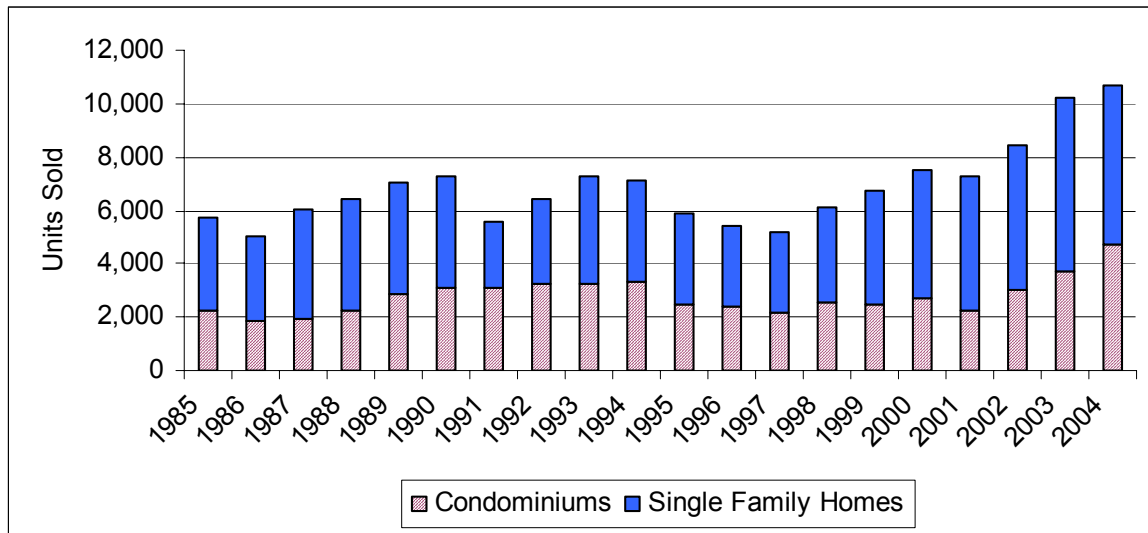
buyers would be qualified (or found not to qualify) before sales, so developers are at risk of selling a unit at affordable prices and then, if the buyer does not qualify, failing to earn a housing credit.

The City’s Planning Commission and City Council will soon consider legislation to reinstate the moratorium for a year or so, until a more flexible affordable housing policy can be crafted.

2.3 MAJOR MARKET CHARACTERISTICS

In Oahu sales data, single family units consistently make up most of the housing market. In years when sales decline, the decline affects both single family units and condominiums. Similarly, sales growth is visible in both categories. Still, single family sales make up an increasing share of the market, as shown in Exhibit 2-A:

Exhibit 2-A: VOLUME OF SALES, OAHU, 1985-2004



While the volume of single family and condominium sales tend to covary from year to year, the relationship between new home production and resales is more complex. After the mid-1990s, when the new home market became very slow, developers have scheduled production in small increments. They keep unsold inventory to a minimum. The resale market has increased much more quickly, as shown in Exhibit 2-B.

The relative size of the resale and new home markets has varied greatly from year to year in Hawaii, much more than in the United States as a whole. Exhibit 2-C shows the new housing share of the market to be approaching the national standard, but this may be somewhat misleading. The national market is booming, and resales and new home production are increasing at the same pace.

Exhibit 2-B: NEW HOUSING AND RESALES, OAHU, 1985-2004

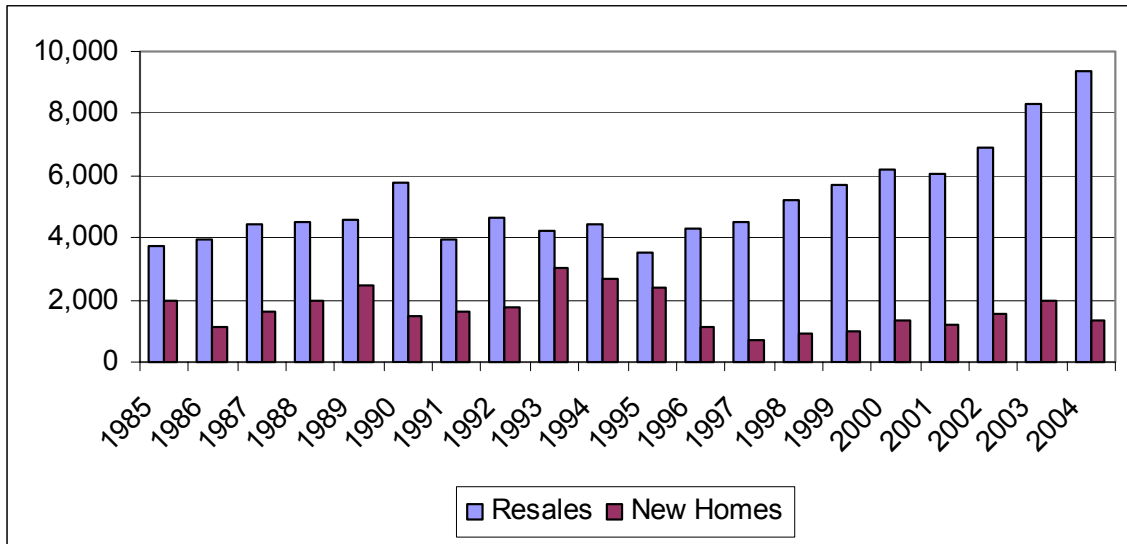
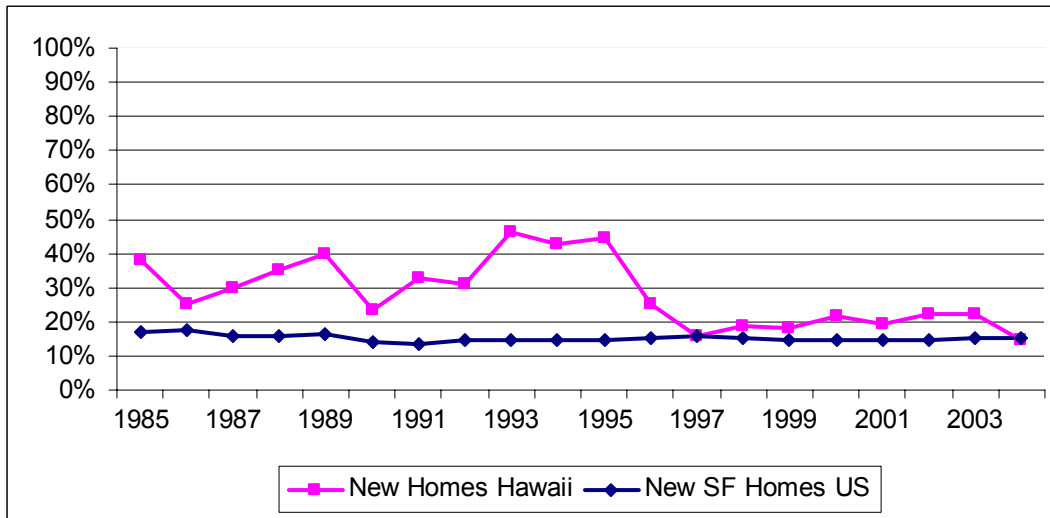


Exhibit 2-C: NEW HOME SHARE OF MARKET: OAHU VS. US SINGLE FAMILY



SOURCE: US Department of Housing and Urban Development, 2005.

The new home share of market fell throughout Hawaii after 1995, not just on Oahu. This phenomenon suggests that a constraint on production – limited land, capital, or a longer amount of time needed to produce new housing in Hawaii – is operating. An obvious reason is that, the land use entitlement and permitting processes are quite cumbersome, so developers cannot increase new home production in a few months if market conditions are favorable.

Exhibit 2-D shows the trends in prices over twenty years in the Oahu market. The pattern of boom followed by stabilization is clear, as is the fact that we are currently well into another boom period. The timing of shifts in home prices is clearly tied to the ability of buyers to participate in the market. The rise begins when more would-be buyers can afford homes – when the “Affordable Price” in Exhibit 2-E meets or passes the median price. The price rise ends when the two lines are well apart, until incomes rise (or prices fall) and the boom begins again.

Exhibit 2-D: ANNUAL MEDIAN HOUSING PRICES, OAHU

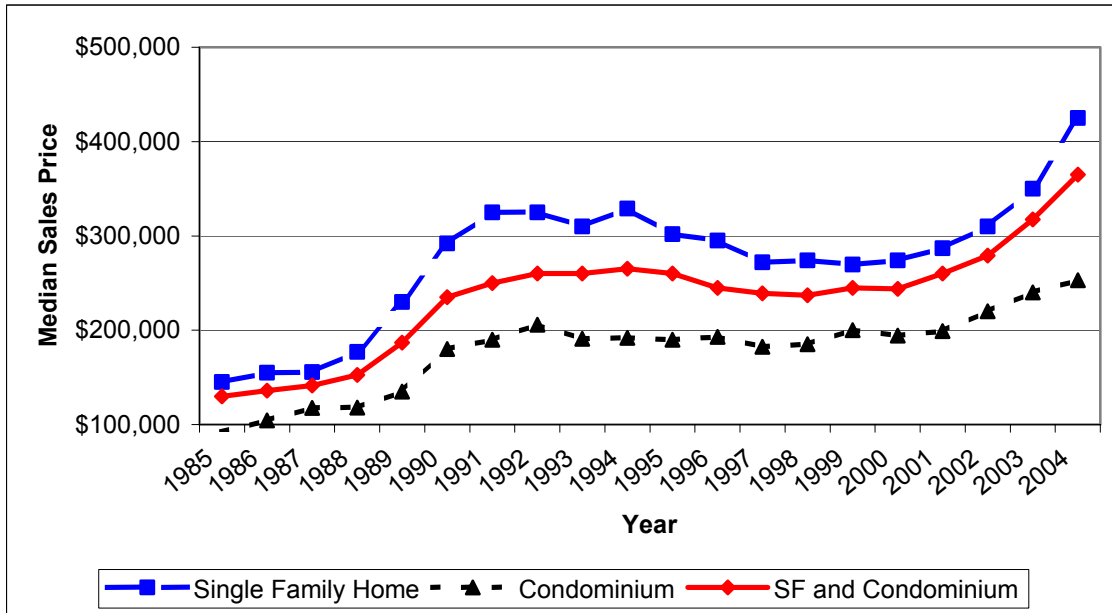
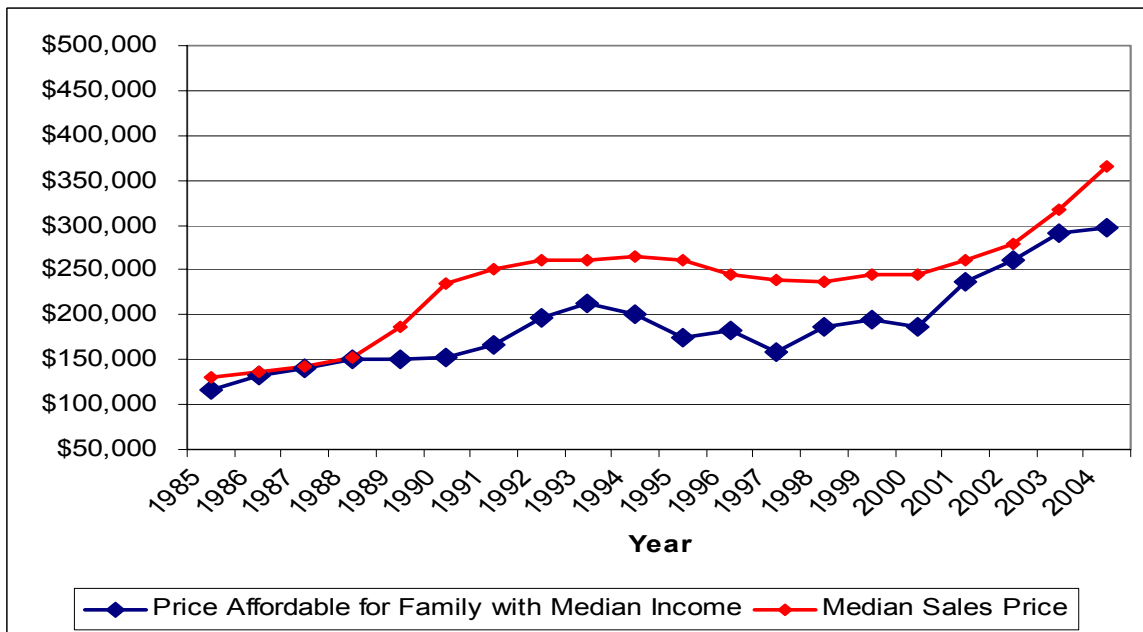
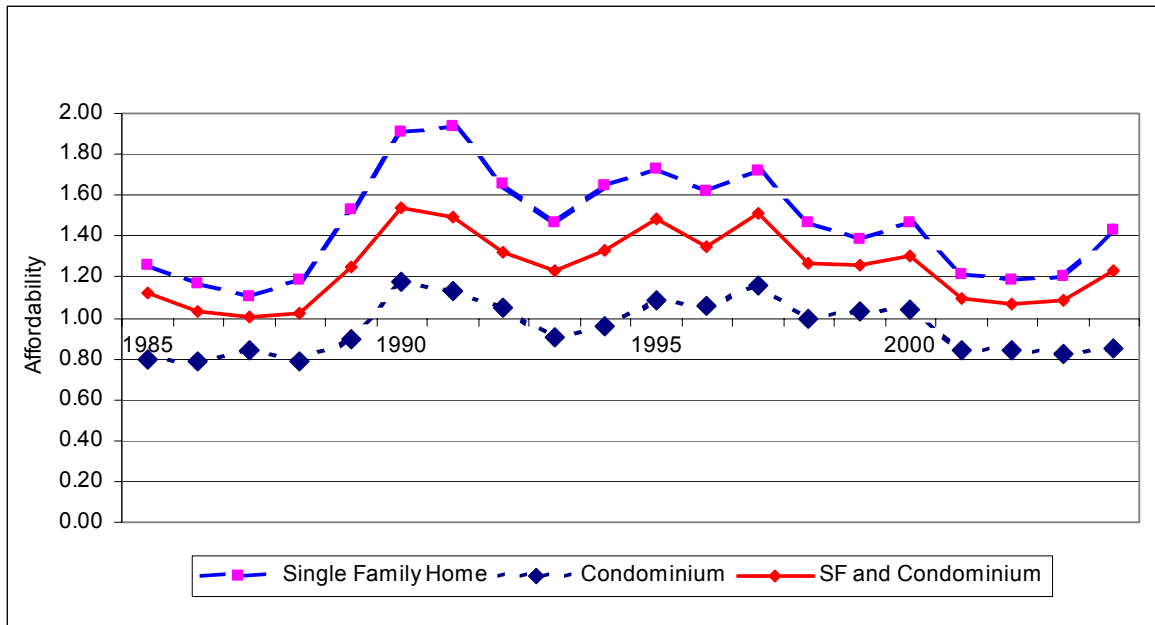


Exhibit 2-E: ANNUAL AFFORDABLE AND MEDIAN PRICES



To learn more about the affordability of housing for low- and moderate-income buyers, it helps to convert the prices in Exhibit 2-D to a standardized format. In Exhibit 2-F, the median prices are expressed in relation to the amount that a family earning the median income could afford in each year (with 1.0 = the price a family earning the median household income could afford). An important finding is that housing on the market has become more reasonably priced since 1990. Also, the share of single-family housing that moderate-income families can afford has appreciably increased. This is indicated by the decline in the affordability of the median-priced single-family home from nearly 2.0 in 1991 to 1.5 in 2004.

Exhibit 2-F: AFFORDABILITY OF MEDIAN-PRICED HOUSING, OAHU



Using the same conversion factor, it is possible to ask how many new units, and what share of new product, are within reach of different market segments. The next two exhibits show the distribution of new units by affordability level. They show production declining for the lowest segment, but continuing for all the higher segments. The share of new production for the low- to moderate-income groups reached a low in 1997. Since then it climbed, although it declined again in 2004.

Exhibit 2-G: ANNUAL DISTRIBUTION OF NEW HOUSING BY AFFORDABILITY LEVEL, OAHU

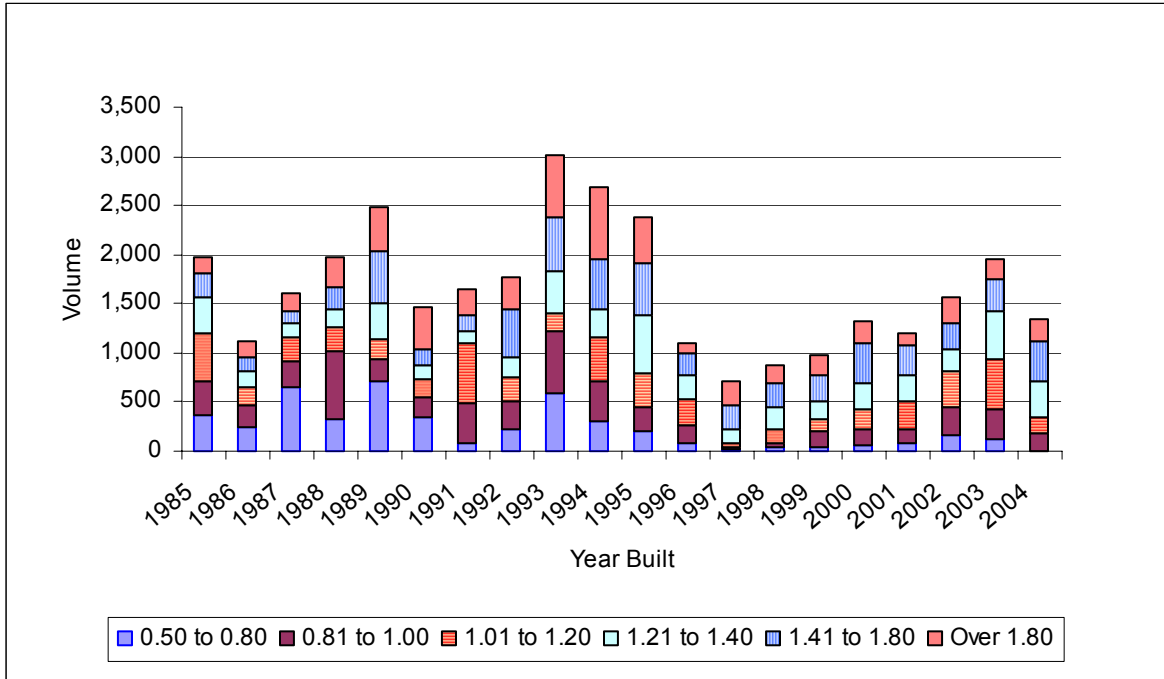
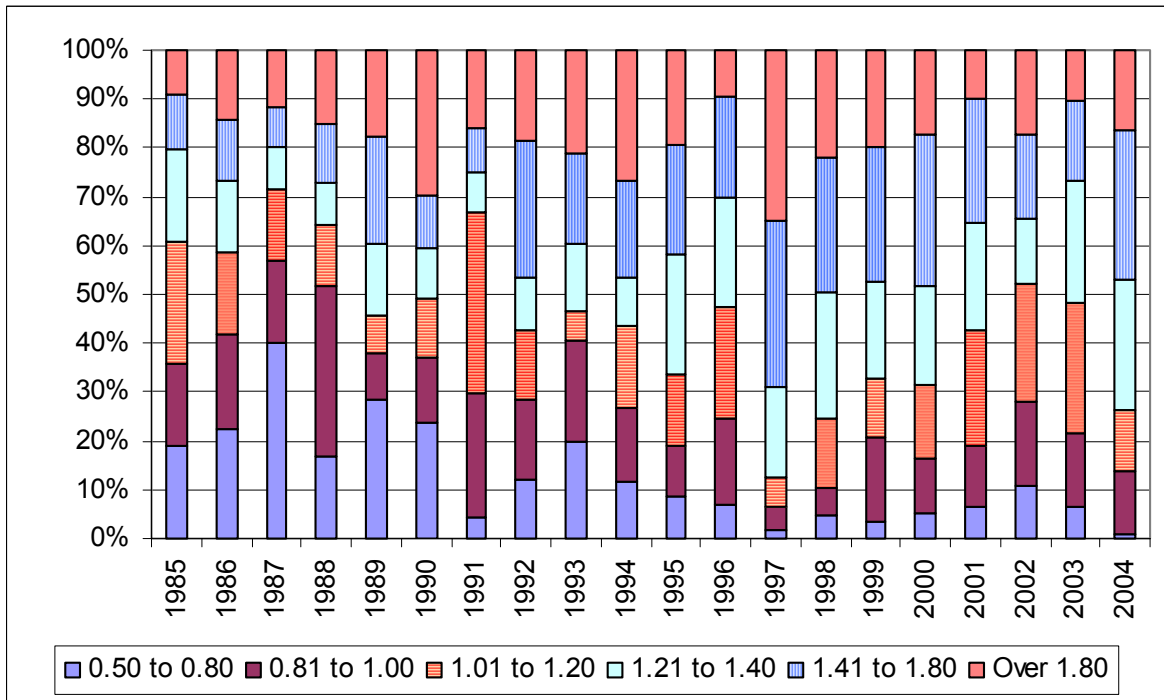


Exhibit 2-H: SHARE OF NEW HOUSING UNITS BY AFFORDABILITY SEGMENT, OAHU

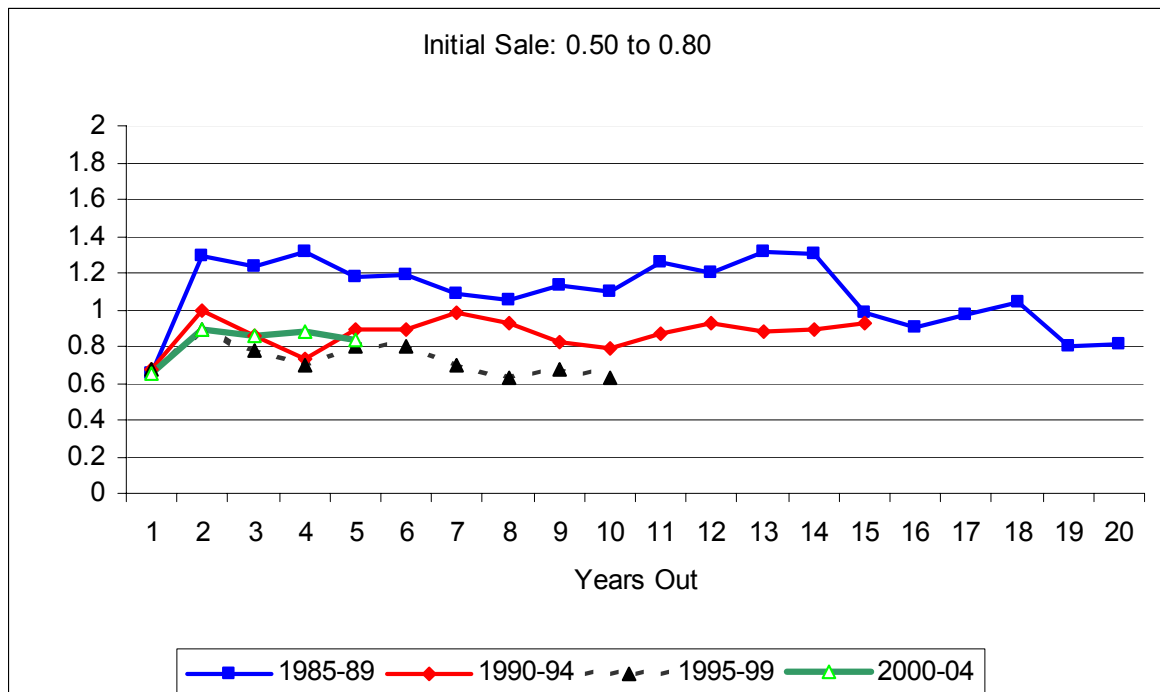


2.4 RESALE TRENDS

For the resale analysis, SMS classified sales in terms of the affordability of the first sale in the record between 1985 and 2004, then looked to see the affordability level of later sales of the same home. Exhibits 2-I through 2-M each deal with a separate segment (in terms of the initial sale price of the unit), while Exhibit 2-N shows trends for the market as a whole.

Exhibit 2-I shows a characteristic pattern for a product in very limited supply: values move up immediately after the initial sale, and tend not to return to the initial sale level. This pattern is strongest immediately after the initial sale. A characteristic feature of the Oahu resale data is that the oldest units keep their higher values for many years.

Exhibit 2-I: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 0.50 TO 0.80, OAHU



Exhibits 2-J through 2-L deal with the market segments normally viewed as the affordable and gap group ranges. They share common features: values increase in the first year, then level off; the oldest units (with initial sales between 1985 and 1989) appreciate in value and keep their higher value for many years. An important characteristic distinguishes these segments from the 0.50 to 0.80 segment in Exhibit 2-I. Values of these mid-range units tend to decline over time, so that they end up equal to or less than their initial value. The trends for the segment between 1.41 and 1.80 are much like those for homes selling in the mid-range segments.

Exhibit 2-N shows that a flattening and slow decline in values characterizes the market as a whole. Homes have tended, over time to be valued at about the 1.40 affordability level. For the median to stay at that point, many units must be selling and reselling within the “affordable” price ranges.

Exhibit 2-J: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 0.81 TO 1.00

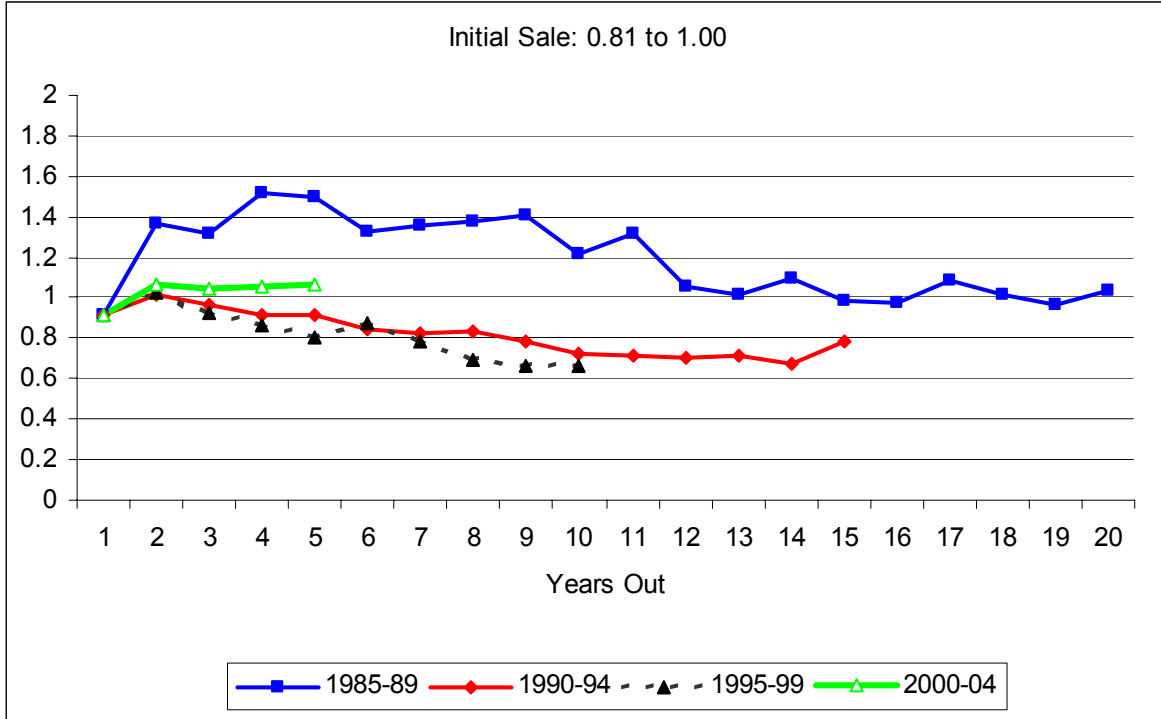


Exhibit 2-K: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.01 TO 1.20, OAHU

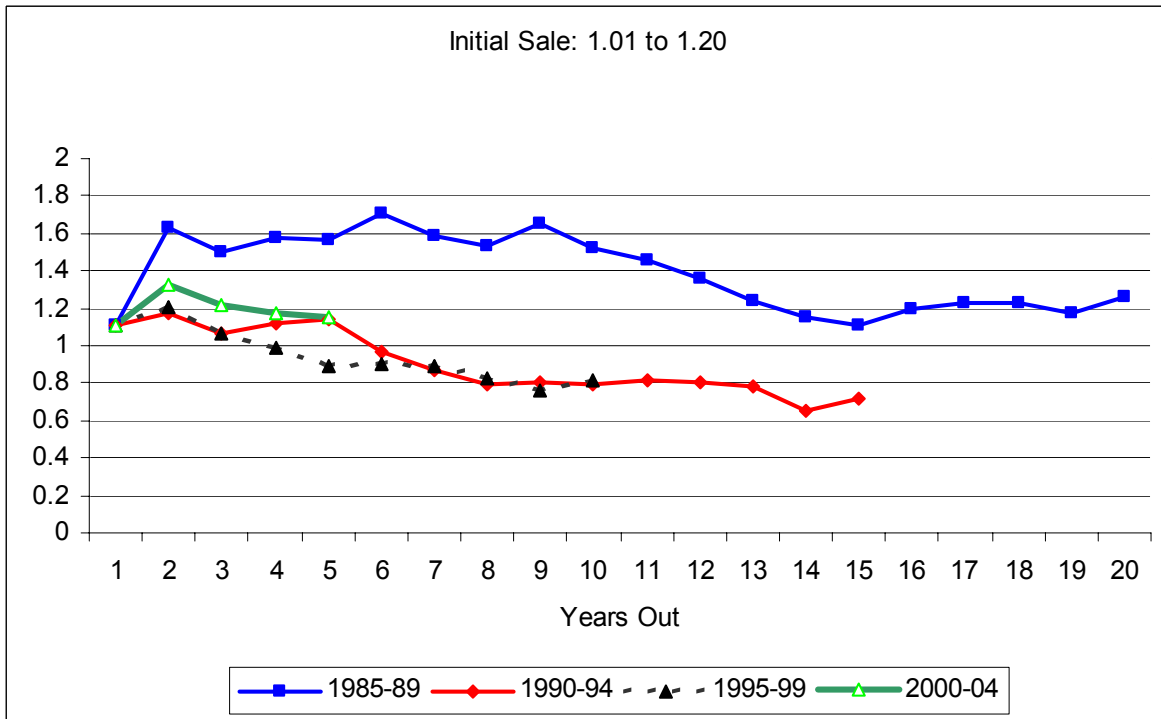


Exhibit 2-L: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.21 TO 1.40, OAHU

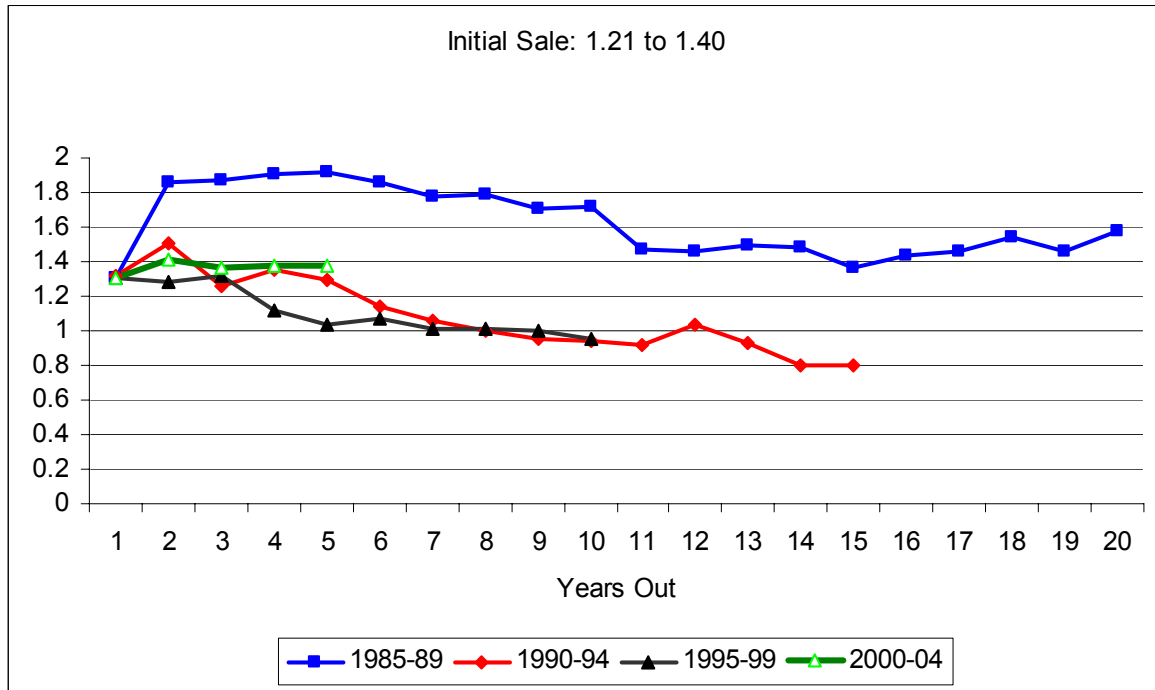


Exhibit 2-M: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.41 TO 1.80, OAHU

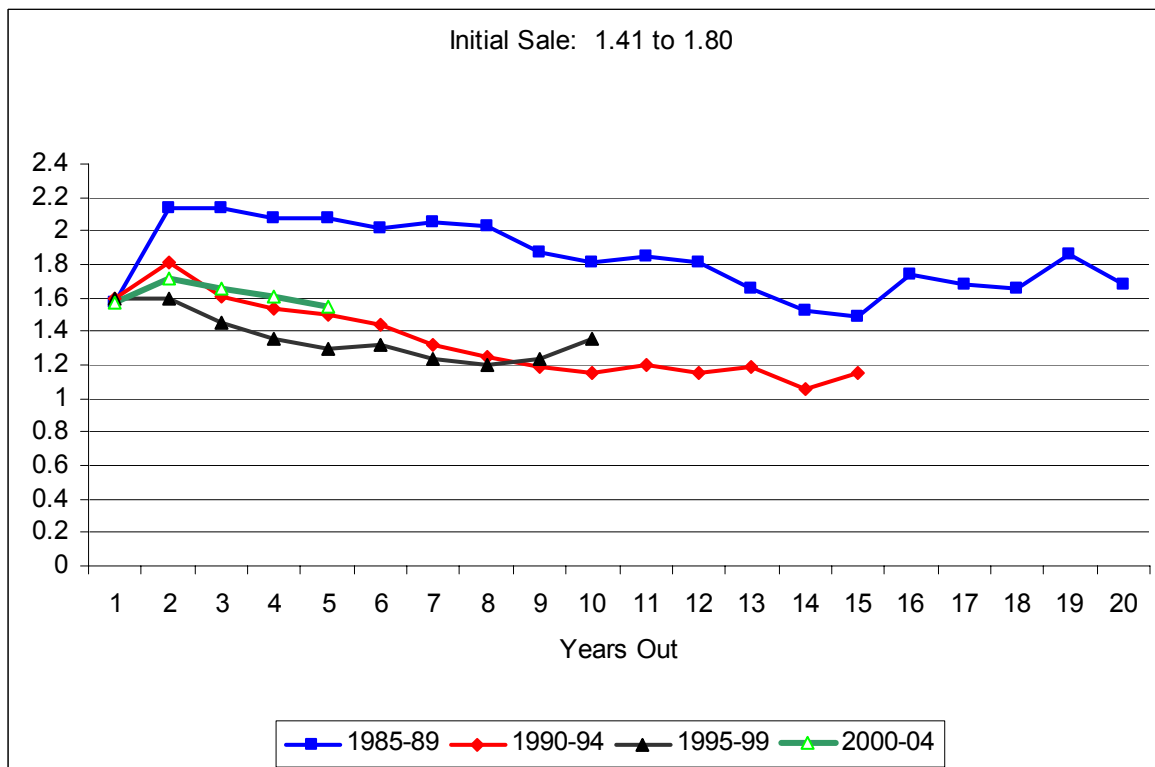
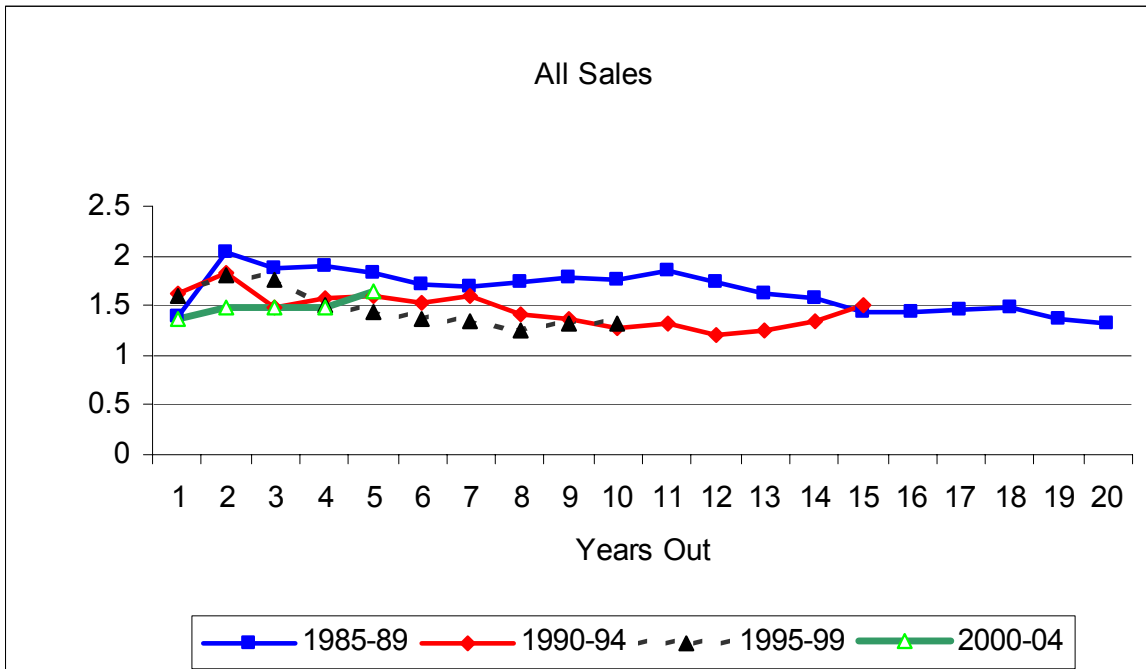


Exhibit 2-N: RESALE AFFORDABILITY, ALL UNITS, OAHU



2.5 TRENDS IN THE AREA MOST AFFECTED BY NEW DEVELOPMENT

Tax Map Zone 9 includes the Ewa Plain, Waipahu, the Waikele and Waipio areas, and Mililani. It accounts for about 40% of the sales inventory on Oahu. The large majority of affordable projects is within the area. The following tables show housing market trends for this zone. When compared to those for Oahu as a whole, they turn out to be very similar. Single-family sales have formed an even larger part of the market since about 1995, but price and affordability trends are in line with the rest of Oahu.

Housing prices in zone 9 average somewhat below those for the island as a whole. This is to be expected, since many who move to Ewa or Central Oahu are exchanging a longer commute for lower cost.

The resale data are particularly informative. In zone 9, as in Oahu as a whole, affordable units stay affordable. While the oldest units show an overall gain in value in the late 1980s and early 1990s, the gain is not so pronounced in zone 9 as elsewhere.

Exhibit 2-O: VOLUME OF SALES, OAHU ZONE 9, 1985-2004

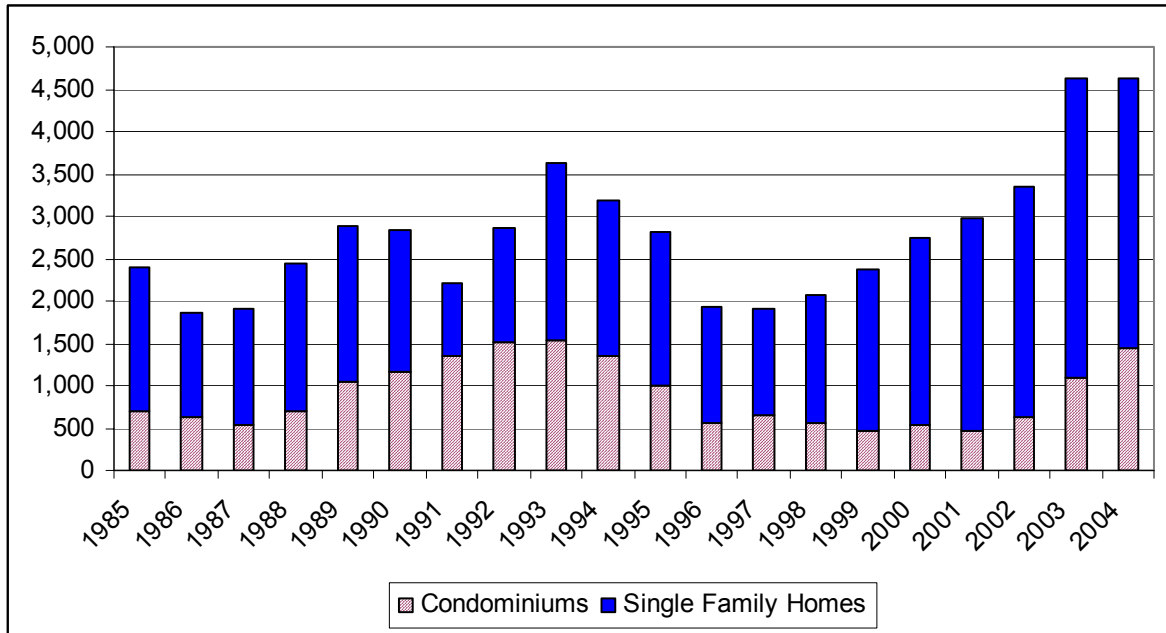


Exhibit 2-P: MEDIAN ANNUAL SALES PRICE, OAHU ZONE 9

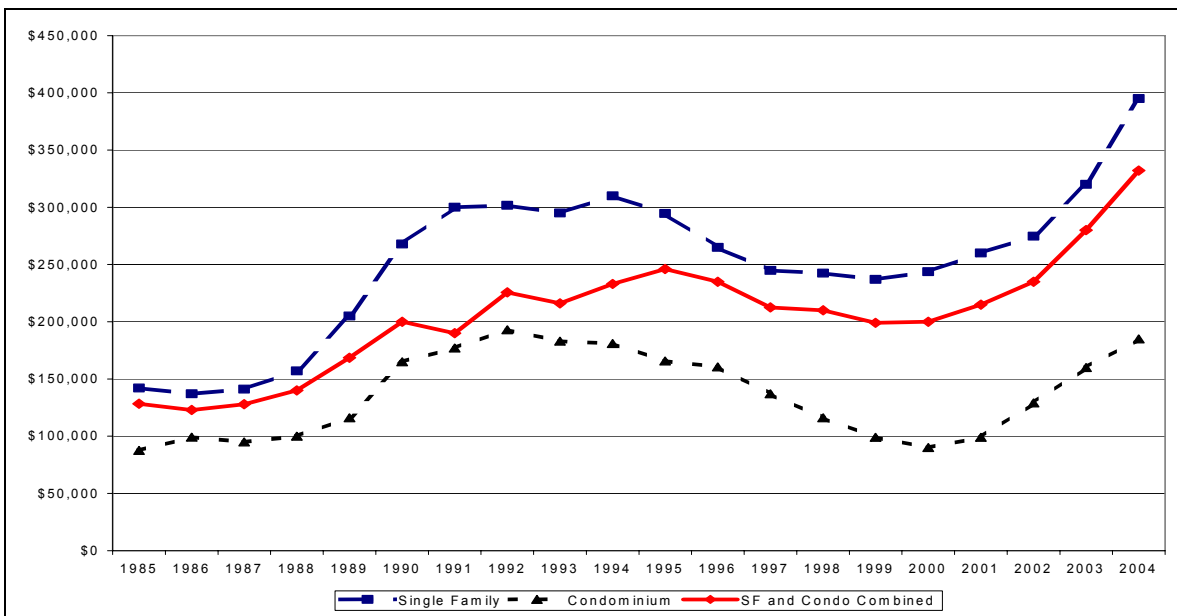


Exhibit 2-Q: AFFORDABILITY OF MEDIAN-PRICED HOUSING, OAHU ZONE 9

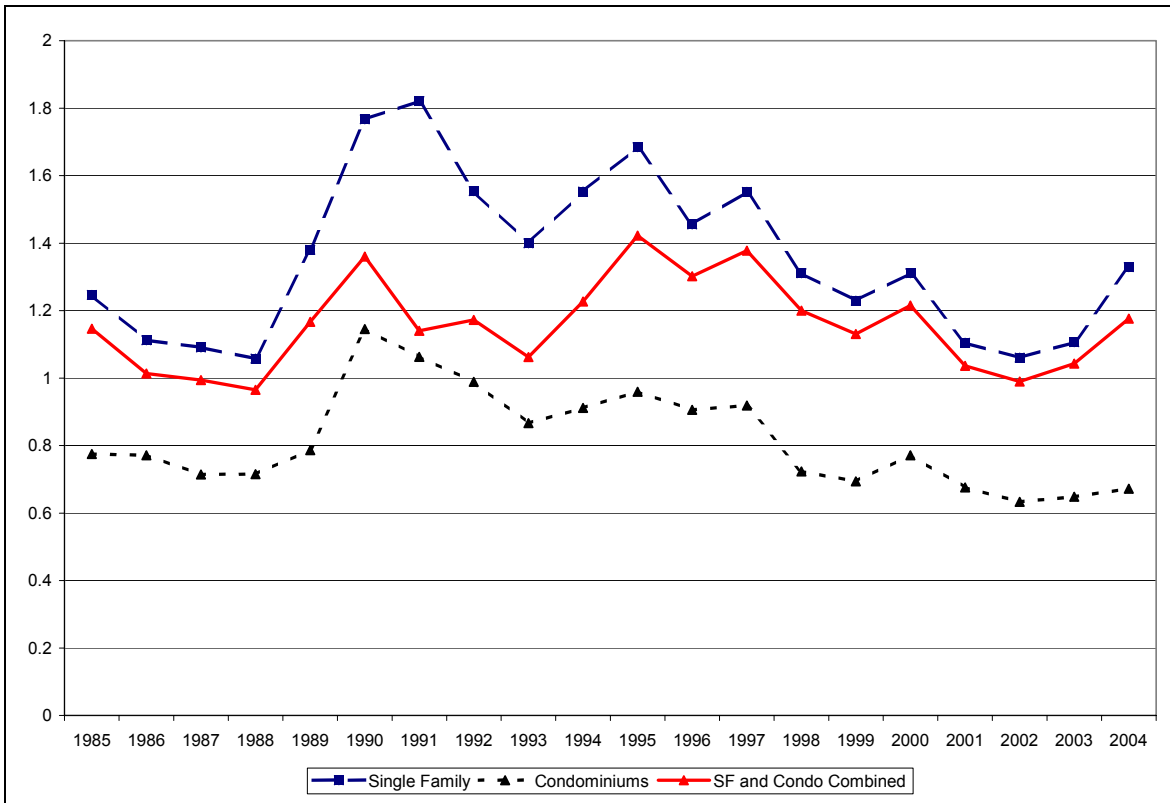


Exhibit 2-R: RESALE AFFORDABILITY, ALL UNITS, OAHU ZONE 9

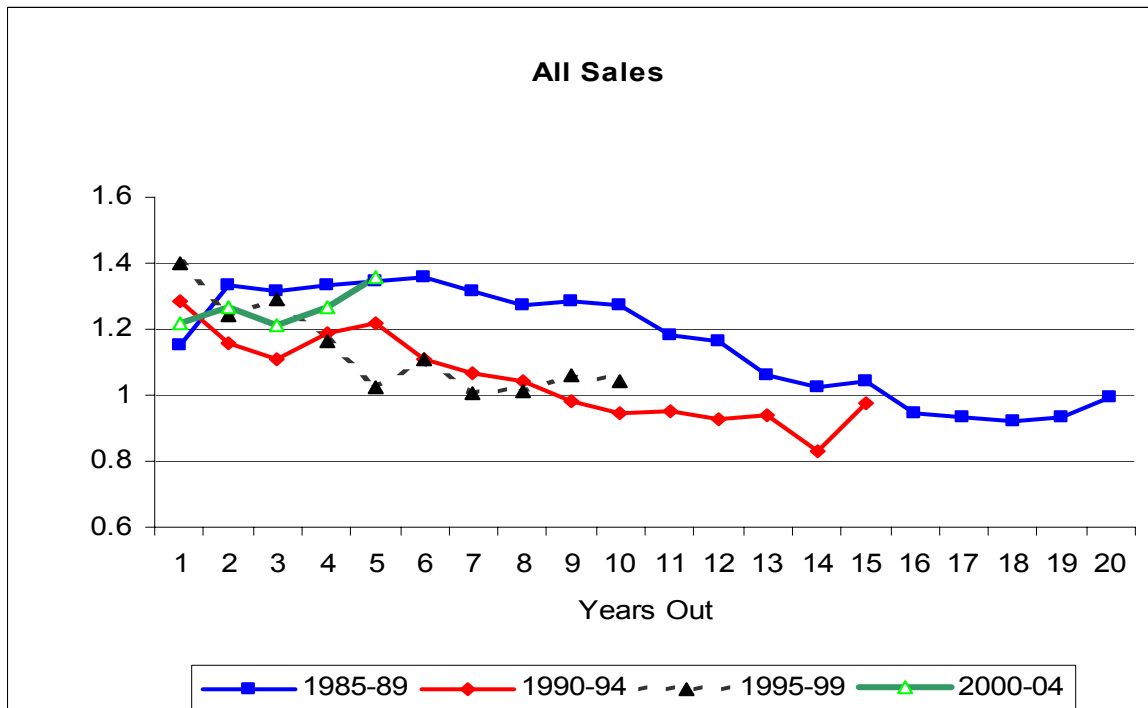


Exhibit 2-S: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 0.50 TO 0.80, OAHU ZONE 9

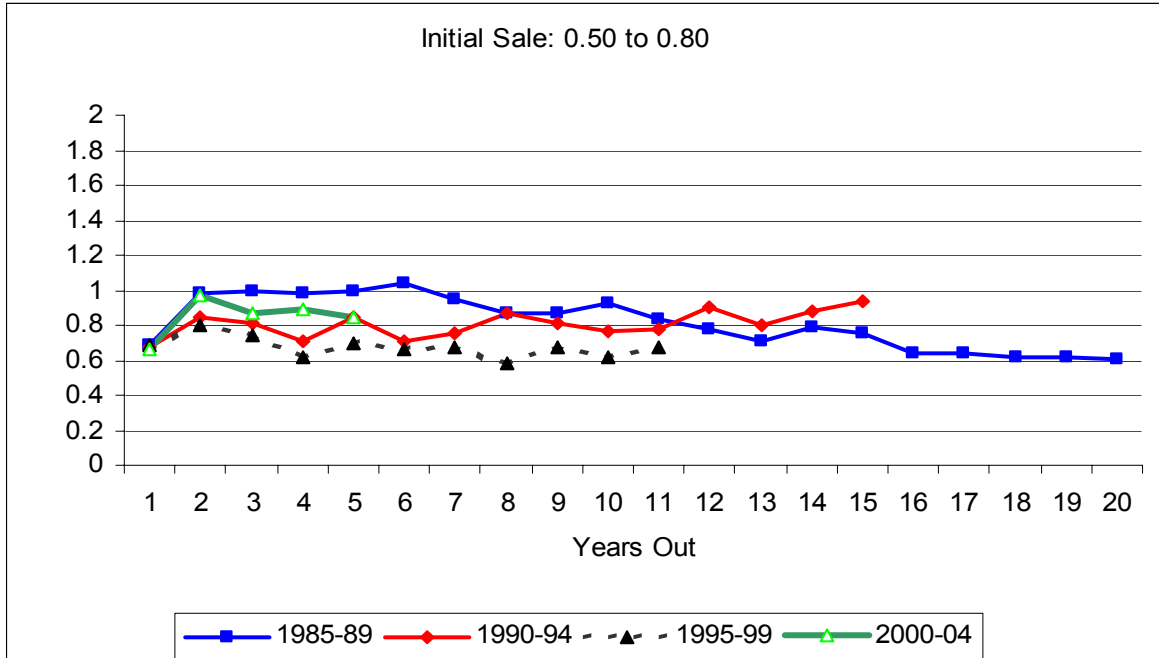


Exhibit 2-T: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 0.81 TO 1.00, OAHU ZONE 9

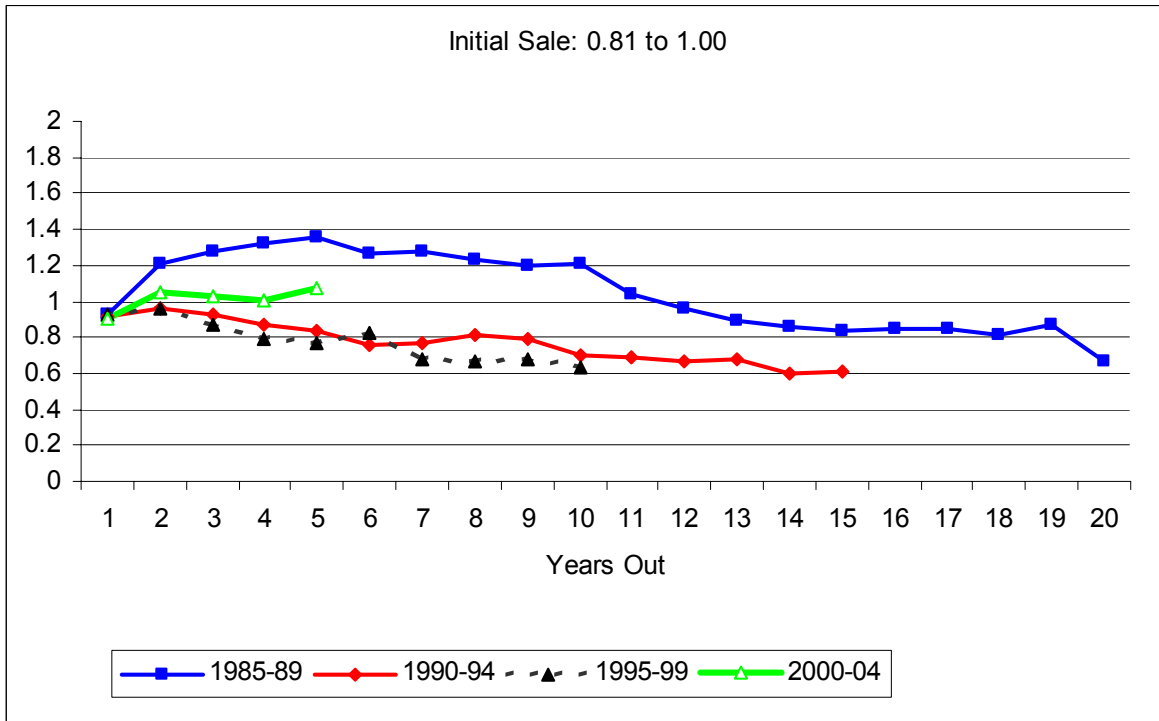


Exhibit 2-U: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.01 TO 1.20, OAHU ZONE 9

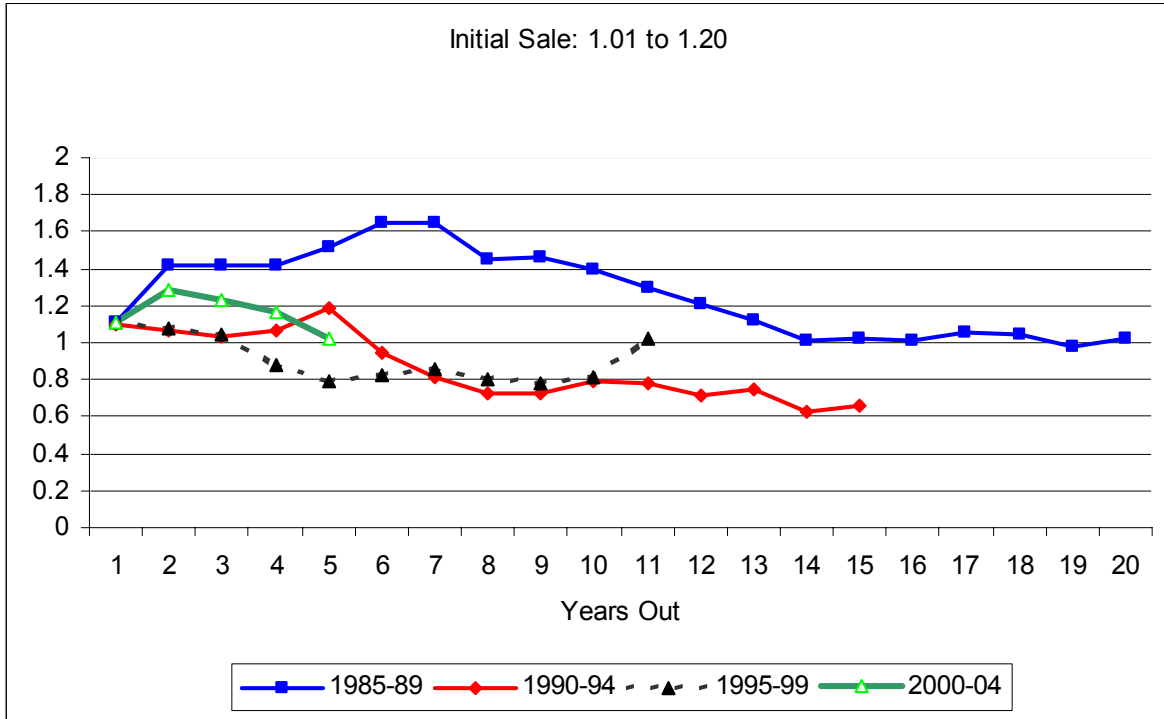


Exhibit 2-V: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.21 TO 1.40, OAHU ZONE 9

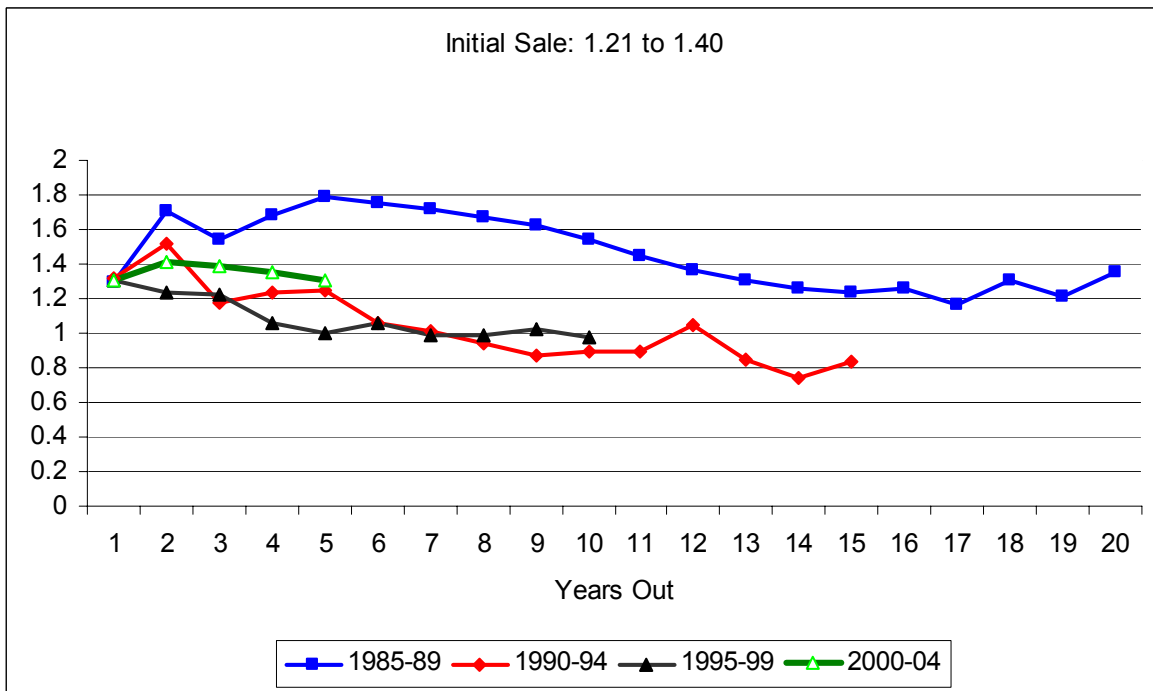
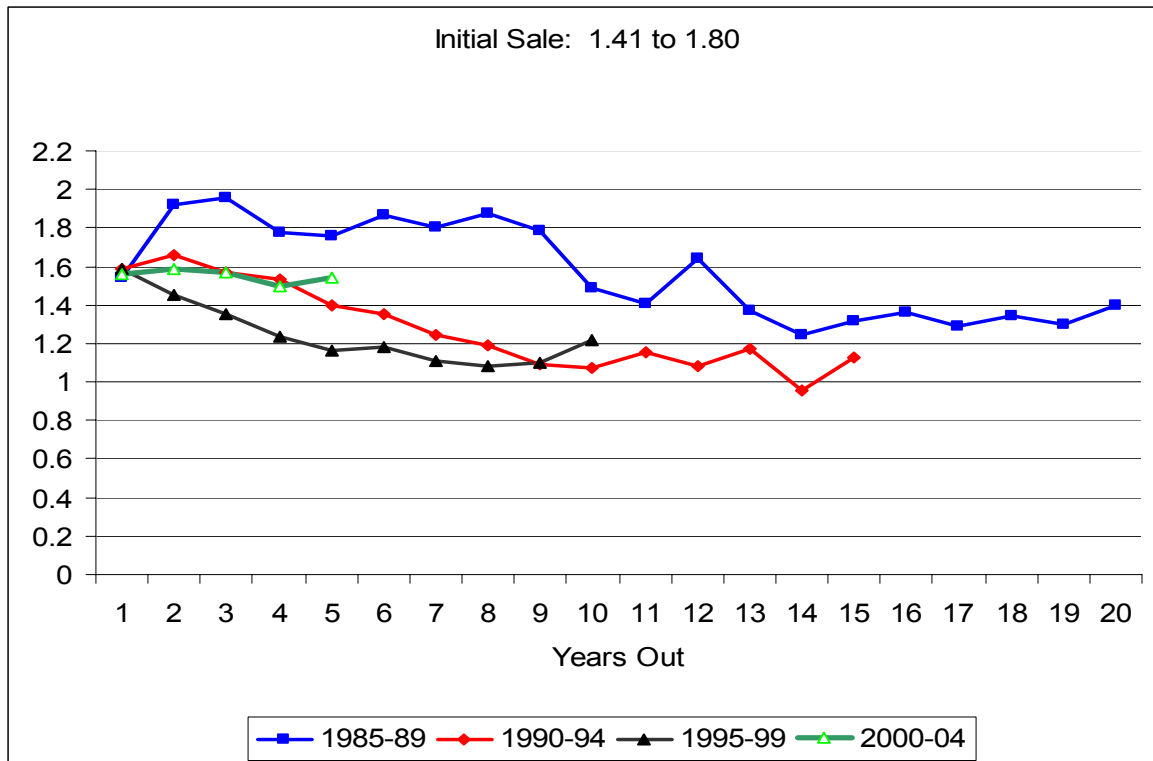


Exhibit 2-W: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.41 TO 1.80, OAHU ZONE 9



3. THE COUNTY OF MAUI

3.1 INTRODUCTION

The County of Maui includes three inhabited islands: Maui, Molokai and Lanai. Maui has more than 90% of the County's population. The other two islands form very small housing markets. Moreover, these have been greatly changed over the last twenty years by distinctive historical events: plantation closings on both islands and the opening of upscale resorts on Lanai. Because of the small number of transactions in each market, Lanai and Molokai are not considered further in this report

Maui's economy is the most robust of all the Neighbor Islands. Its visitor industry has succeeded in making Maui one of the best-known destinations in the world. Its island economy is fairly diverse: plantation agriculture remains viable, while specialty crops are also grown; high technology research and development is based in Kihei and supported by observatories at the summit of Haleakala; retail and services, centralized in Kahului, have grown in size and variety. Maui weathered the 1990s without loss of jobs or population, and now has the lowest unemployment rate in Hawaii. These factors make for a population with income to spend in the housing market – and for significant competition in that market from overseas buyers.

The database of fee-simple sales compiled for this report includes over a thousand sales per year from 1985 to the present. As in other counties, sales slowed in the mid-1990s, but exceeded 2,500 by 1998 and have continued at high annual volumes. Home sales prices have been climbing since 1998. At first, the median home price was above or close to the level affordable by families earning the median income. Since 2002, prices have tended to be well above levels most residents could afford. In 2004, the median sales price was 174% of the amount affordable to moderate-income residents.

New housing units are still being produced at prices that residents can afford. However, pressure for housing is so strong that resale values, as well as resale prices, have climbed well above their initial levels. Increases in value are most visible for units initially sold since 2000 and ones initially sold before 1989.

In our account of the Oahu housing market, we stressed that affordable housing has stayed affordable over time. On Maui, this is not the case. The entire housing market – not just certain units initially sold at controlled prices – has tended to appreciate in value, and has sharply appreciated in the last few years.

Housing prices cannot rise beyond what buyers can afford. The current situation is fueled in part by the presence of many non-residents in the housing market. They account for 37% of Maui Island sales in 2004, and as much as 50% of West Maui sales. Moreover, these sales occur at all price ranges, not just the highest ones.

In response to the presence of off-shore buyers, the developer of new market housing in the Legends at Maui Lani has been asking buyers to agree to owner-occupant restrictions.

3.2 AFFORDABLE HOUSING POLICIES

Unlike the City and County of Honolulu, the Neighbor Island county administrations have kept housing personnel in place to encourage development of affordable housing. On Maui, the same administrators – Housing and Human Concerns Department Director Alice Lee and Housing Administrator Ed Okubo – have dealt with the issue for more than a decade.

The County has an affordable housing policy that sets out conditions on the sale of units considered “affordable”, restrictions on resale of those units for up to five years, and provisions for buybacks and calculation of the buyer’s share of appreciation in the price of a unit to be resold (Maui County Code, Section 2.86.610). The County has long had a policy mandating that developers of hotels must construct housing for residents, at a ratio of at least one housing unit for every four hotel units (Section 2.94). While there is no law mandating similar construction of housing for large-scale industrial projects, it has been County practice to demand that land be set aside from such projects for affordable housing.

Administration of the affordable housing program is largely the duty of the Department of Housing and Human Concerns. It proceeds according to published guidelines that allow developers’ housing contributions to take the form of units, land, and/or in-kind services. The rules and guidelines do not explicitly identify a share of units in residential projects that should be affordable. That share has been negotiated by developers with the County, subject to agreement by the County Council. For many years, the County accepted plans in which 10% of units would be for sale at affordable prices. Currently, the County expects housing developments to be at least 15% affordable. The Department of Housing and Human Concerns has supported development of “201-G” projects – ones permitted on a fast-track basis by the Housing and Community Development Corporation of Hawaii, with very limited input from the County – and has urged developers of other residential projects to have at least 51% of units be affordable, as in 201-G projects.¹⁰

Maui’s Affordable Housing Program (Section 2.86.610) is quite specific with regard to buyer qualification for affordable units. For ninety days after the sale of affordable units has been announced, units or lots must be offered to the group for which they have been priced (e.g., up to 80% of median income). Should the units not sell in that time, they can be offered for the same price to the next more affluent income group (i.e., families with incomes between 80% and 120%, for housing that has failed to sell to buyers with less than 80% of the median income) for another ninety days. Next, they may be offered to families with incomes up to 180% of the median for thirty days. If the units still have not sold, the County retains the right to buy they units at the affordable price. If the County waives that right, the unit may be sold to buyers at any income level, and the unit would still be counted as meeting the developer’s obligation to produce affordable housing.

The County Administration recognizes that Maui needs more affordable housing, and sees itself as cooperating with developers to get new units permitted and built (personal communication, Ed Okubo, Maui County Housing Administrator, July 2005). One major

¹⁰ The proposed Pulelehua project and a village project in Maui Lani both are being planned to include more than 50% affordable units, but are not being submitted through HCDCH, in part because they are complex mixed-use projects.

project, by Spencer Homes in Waikapu, was permitted under 201-G rules and is now under construction. Another one, Hale Mua in Waiehu, is currently being reviewed by the Maui County Council. The Wainee project in Lahaina is also expected to be submitted as a 201-G project.

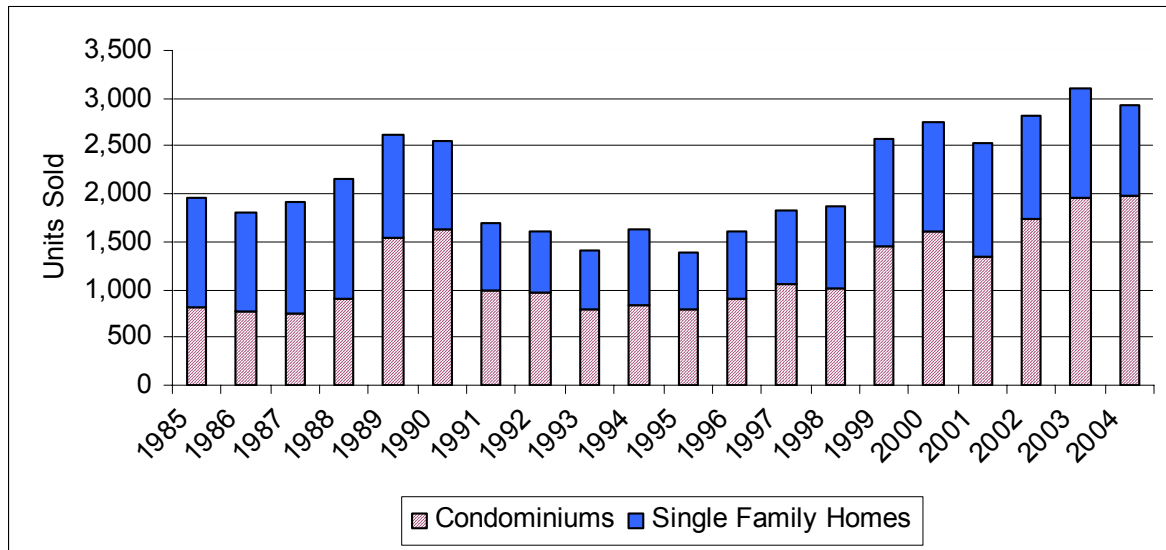
In effect, the County Administration is currently addressing the housing crisis by encouraging much new housing development. However, this position risks creating new problems. Council members have expressed displeasure with the 201-G process, whereby they can approve or deny a project, but not impose conditions, and the County Planning Director has suggested that the Hale Mua project be withdrawn and resubmitted once changes have been made (Monson, 2005a). Concerns have been expressed by police representatives and stakeholders in nearby communities over traffic impacts of the proposed development. The Council finally voted 7 to 2 in favor of the project, but members who supported it expressed strong antagonism to the process (Monson, 2005b).

Proposals for a revised Maui County Housing Policy are now being considered by the County Council.

3.3 MAJOR MARKET CHARACTERISTICS: MAUI ISLAND

Maui's economy fared better than that of the other islands during the 1990s. Housing sales continued apace, but new housing production dropped (as shown in Exhibit 3-B). New housing sales did not increase appreciably by the end of the study period.¹¹

Exhibit 3-A: FEE SIMPLE RESIDENTIAL SALES, MAUI, 1985-2004



¹¹ This is partly due to a delay by the Real Property Tax officials in uploading new property data onto the electronic system. It appears that the 2003 and 2004 new home data have not been included in full in the data set. The delay appears most severe in the Maui data, but it likely also applies to Hawaii and Kauai to some extent.

Housing prices on Maui have increased steadily since 2001. Residents' ability to participate in the housing market was also rising, until 2003, when the median price passed the price affordable to families making the median income. The gap between the two has been increasing sharply. By the end of the study period, the median-priced home had reached the highest affordability level for the twenty-year period, i.e., it was less affordable than at any time in the preceding twenty years. In 2004, residents were the buyers in five-eighths of the residential property sales on Maui Island (as shown in Exhibit 3-G). Residents were the buyers in only half the sales in West Maui District, which has major resort areas.

Even in a market with sharply rising prices, Maui builders have brought to market units for all major market segments (Exhibit 3-H). For 2003, the last year for which new housing data has been included in the database, about 70% of the new units were affordable to households earning 120% of the median income or less (Exhibit 3-I).

Exhibit 3-B: NEW HOME PRODUCTION AND RESALES, MAUI

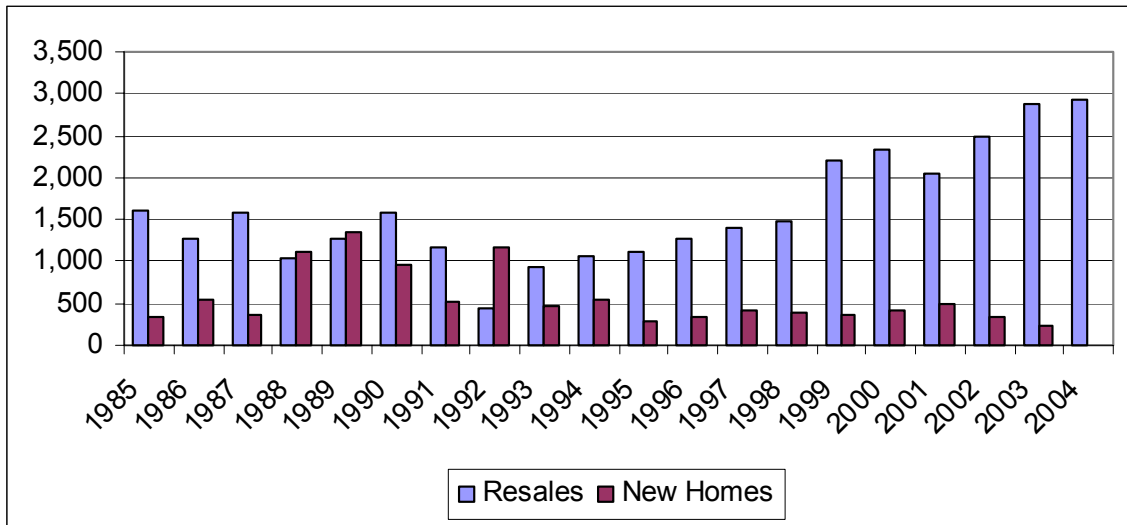


Exhibit 3-C: NEW HOME SHARE OF MARKET, MAUI

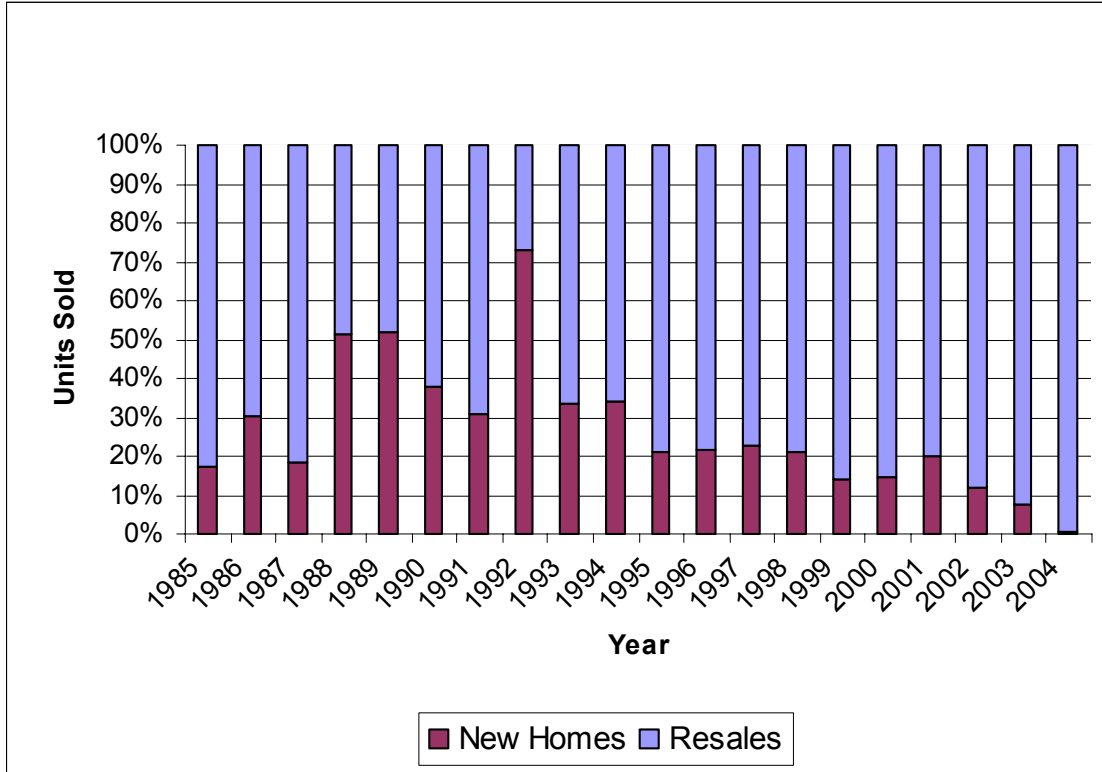


Exhibit 3-D: MEDIAN HOUSING PRICES, MAUI

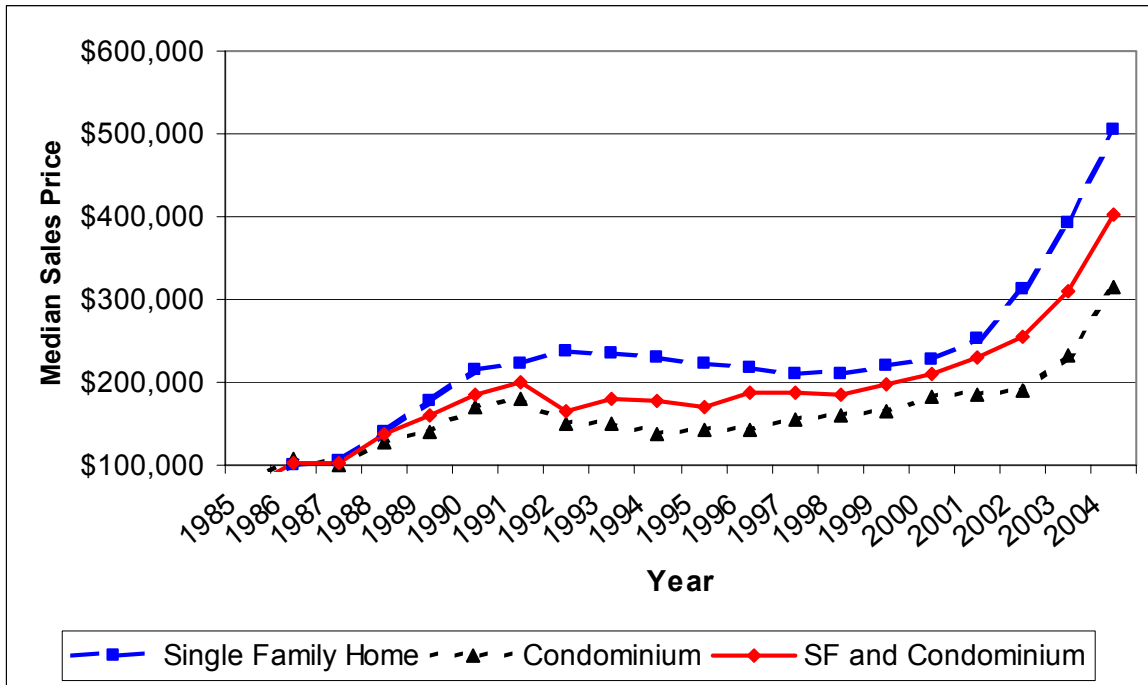


Exhibit 3-E: ANNUAL AFFORDABLE AND MEDIAN PRICES, MAUI

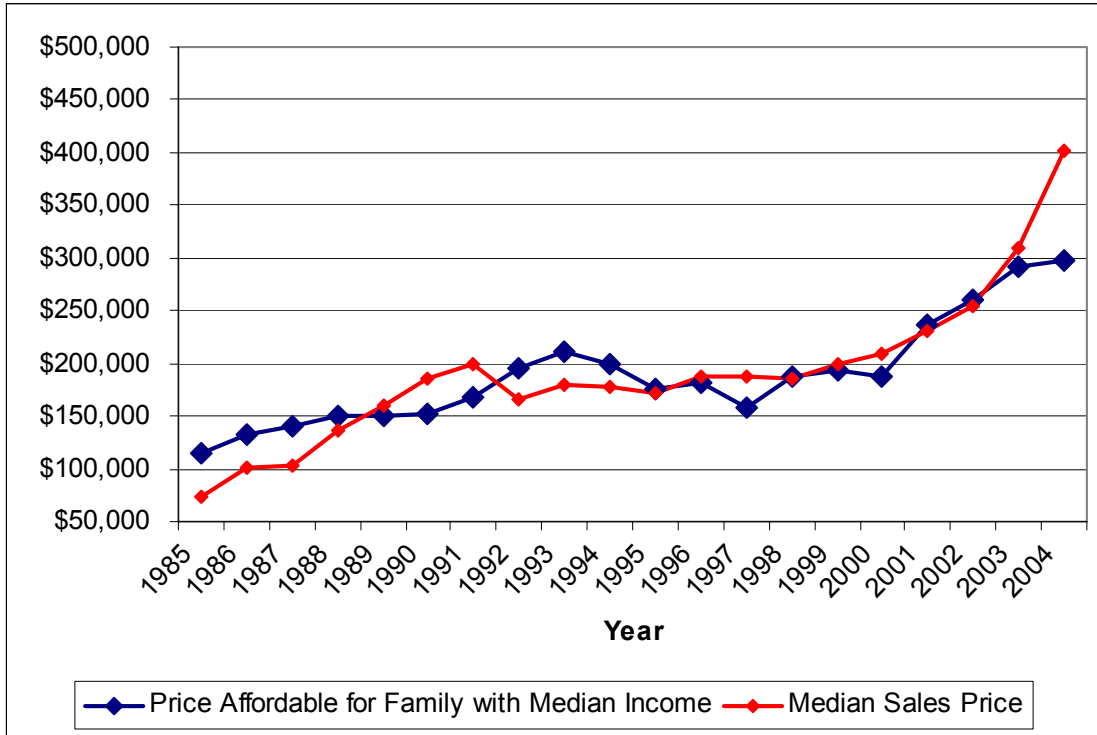


Exhibit 3-F: AFFORDABILITY OF MEDIAN-PRICED UNITS, MAUI

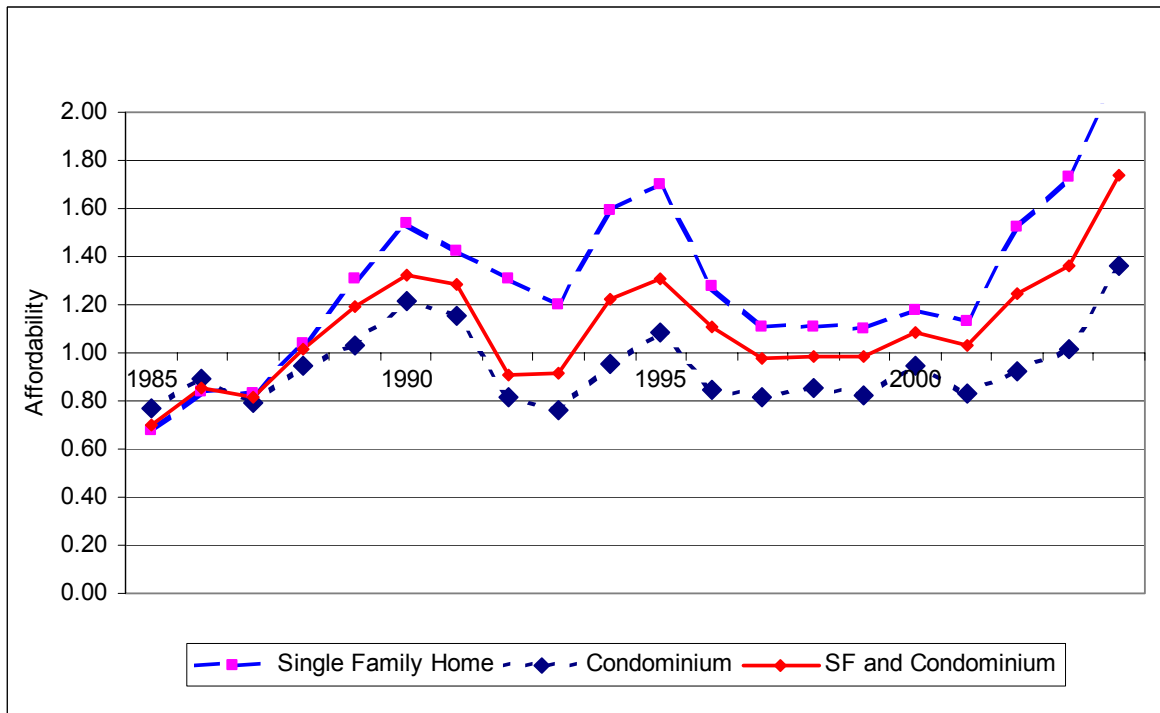


Exhibit 3-G: HAWAII AND OVERSEAS BUYERS OF UNITS SOLD IN 2004, MAUI

Sale price (\$1,000s)	Total Sold		Hawaii Addresses		Overseas Addresses		Overseas Share West Maui	
	Condo	SF	Condo	SF	Condo	SF	Maui	West Maui
101-150	70	19	47	14	23	5	31%	47%
151-200	144	45	99	33	45	12	30%	32%
201-250	141	87	91	66	50	21	31%	50%
251-300	87	77	58	62	29	15	27%	21%
301-350	52	100	23	71	29	29	38%	33%
351-400	34	128	16	103	18	25	27%	29%
401-450	25	135	10	108	15	27	26%	48%
451-500	10	147		106	10	41	32%	52%
501-600	33	210	10	157	23	53	31%	32%
600-750	35	145	10	78	25	67	51%	55%
751-1000	30	109	5	49	25	60	61%	70%
1,001 and up	33	73	9	24	24	49	69%	69%
Total	694	1275	378	871	316	404	720 37%	162 50%

Exhibit 3-H: ANNUAL DISTRIBUTION OF NEW HOUSING BY AFFORDABILITY LEVEL, MAUI

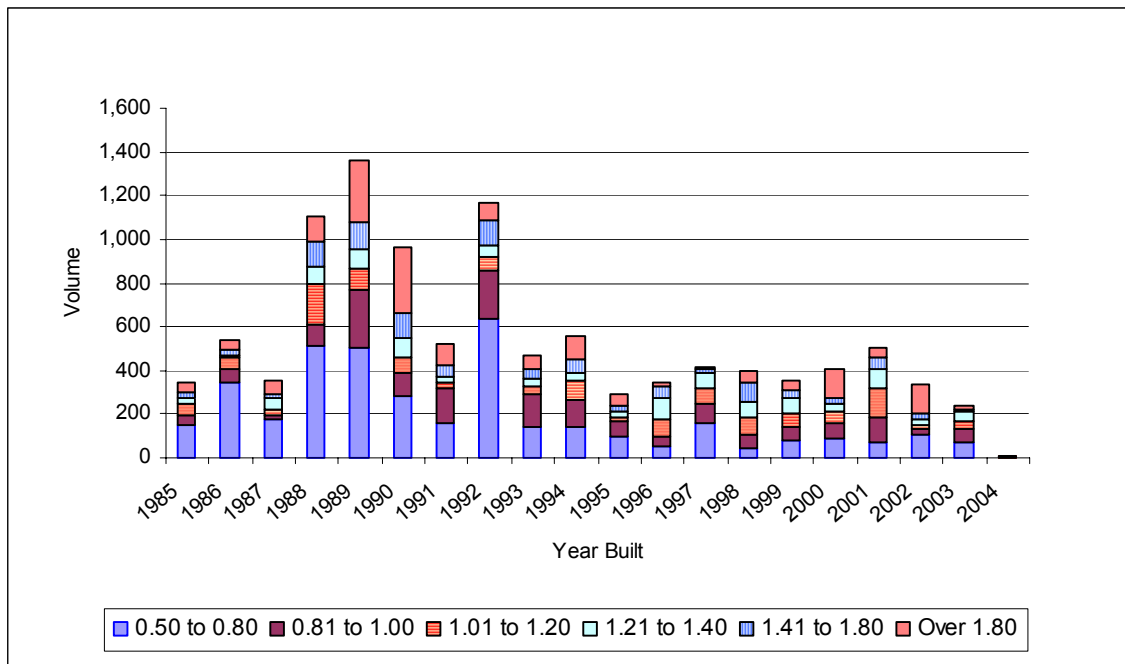
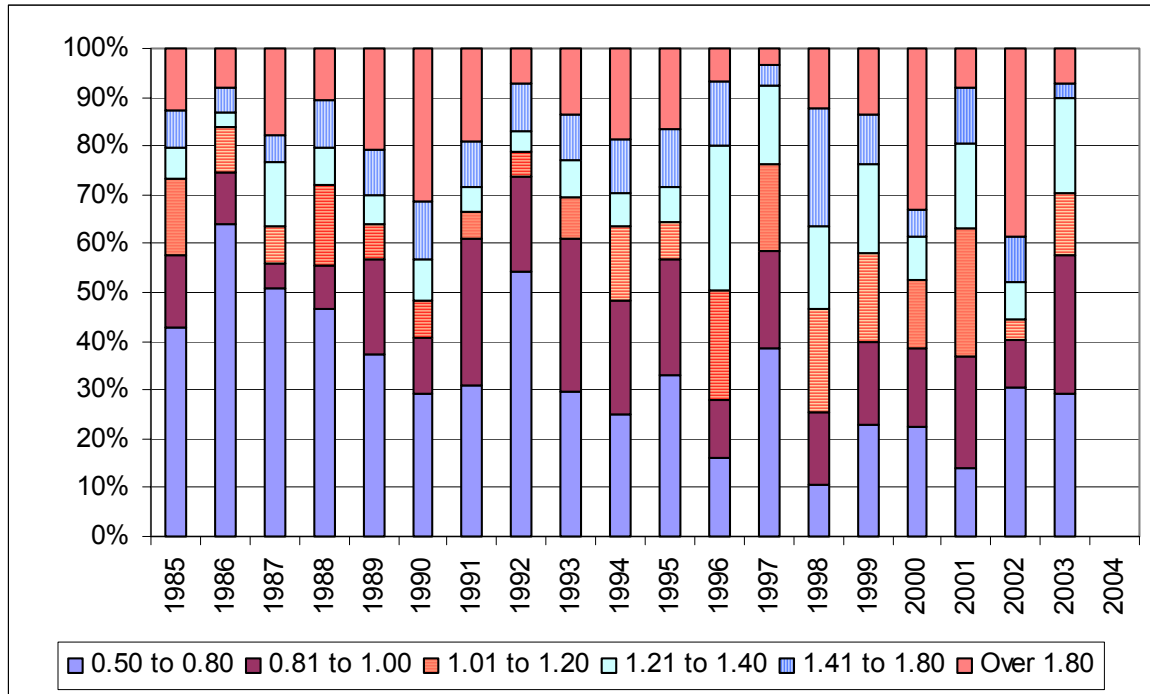


Exhibit 3-I: SHARE OF NEW HOUSING UNITS BY AFFORDABILITY SEGMENT, MAUI



3.4 RESALE TRENDS: MAUI ISLAND

The resale data show trends not found on Oahu. As on Oahu, the least expensive homes increase in value, but at a sharper rate. Exhibit 3-J also shows an extremely sharp rise in the value of units immediately after the initial sale. This is characteristic of a very limited supply.

Resale trends for “affordable” units are shown in Exhibits 3-K through 3-M. These show long-term appreciation in value typical of a situation of limited supply. Also, resales of the newest units show very sharp increases in value. Exhibit 3-O combines information for all price levels. It shows the two trends highlighted in the graphs for particular market segments.

Exhibit 3-J: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 0.50 TO 0.80, MAUI

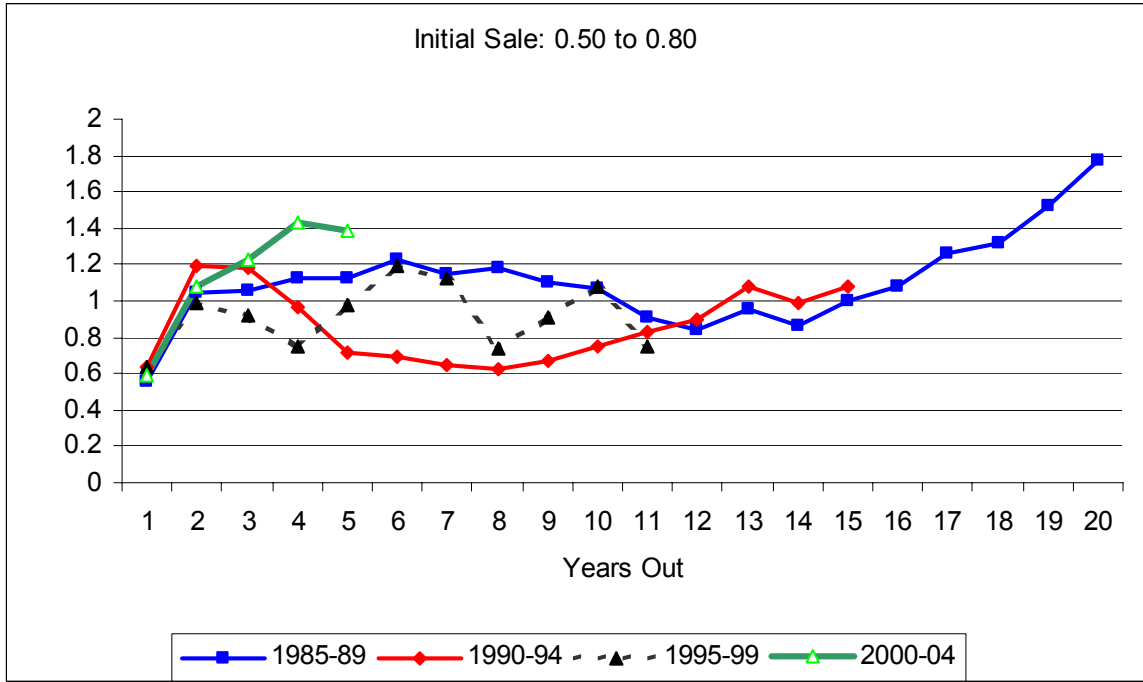


Exhibit 3-K: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 0.81 TO 1.00, MAUI

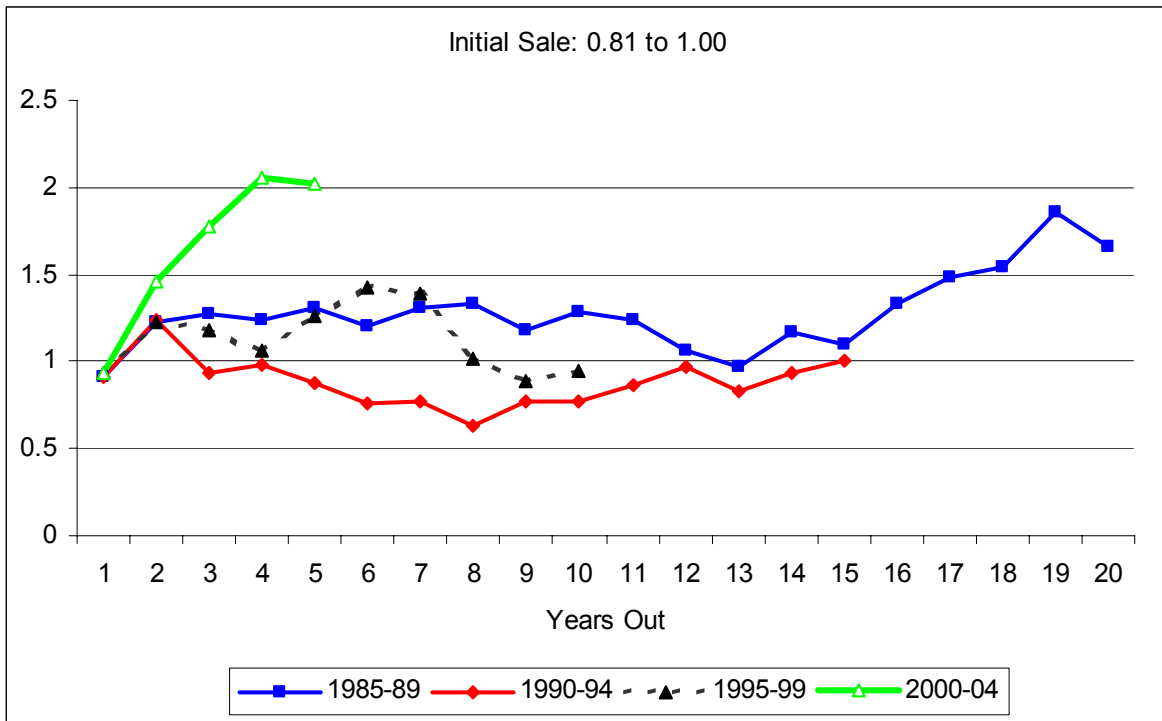


Exhibit 3-L: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.01 TO 1.20, MAUI

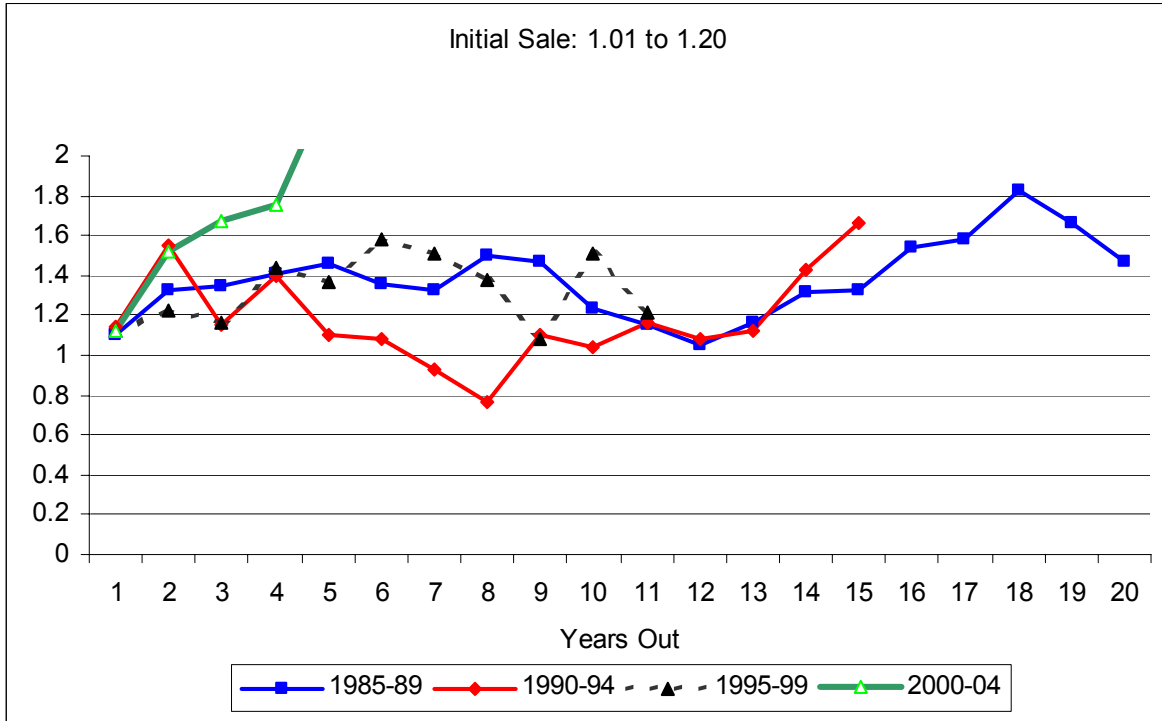


Exhibit 3-M: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.21 TO 1.40, MAUI

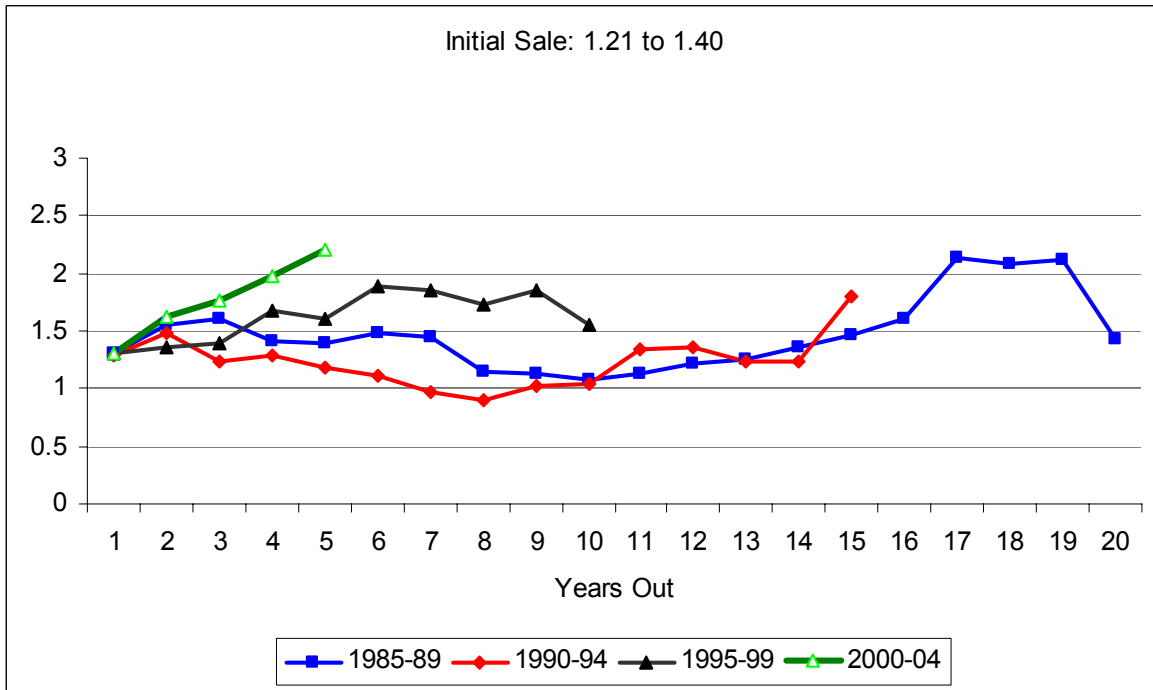


Exhibit 3-N: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.41 TO 1.80, MAUI

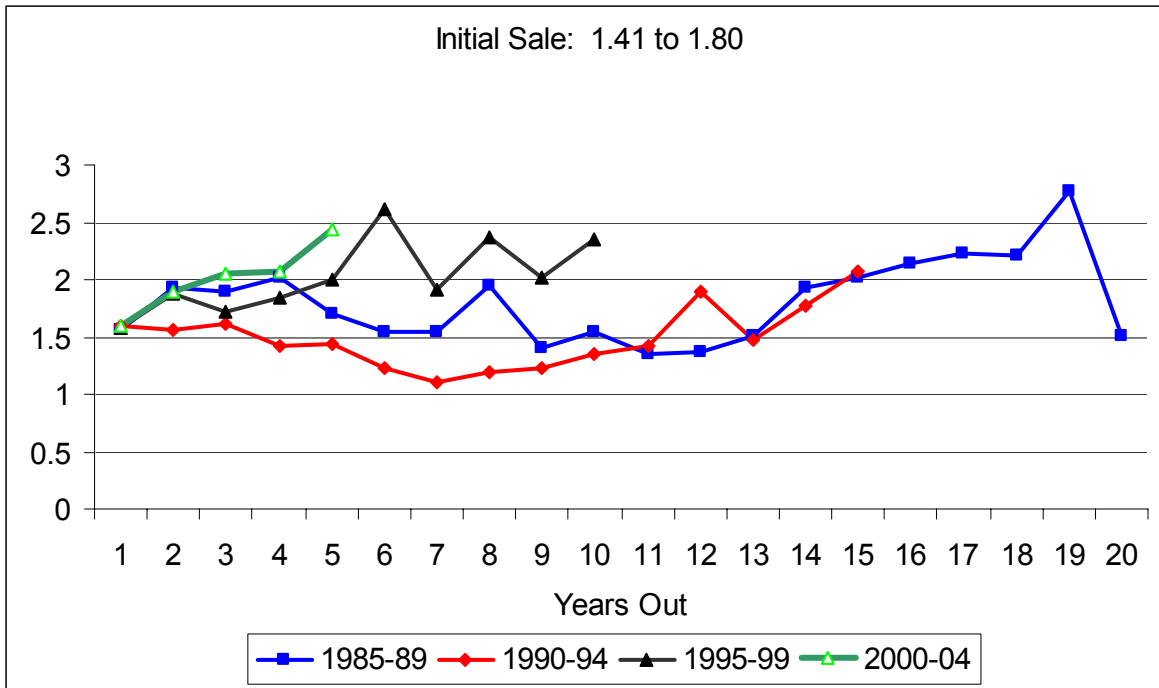
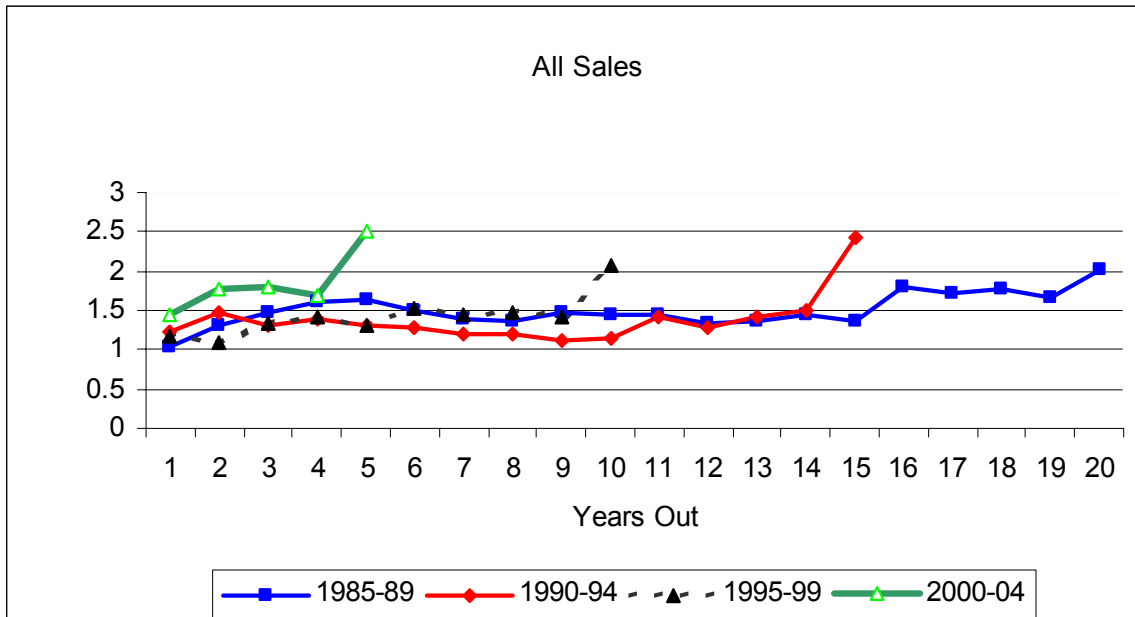


Exhibit 3-O: RESALE AFFORDABILITY, ALL UNITS, MAUI



4. THE COUNTY OF HAWAII

4.1 INTRODUCTION

Hawaii County includes a wider variety of ecologies and residential opportunities than elsewhere in Hawaii. During the study period, the West Hawaii resort areas expanded, and, in recent years, resort residential development has been strong. Elsewhere on the Big Island, lots and homes have long been available at modest prices, allowing residents to own their own home even if they must commute long distances to get to work. In Hawaii County, the median home price was still slightly less than the amount that families earning the median County income could afford in 2004.

Hawaii County has long faced severe infrastructure problems. The inexpensive subdivisions in Puna and Kau lack urban infrastructure and amenities, and the road network has failed to expand in line with increasing traffic congestion. As traffic has worsened, even modest homes in areas close to the resorts have increased in price.

On Maui, policy-makers sometimes refer to affordable housing as infrastructure, making the point that residents need shelter along with water and other basic public services. On Hawaii, infrastructure problems are limiting the advantage that residents have long enjoyed due to a large supply of homes. As a result, while the long-term resale trends resemble those seen on Oahu – affordable housing stays affordable – in the short term, increases in price and value have been sharp.

4.2 AFFORDABLE HOUSING POLICIES

The Hawaii County Housing Agency is made up of the nine members of the County Council and staffed by the Office of Housing and Community Development. The County developed its own affordable housing policy in 1998 (Hawaii County Code, Chapter 11) with the following objectives:

- Implement the goals of the Hawaii County General Plan;
- Promote and assist private development of affordable housing for senior citizens and qualified households;
- Use government funds to develop affordable housing or increase the capacities of qualified households;
- Support innovative, low-cost approaches to develop affordable housing; and
- Require large resort and industrial enterprises to address affordable housing needs.

Developers could contribute in various ways, notably donations of land or of fees in lieu of building affordable housing. The land donations may over time have important results: the County is negotiating with an affordable-housing developer to build on 300 acres at Waikoloa Village donated to the County by the original owners of the Waikoloa Resort.

Donations of fees have involved relatively small amounts and have not led to many new units.

Over time, the County's leaders became dissatisfied with the situation, and sought ways to insure that affordable housing contributions went toward the production of new housing near the site for which an exaction was demanded. Accordingly, the Chapter 11 affordable housing policy was amended by Ordinance 05-23 (February 9, 2005). While on-site production of affordable units is favored for residential projects, location of affordable housing on land within 15 miles of the new development is allowed for satisfaction of the requirements (Hawaii County Code, Section 11-5). Key changes were made in the calculation of in-lieu fees. These are now 25% of the median sales price for which a dwelling unit actually sells in the tax map zone, minus the price affordable to households earning 120% of the County median income (Hawaii County Code, Section 11-6).

The new policy is based on a strong conviction that regulation is needed to keep the price of housing within the reach of residents. To assure that affordable housing stays affordable, the Housing Agency is directed to establish resale restrictions, including buy-backs and shared appreciation for units built under its housing rules (Hawaii County Code, Section 11-14). Similarly, the County is negotiating with UniDev, LLC, to develop housing on its acreage in Waikoloa Village. UniDev is a developer of housing for cities and institutions on the Mainland US. It controls resale prices on units in these projects, and may use part of the income from shared appreciation to cover the initial costs of development.

4.3 MAJOR MARKET CHARACTERISTICS

The number of housing units sold in Hawaii County is smaller than on Maui, even though the resident population is larger. Single-family homes account for a larger share of sales than on Maui (comparing Exhibit 4-A to Exhibit 3-A), partly because Hawaii's resort condominium inventory is much smaller than Maui's. New home production dropped in the mid-1990s, and has been slow to recover.¹²

Sales prices have increased sharply since 2002.¹³ At the same time, residents' ability to participate in the housing market has also grown, thanks to increased incomes and low interest rates. A much larger share of the units on the Hawaii County housing market are within the grasp of local residents, compared to Maui. However, new units are being produced above all for upscale markets (as shown in Exhibits 4-H and 4-I). Clearly, much of the new production is aimed at the resort market. Most of the 2004 residential properties studied by SMS were bought by offshore buyers.¹⁴ This suggests that Hawaii County's housing market could soon come to resemble Maui's more than Oahu's.

¹² As with Maui, the Hawaii County electronic data files appear to undercount the most recent new units.

¹³ Exhibit 4-D shows a feature absent in the more conventional MLS data on real estate on the Big Island. In the data used for this analysis, Hawaii condominium prices were higher, as a rule, than single-family prices. It appears that the approach used for this study included a larger sample of single-family sales in rural areas than are included in the MLS data.

¹⁴ Exhibit 4-G and similar exhibits in other chapters combine data on recent transactions with data on current ownership, i.e., the address to which tax bills are sent.

Exhibit 4-A: FEE SIMPLE SALES, RESIDENTIAL PROPERTY, HAWAII COUNTY, 1985-2004

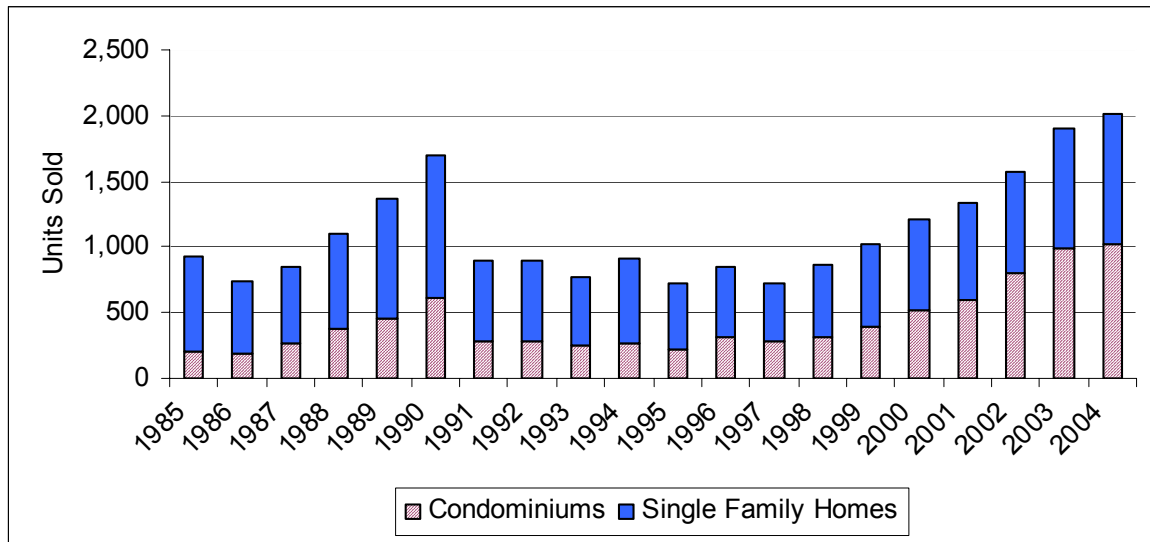


Exhibit 4-B: NEW HOME PRODUCTION AND RESALES, HAWAII COUNTY

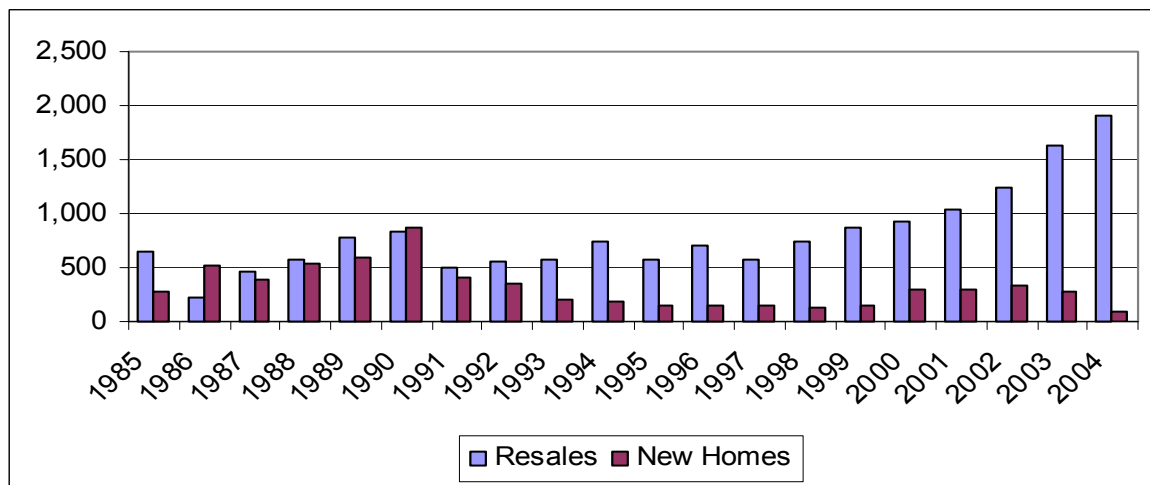


Exhibit 4-C: NEW HOME SHARE OF MARKET: HAWAII COUNTY VS. US SINGLE FAMILY

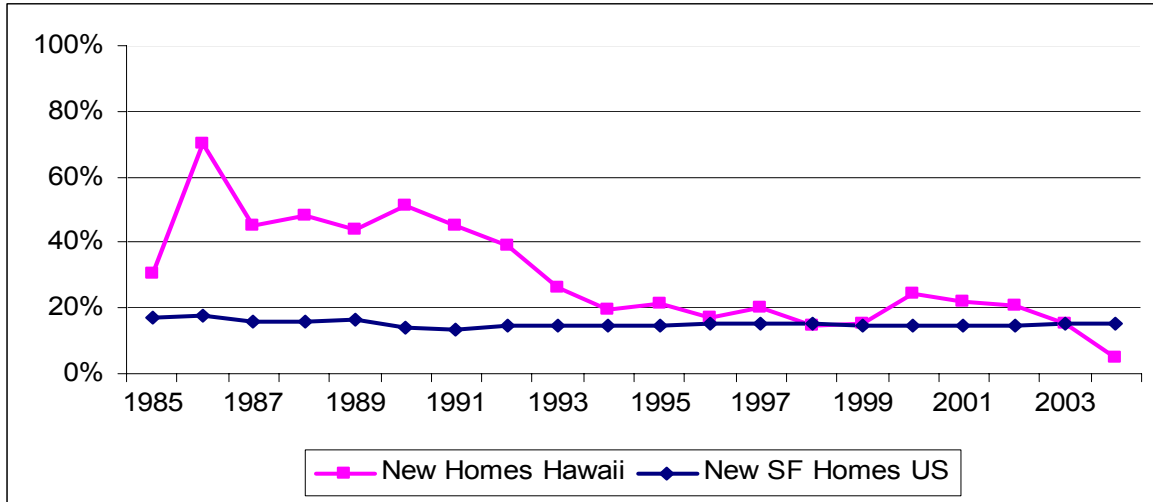


Exhibit 4-D: MEDIAN SALES PRICES, HAWAII COUNTY

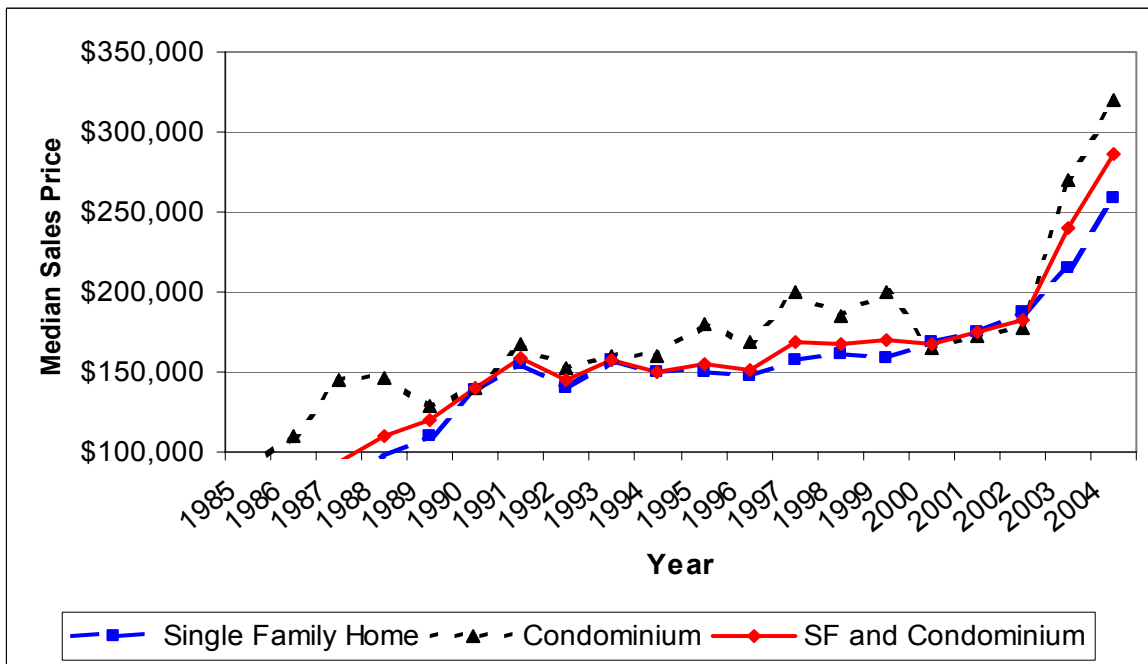


Exhibit 4-E: ANNUAL AFFORDABLE AND MEDIAN PRICES, HAWAII COUNTY

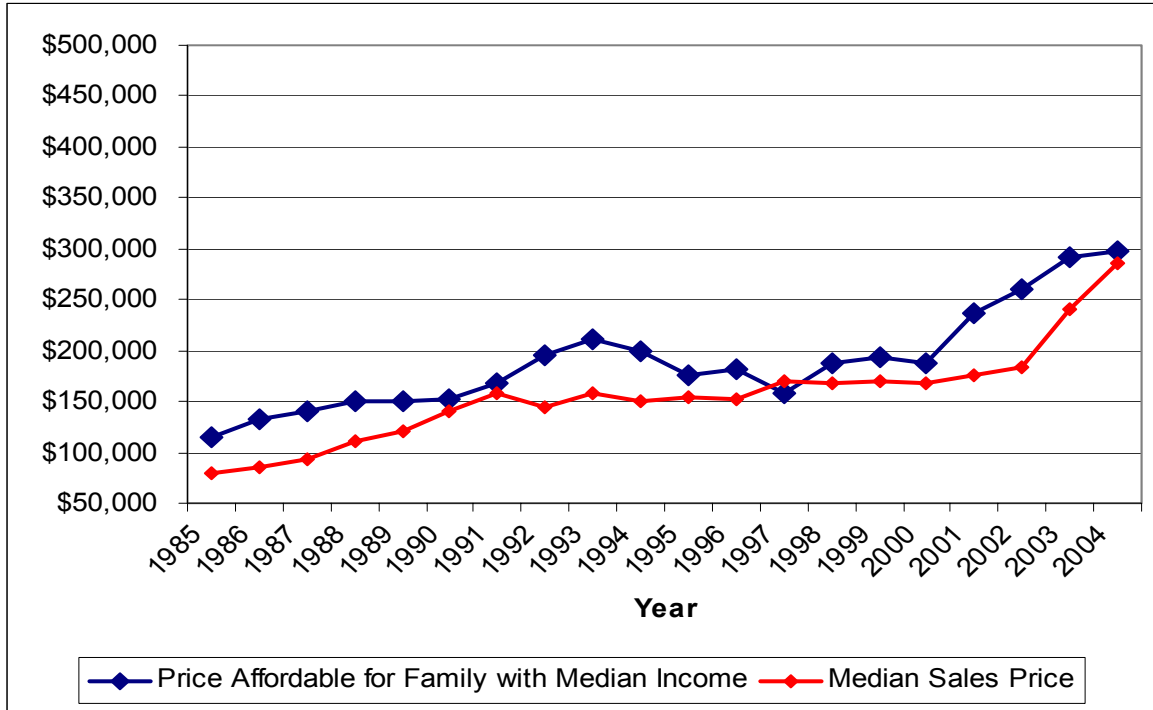


Exhibit 4-F: AFFORDABILITY OF MEDIAN-PRICED UNITS, HAWAII COUNTY

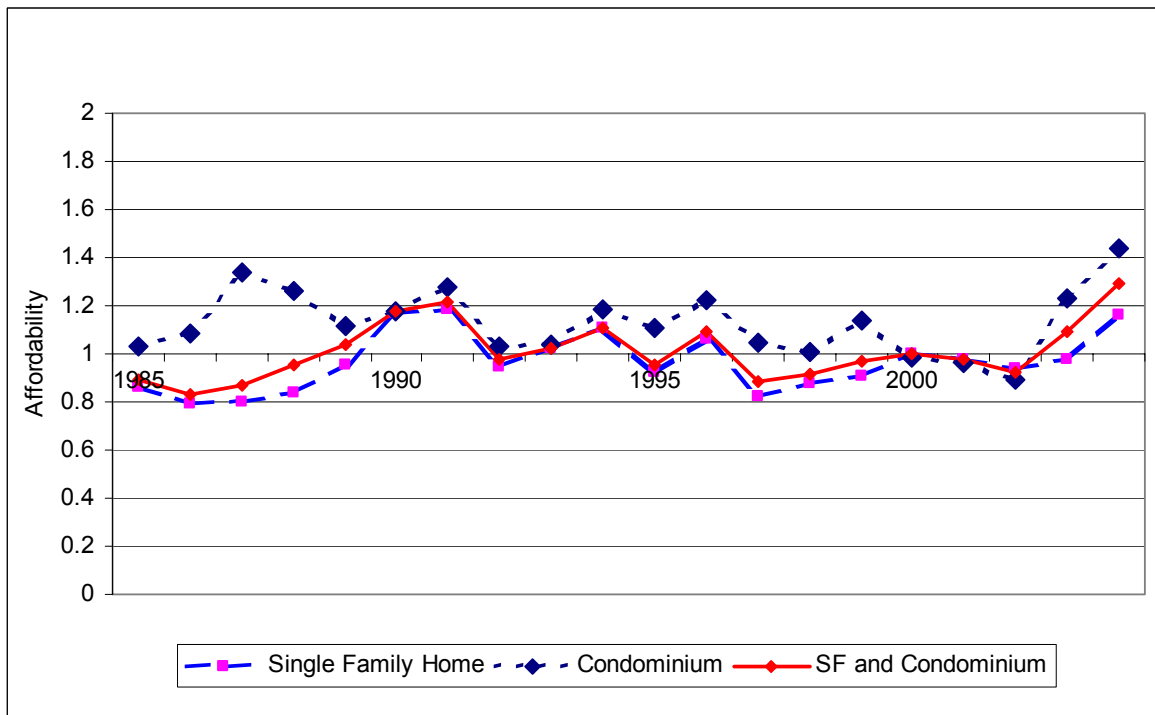


Exhibit 4-G: 2004 RESIDENTIAL SALES, HAWAII COUNTY, TO HAWAII AND OVERSEAS BUYERS

Sale price (\$1,000s)	Total Sold		Hawaii Addresses		Overseas Addresses		Overseas Share	
	Condo	SF	Condo	SF	Condo	SF	Hawaii County	South Kohala
101-150	71	211	39	129	32	82	40%	39%
151-200	113	211	48	135	65	76	44%	51%
201-250	125	154	44	104	81	50	47%	42%
251-300	114	119	29	76	85	43	55%	43%
301-350	89	104	13	59	76	45	63%	53%
351-400	69	100	19	54	50	46	57%	50%
401-450	73	62	11	33	62	29	67%	71%
451-500	64	55	7	37	57	18	63%	77%
501-600	95	52	13	27	82	25	73%	77%
600-750	31	25	3	15	28	10	68%	70%
751-1000	35	14	4	10	31	4	71%	85%
1,001 and up	96	7	6	2	90	5	92%	100%
Total	975	1,114	236	681	739	433	1,172 56%	296 63%

Exhibit 4-H: ANNUAL DISTRIBUTION OF NEW PRODUCTION BY AFFORDABILITY LEVEL, HAWAII COUNTY

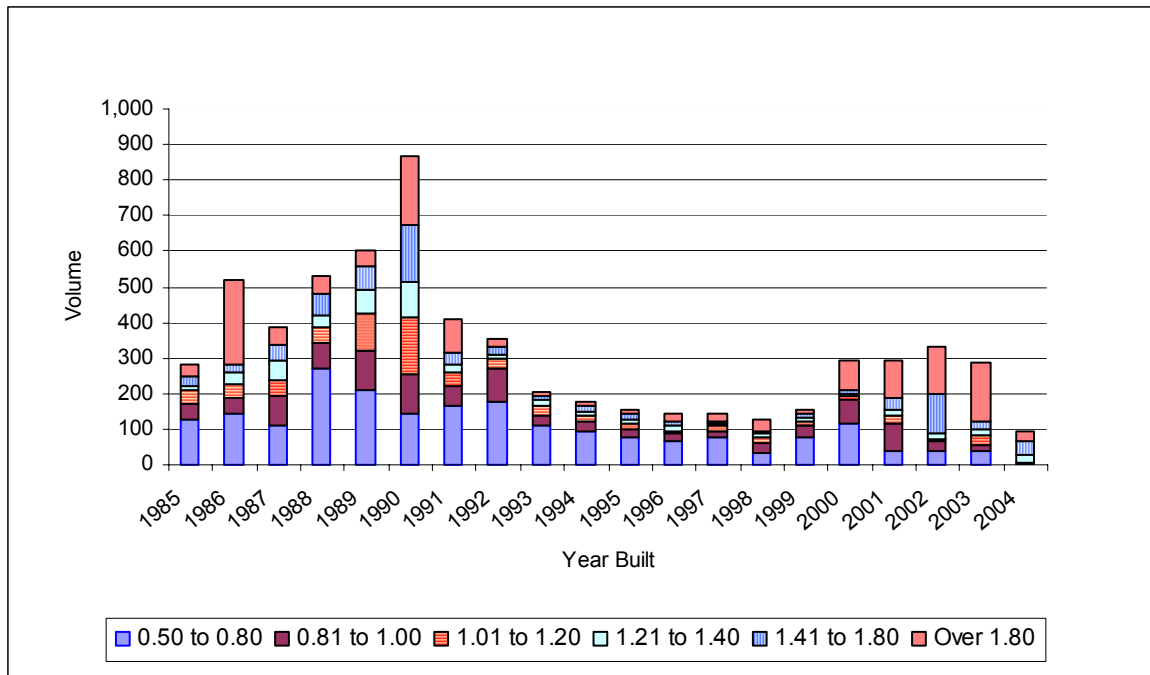
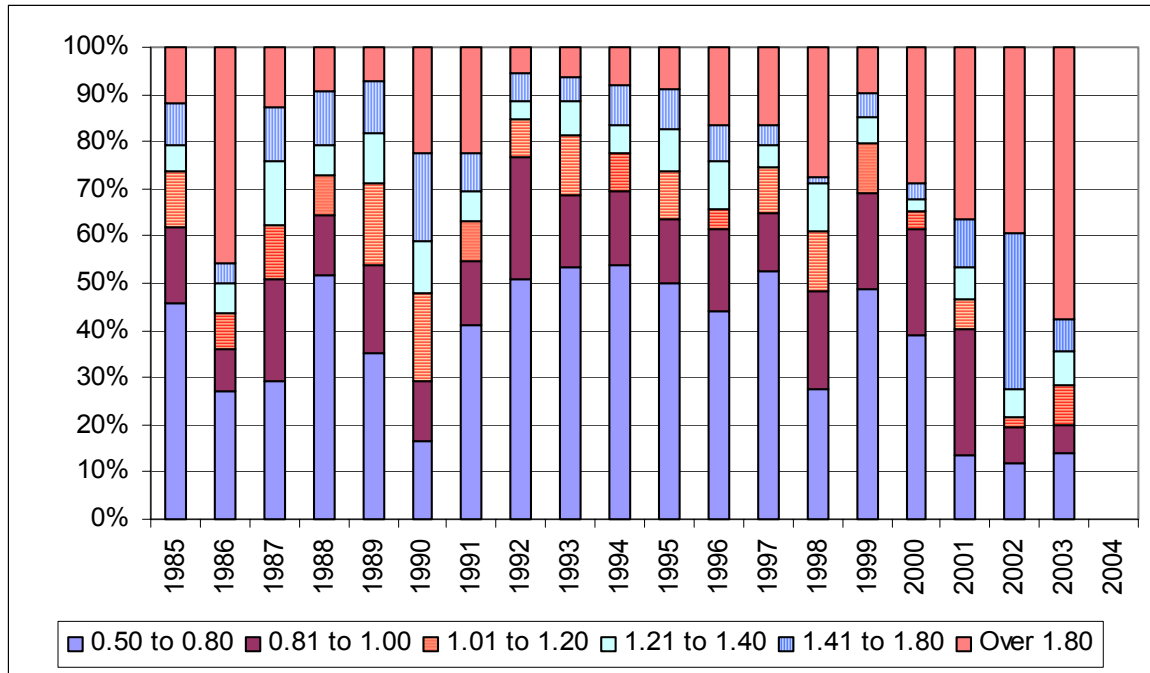


Exhibit 4-I: ANNUAL SHARE OF NEW PRODUCTION BY AFFORDABILITY LEVEL, HAWAII COUNTY



4.4 RESALE TRENDS

Exhibit 4-J shows the overall trend in Hawaii County for housing units to resell at prices affordable to many residents. That trend is evident in the graphs for the “affordable” housing segments (Exhibits 4-L through 4-N). As on Maui, all these graphs show recent increases in value characteristic of a limited housing supply. It is not obvious whether these trends indicate a short-term boom or a change in the Hawaii County market.

Exhibit 4-J: RESALE AFFORDABILITY, ALL SALES, HAWAII COUNTY

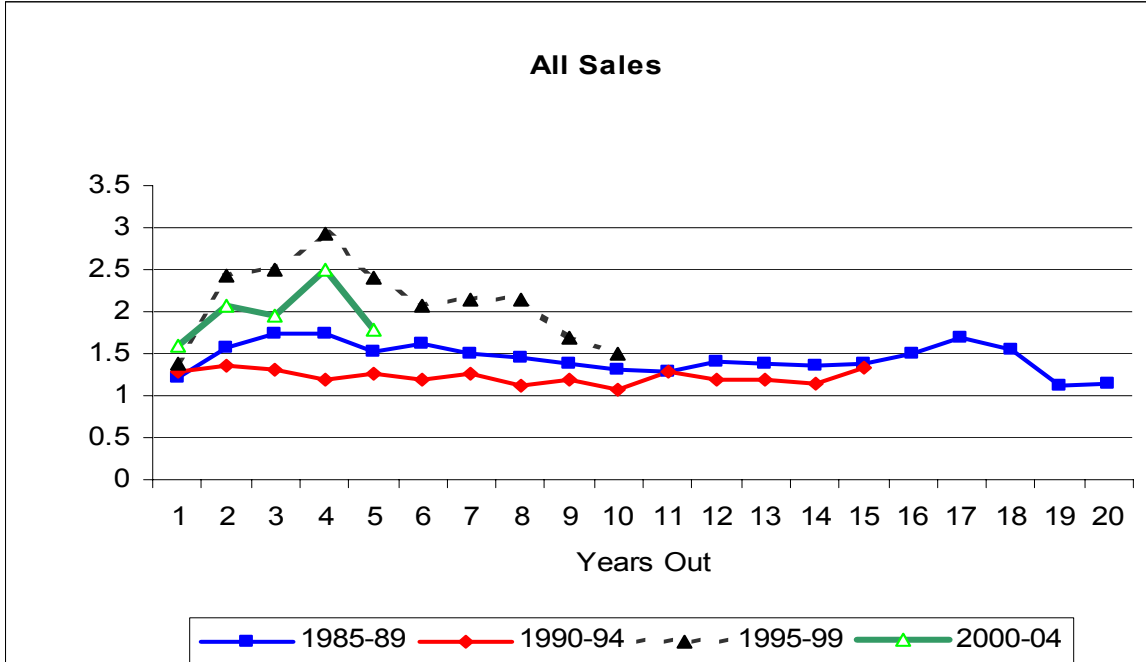


Exhibit 4-K: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM .50 TO .80, HAWAII COUNTY

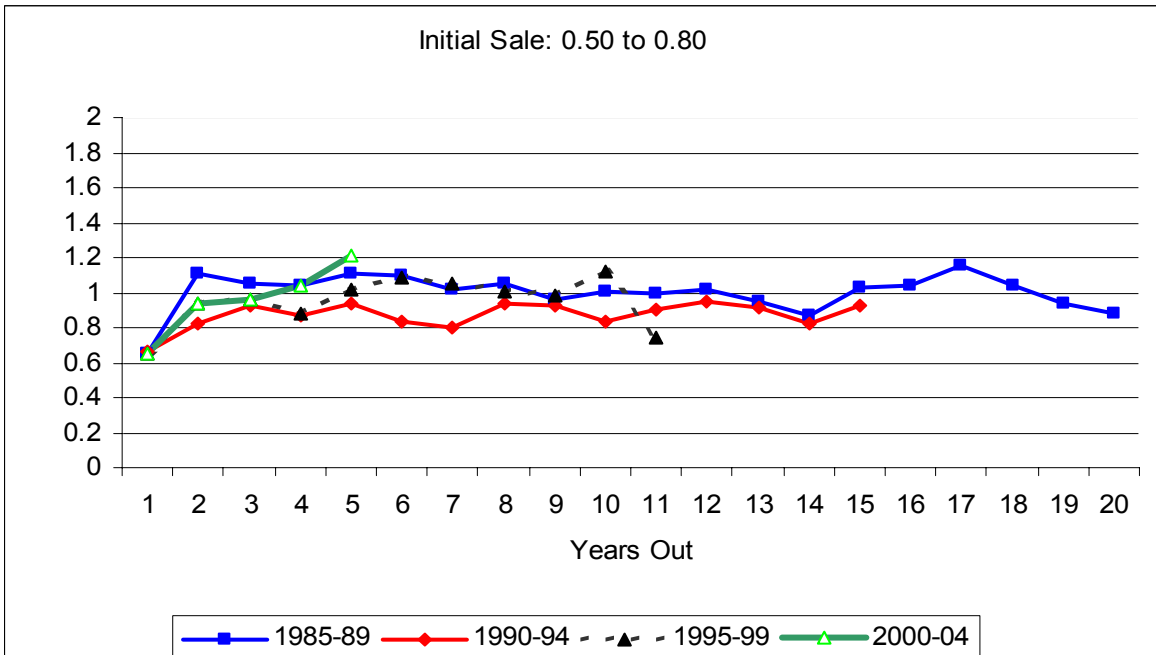


Exhibit 4-L: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM .81 TO 1.00, HAWAII COUNTY

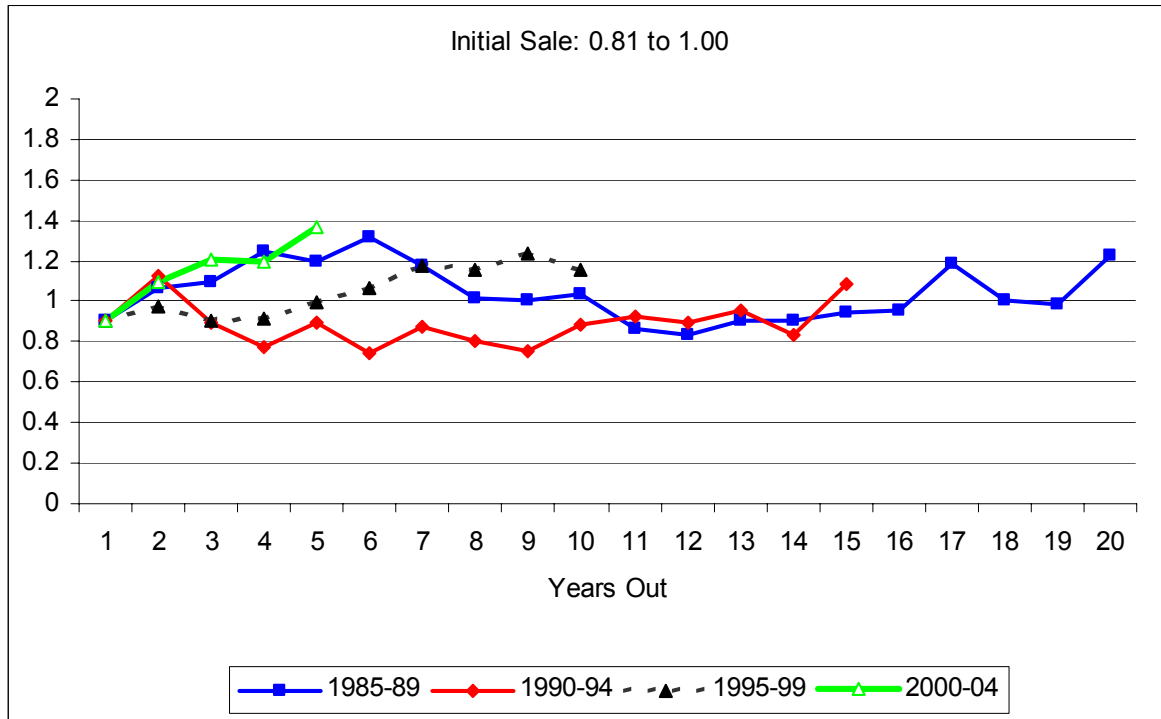


Exhibit 4-M: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.01 TO 1.20, HAWAII COUNTY

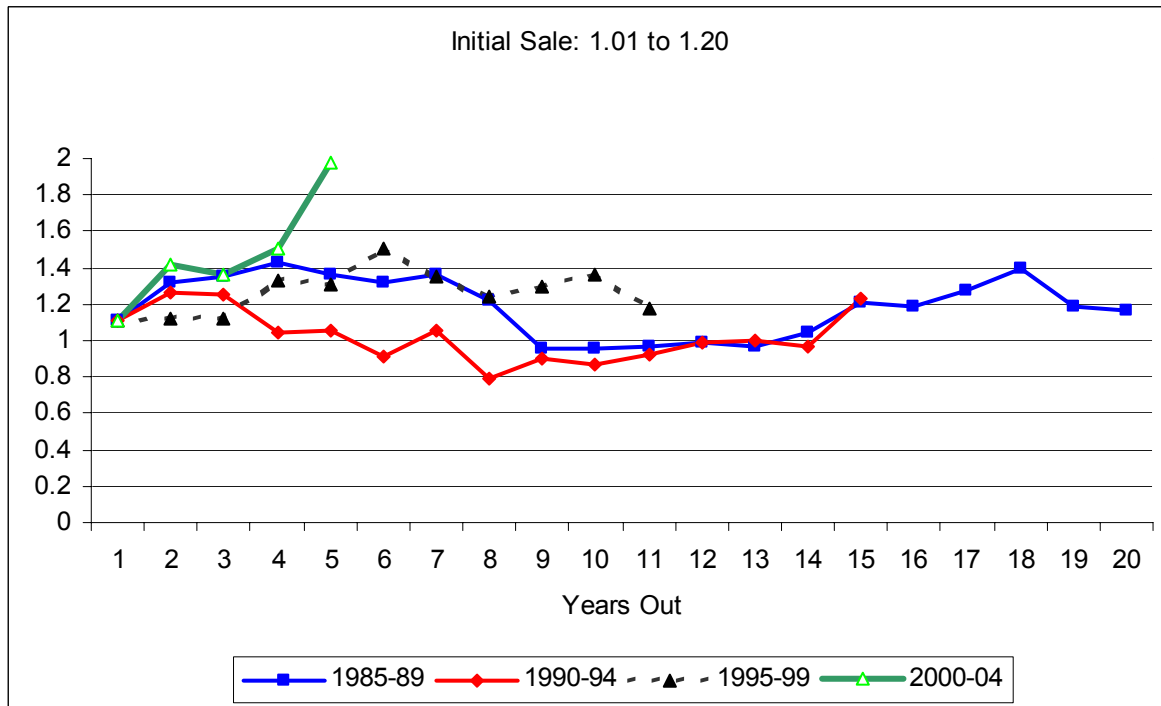


Exhibit 4-N: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.21 TO 1.40, HAWAII COUNTY

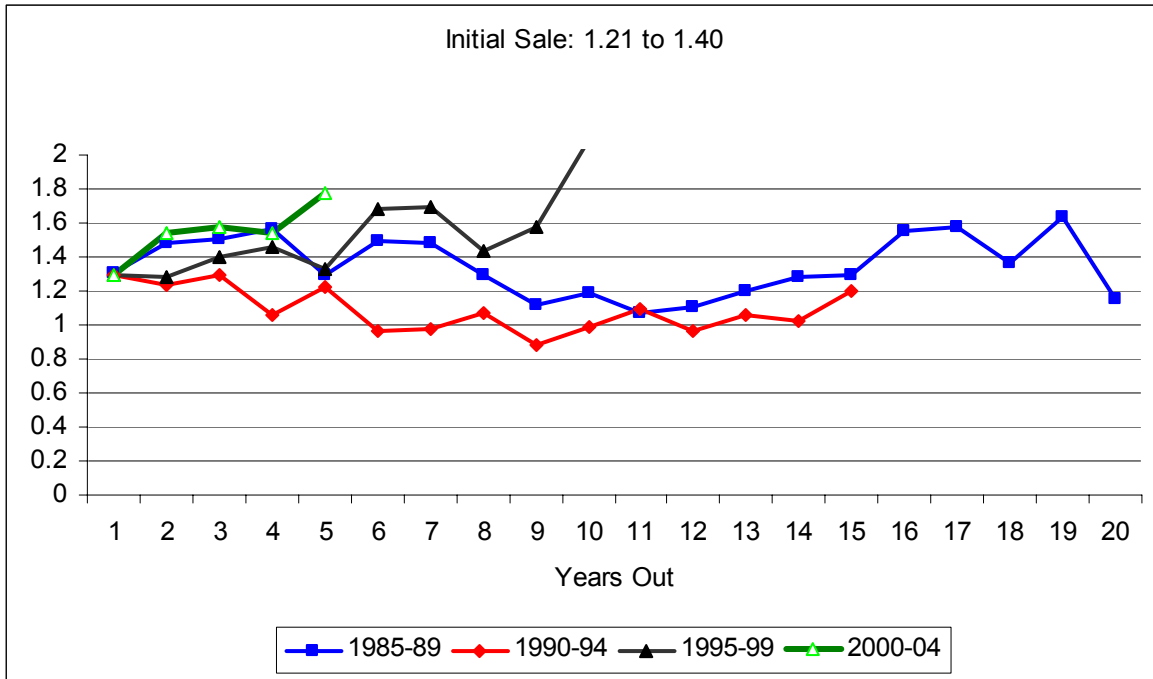
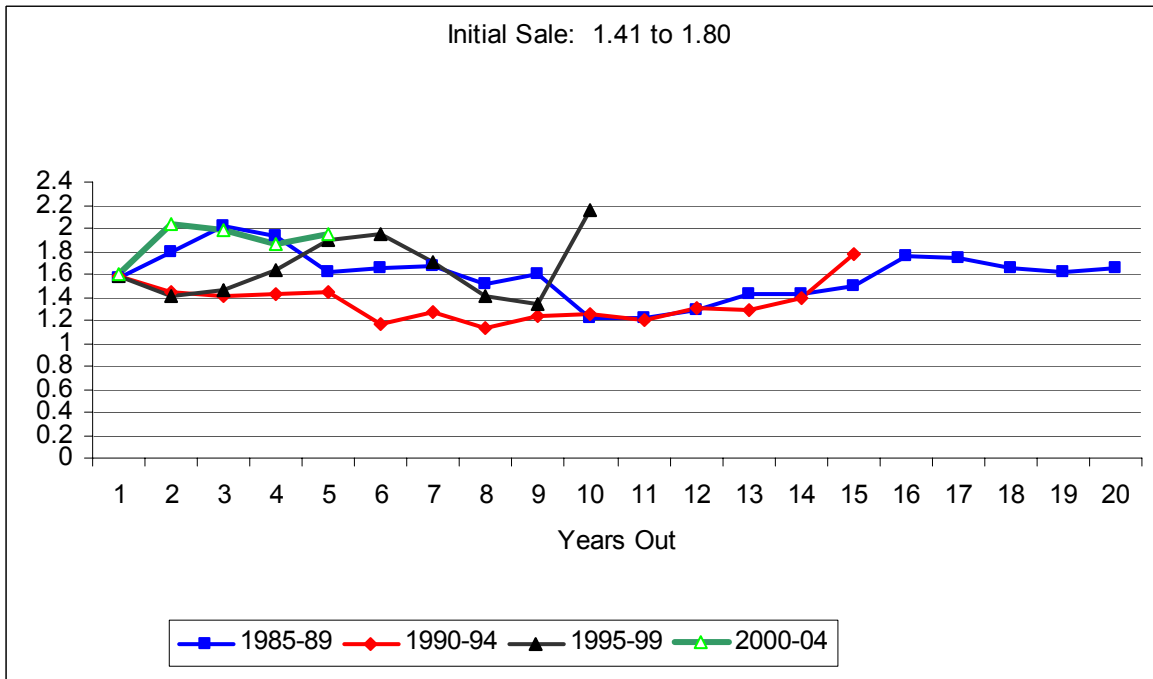


Exhibit 4-O: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM .1.41 TO 1.80, HAWAII COUNTY



5. THE COUNTY OF KAUAI

5.1 INTRODUCTION

Kauai stands out as the smallest county of Hawaii. Also, its housing stock has suffered great damage due to hurricanes in 1982 and 1992. Kauai also has found ways to implement buy-backs, so that its affordable housing policy, while informal in some ways, has been the most consistent in the State. Moreover, the island's leading housing developer, Grove Farm, gained land use permits for its Puhi developments during the period in which the State insisted that 60% of units in residential projects be affordable.

Analysis of recent Kauai resale prices (below) shows a much greater affordability gap than in other counties. While many factors may come into play, the correlation between high resale values and a history of systematic affordable housing restrictions is striking.

Recently, most residential sales on Kauai have been to out-of-state buyers. Median sales prices hence do not reflect residents' purchasing power so much as the strong appeal of Kauai homes for affluent buyers from the Mainland United States.

5.2 AFFORDABLE HOUSING POLICIES

The Kauai County Code (Section 2-1.16) includes detailed regulations restricting the sale or use of property acquired, financed, developed, built or sold by the County. These were based on State procedures, but are intended to be in some ways more stringent than those promulgated pursuant to HRS Chapter 201G. This "buyback" policy has been implemented since the 1980s to sell lots or housing to residents and to control resale prices for as long as ten years.

Kauai does not have a comprehensive affordable housing ordinance. Instead, the County Council negotiates conditions on permits for new developments, taking into account recommendations from the Administration. The County Housing Executive's recommendations are normally based on a draft policy that was never passed as an ordinance. Typically, the County expects from a residential development:

- 10% of subdivided lots would be sold to the County for the "hard cost" of lot development. The County would then resell these to residents at cost, with a ten-year buy-back restriction and the condition that the buyer must build a home within five years.
- The developer must also sell 10% of lots to residents at "affordable" prices, for which buyers must qualify, taking into account incomes and family size.

The County has also demanded that resorts develop workforce or affordable housing in nearby communities (e.g., in Kilauea, for the Princeville resort). The County has been less willing to accept fees in lieu of housing development than other Counties (personal communication, Ken Rainforth, Kauai County Housing Executive, August 2005).

A committee has been developing draft text for an affordable housing ordinance. It is currently being reviewed within the Administration, and should be public later in 2005.

5.3 MAJOR MARKET CHARACTERISTICS

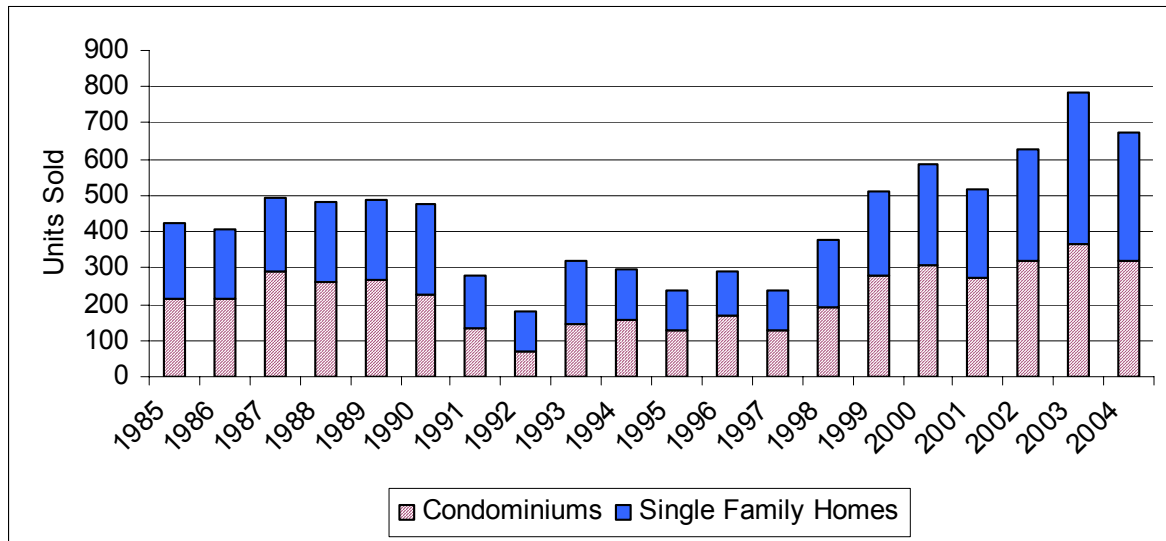
Kauai’s housing market is much smaller than that of the other counties. As on Hawaii, single-family homes make up the majority of sales. New home production shows an unusual pattern, due largely to Hurricane Iniki: production dropped in 1992, when nearly all construction labor went into rehabilitating damaged homes and other buildings, and stayed very low in later years.¹⁵

Housing prices have been increasing since 1999, but the median price of units sold has been close to that which residents with the median household income could afford until 2004 (as shown in Exhibit 5-E).

Hawaii residents were buyers of less than a third of the condos sold in 2004 and about two-thirds of the single-family units. Over all more than half of the residential units sold on Kauai in 2004 were bought by overseas buyers. On the North Shore of Kauai, the pattern was even more pronounced, with 80% of recent sales being to offshore buyers (as shown in Exhibit 5-G).

New housing has consistently been produced on Kauai for low- to moderate-income households. Since 1992, the segments affordable to households at or below the median income have accounted for half or more of new housing, as indicated in Exhibit 5-I.

Exhibit 5-A: FEE SIMPLE SALES, RESIDENTIAL PROPERTY, KAUAI, 1985-2004



¹⁵ As with Maui and Hawaii, it is possible that the most recent units may be undercounted in the database.

Exhibit 5-B: NEW HOME PRODUCTION AND RESALES, KAUAI

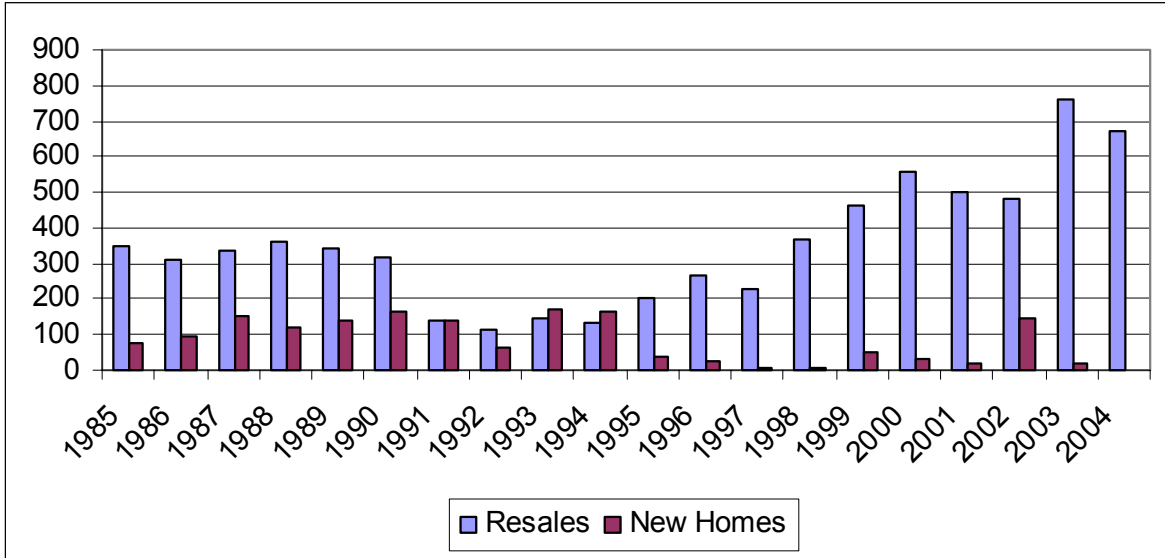


Exhibit 5-C: NEW HOME SHARE OF MARKET: KAUAI VS. US SINGLE FAMILY

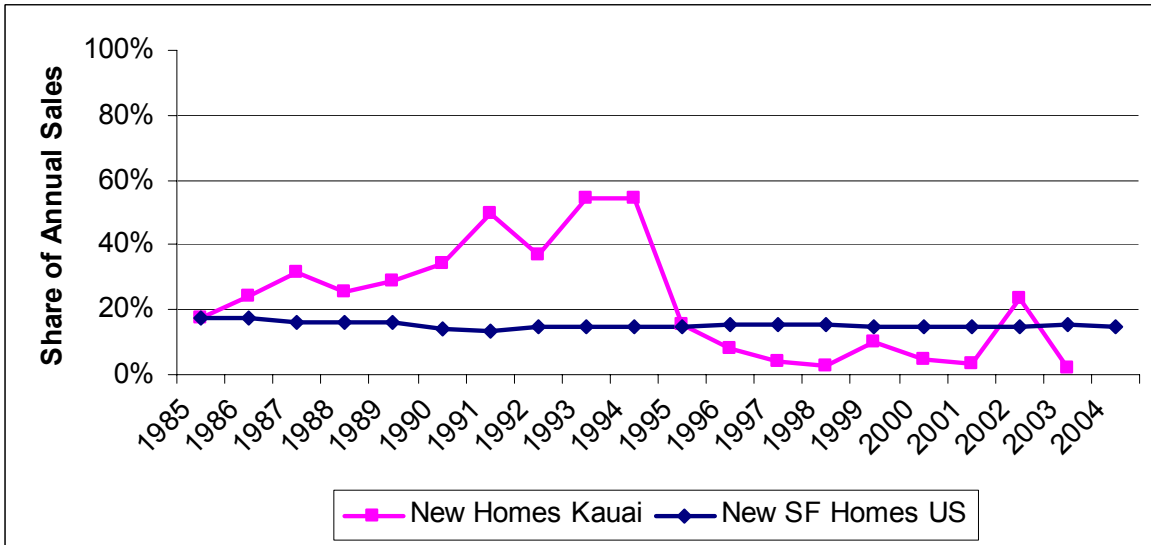


Exhibit 5-D: MEDIAN SALES PRICES, KAUAI

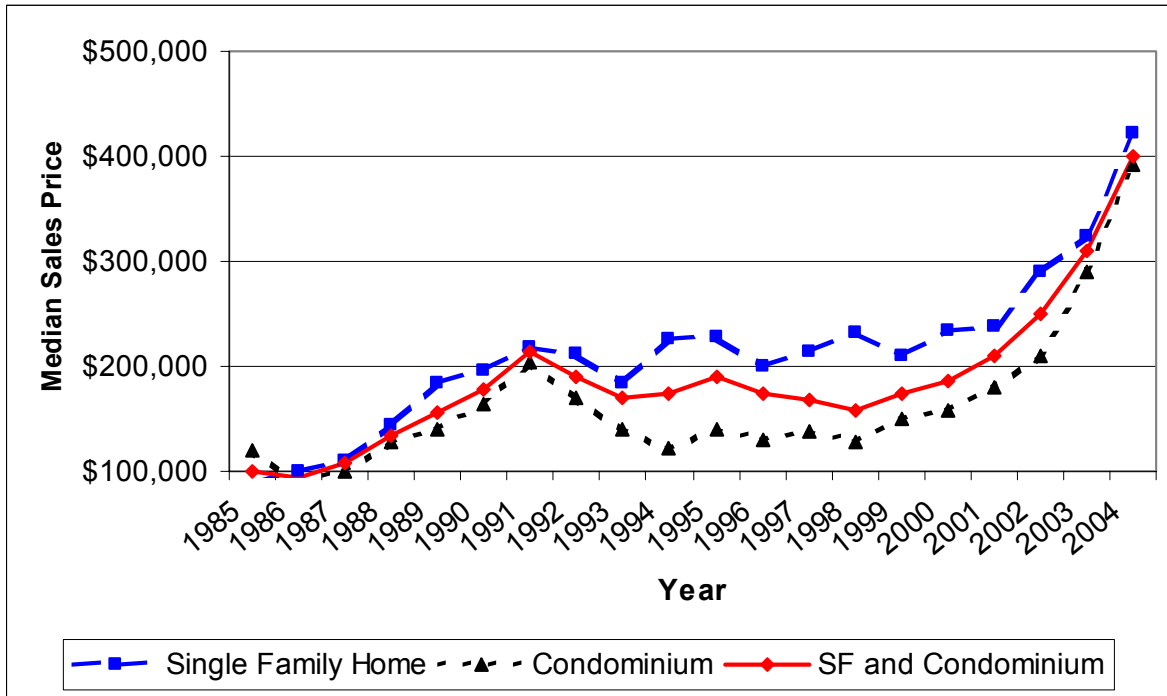


Exhibit 5-E: AFFORDABLE AND MEDIAN PRICES, KAUAI

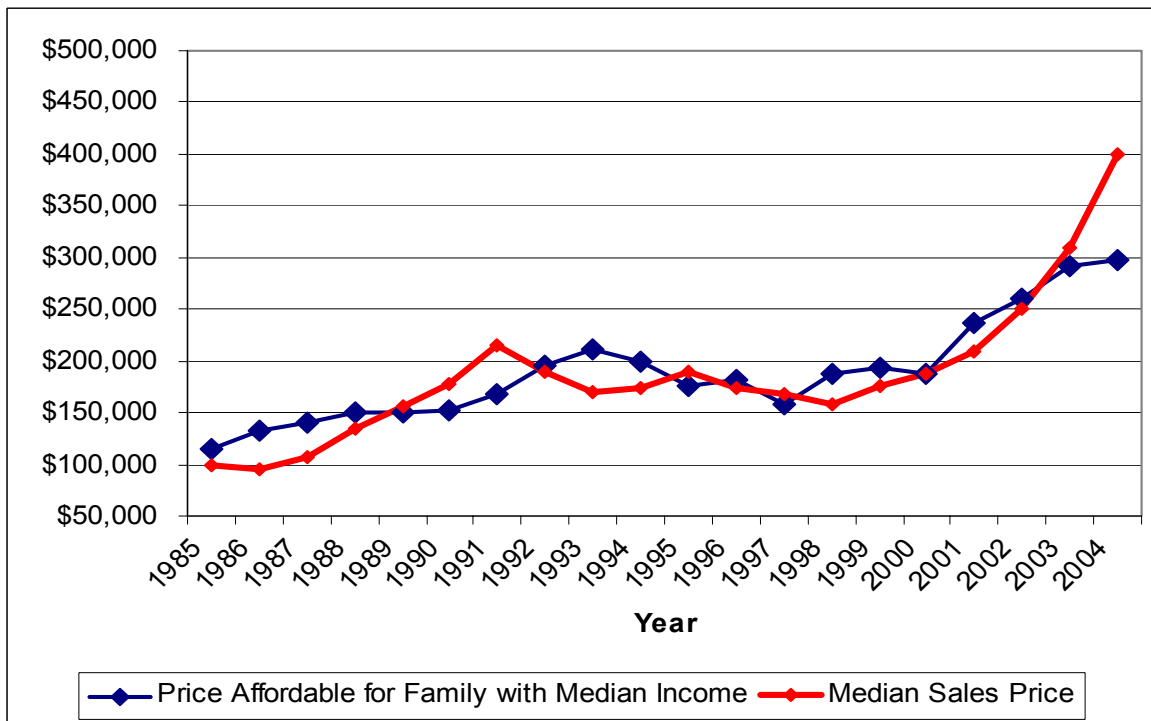


Exhibit 5-F: AFFORDABILITY OF MEDIAN-PRICED UNITS, KAUAI

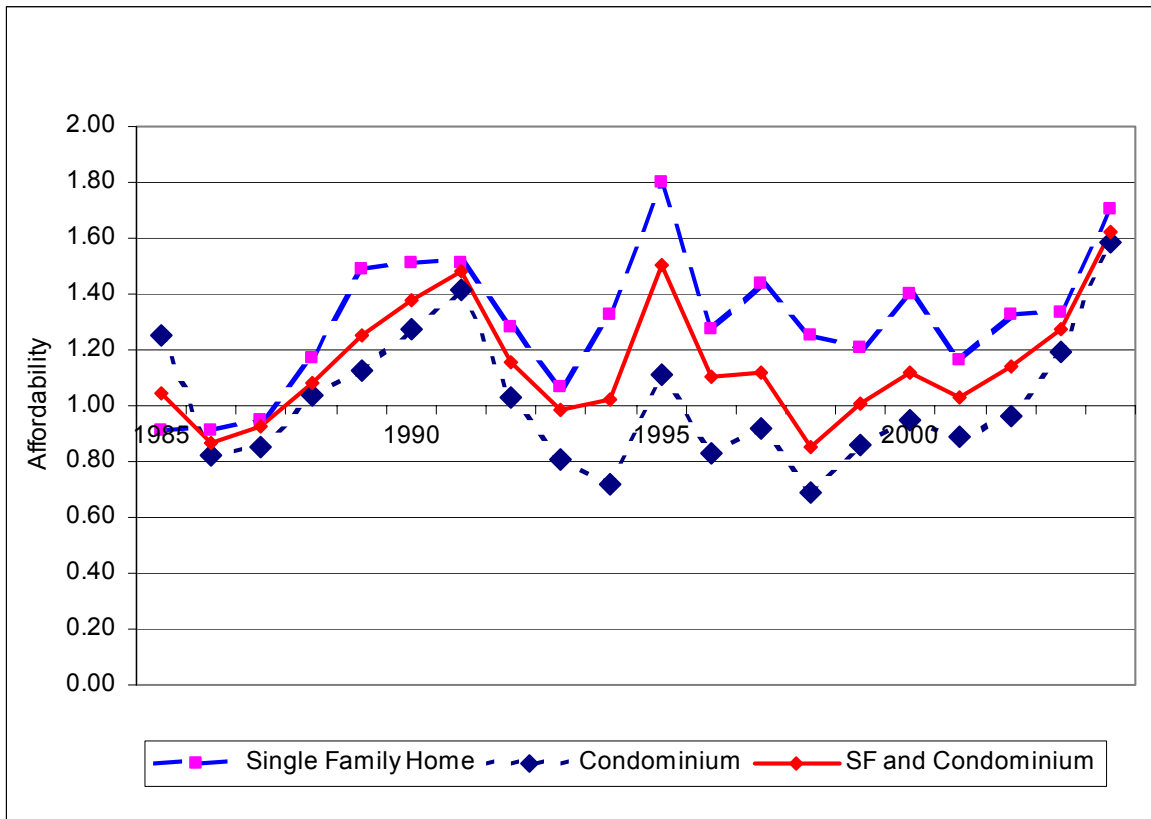


Exhibit 5-G: SHARE OF UNITS SOLD IN 2004, KAUAI, TO HAWAII AND OVERSEAS BUYERS

Sale price (\$1,000s)	Total Sold		Hawaii Addresses		Overseas Addresses		Overseas Share	
	Condo	SF	Condo	SF	Condo	SF	Kauai	North Shore
101-150	12		10		2		17%	100%
151-200	16	7	4	6	12	1	57%	NA
201-250	39	11	19	8	20	3	46%	NA
251-300	16	40	7	37	9	3	21%	NA
301-350	32	58	10	40	22	18	44%	67%
351-400	46	42	9	31	37	11	55%	84%
401-450	30	35	6	24	24	11	54%	77%
451-500	22	34	4	20	18	14	57%	67%
501-600	34	36	6	22	28	14	60%	82%
600-750	43	33	5	15	38	18	74%	92%
751-1000	6	26	1	9	5	17	69%	86%
1,001 and up	8	22		7	8	15	77%	86%
Total	304	344	81	219	223	125	348	78

Exhibit 5-H: ANNUAL DISTRIBUTION OF NEW PRODUCTION BY AFFORDABILITY LEVEL, KAUAI

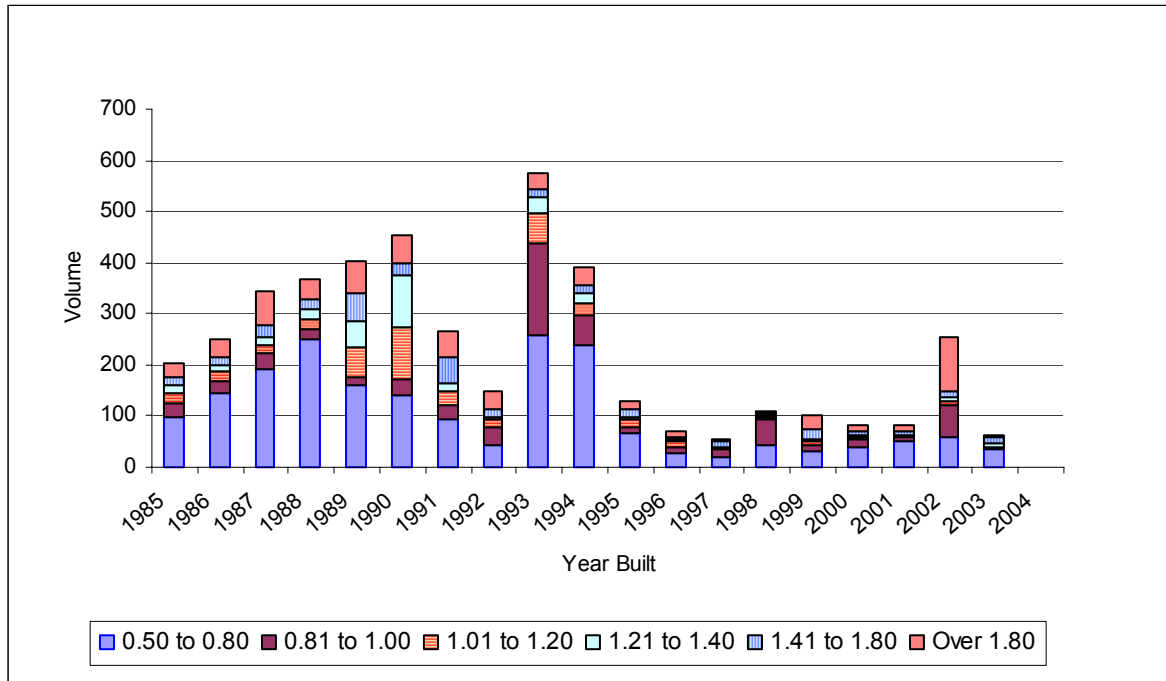
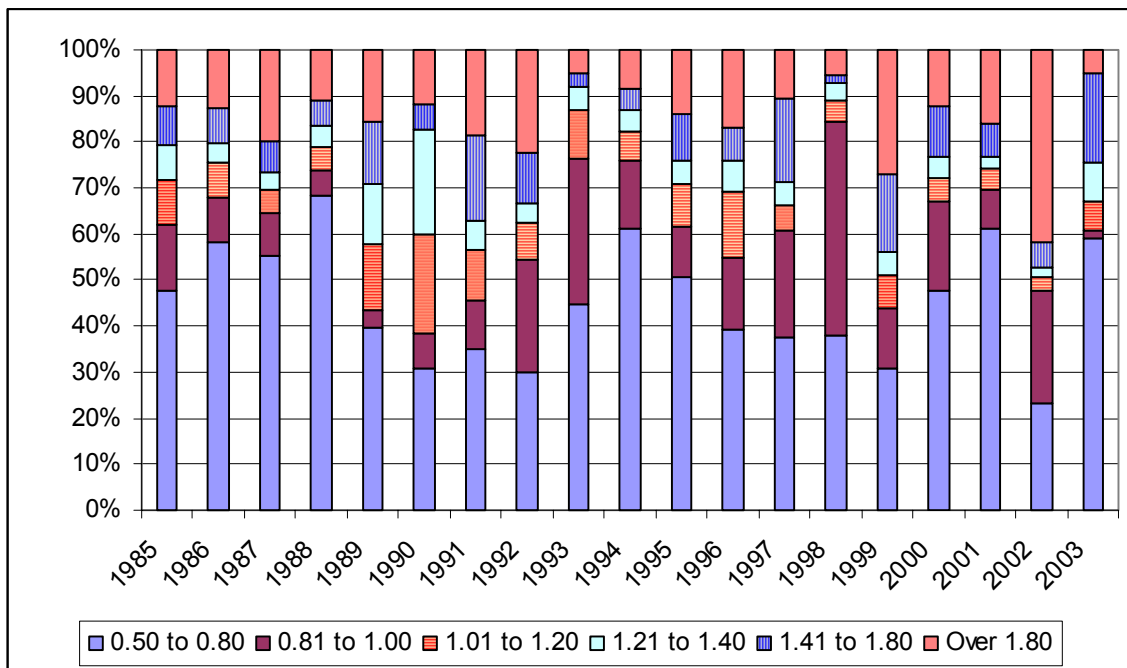


Exhibit 5-I: ANNUAL SHARE OF NEW PRODUCTION BY AFFORDABILITY LEVEL, KAUAI



5.4 RESALE TRENDS

The resale graphs show that Kauai homes at all affordability levels tend to increase in value over their initial price. Units that initially sold for “affordable” prices have tended to increase to levels beyond that range (Exhibits 5-L through 5-N).

Exhibit 5-J: RESALE AFFORDABILITY, ALL SALES, KAUAI

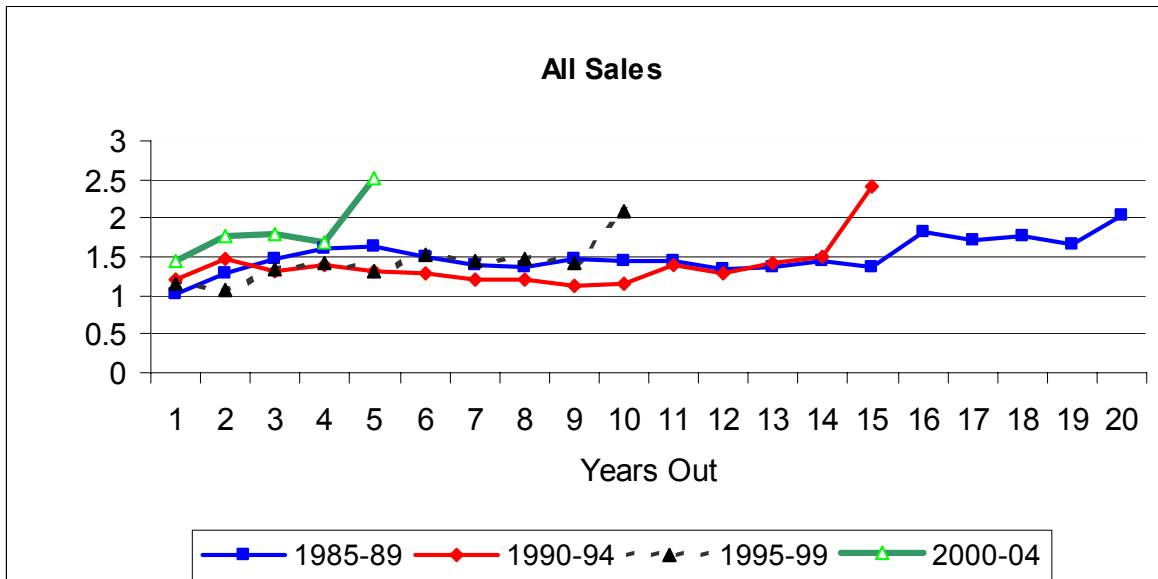


Exhibit 5-K: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 0.50 TO 0.80, KAUAI

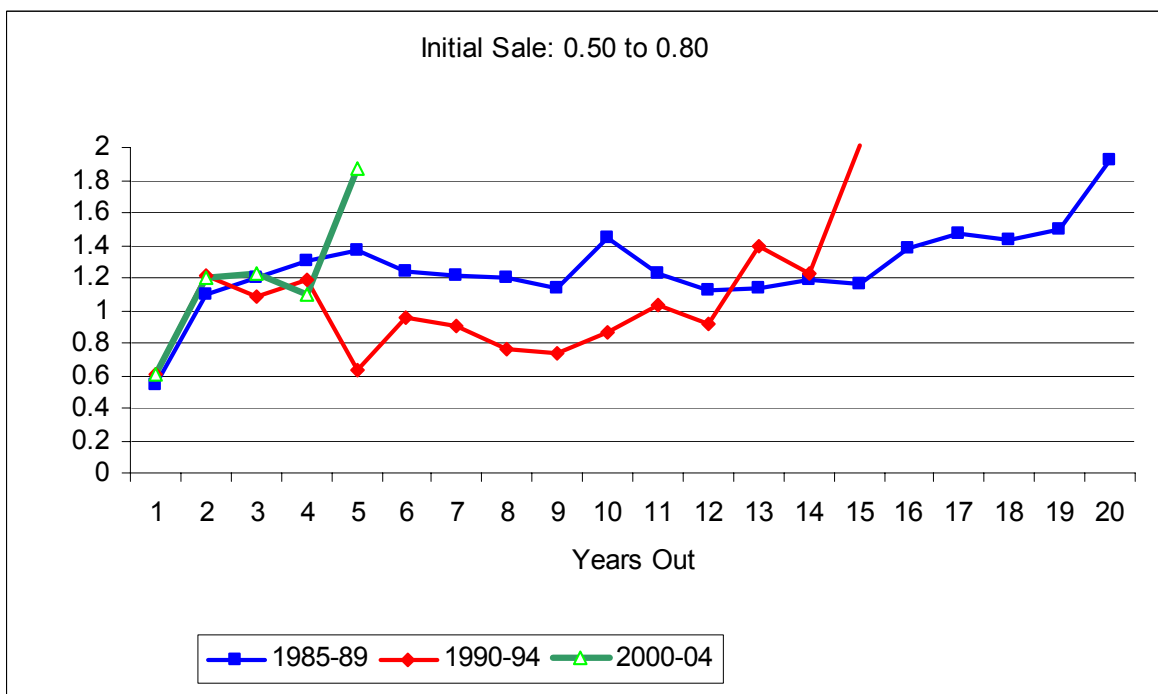


Exhibit 5-L: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 0.81 TO 1.00, KAUAI

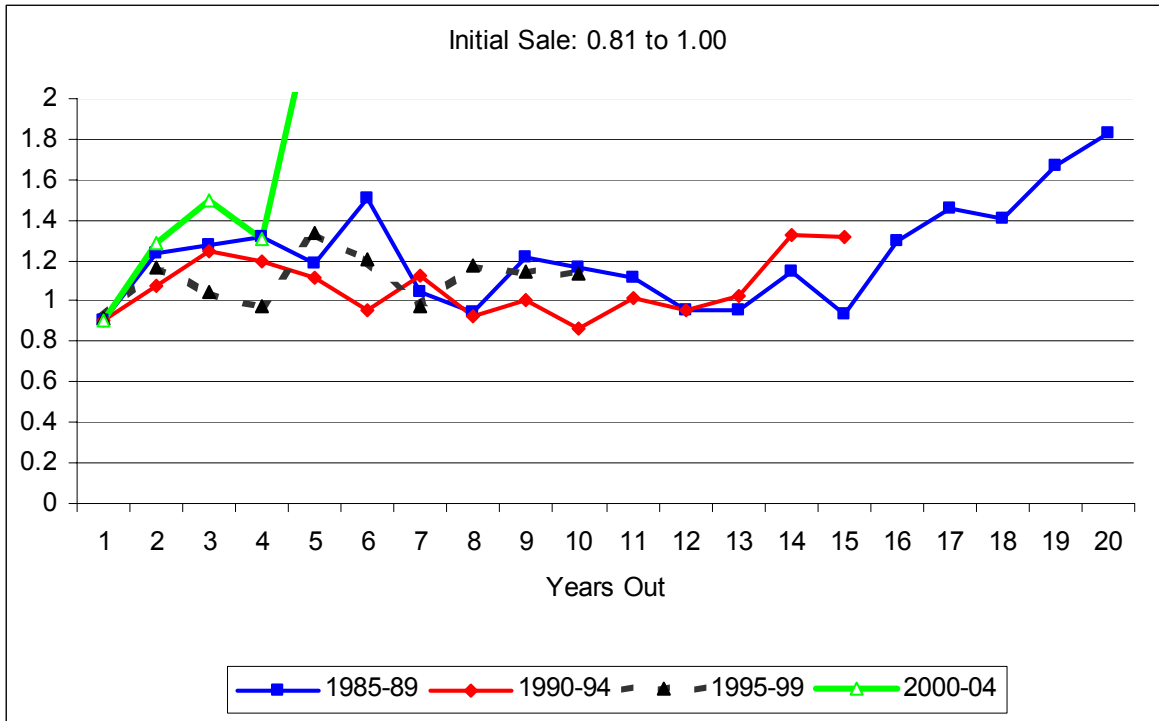


Exhibit 5-M: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.01 TO 1.20, KAUAI

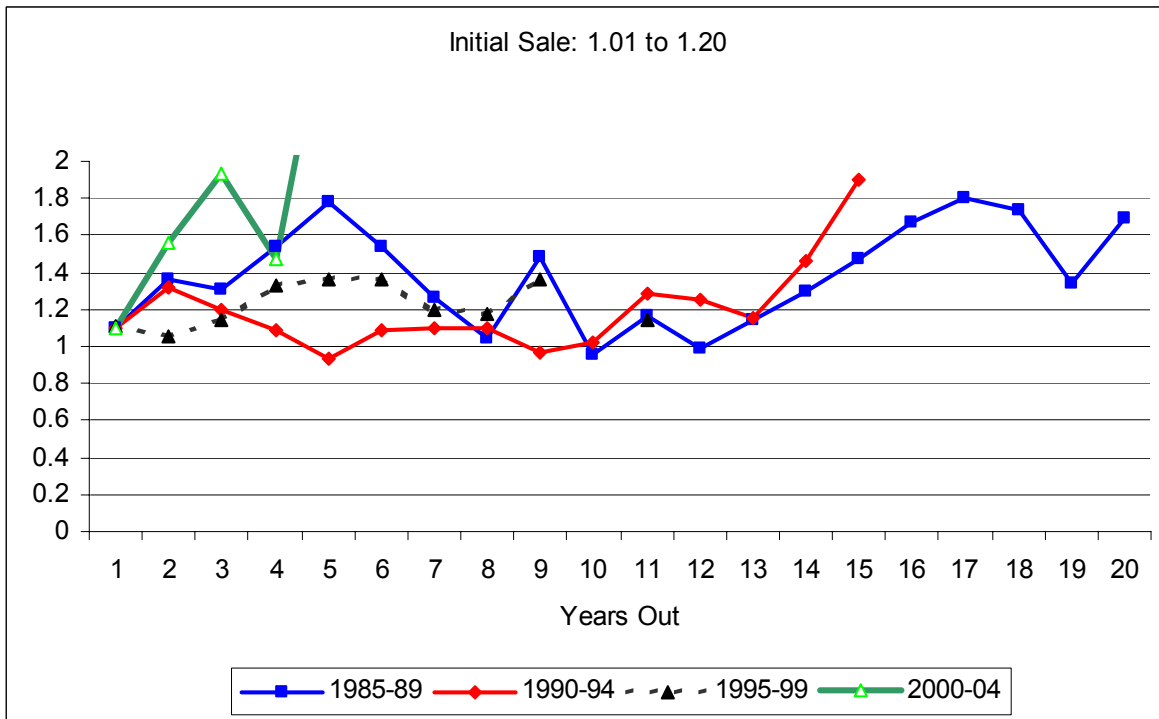


Exhibit 5-N: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.21 TO 1.40, KAUAI

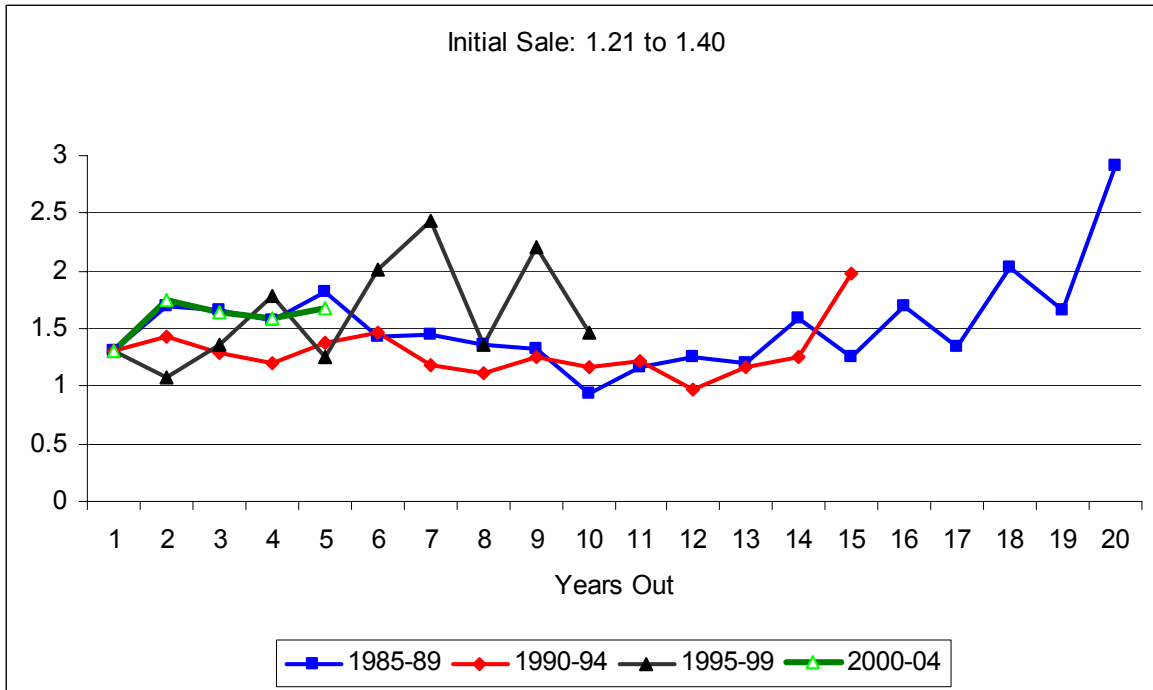
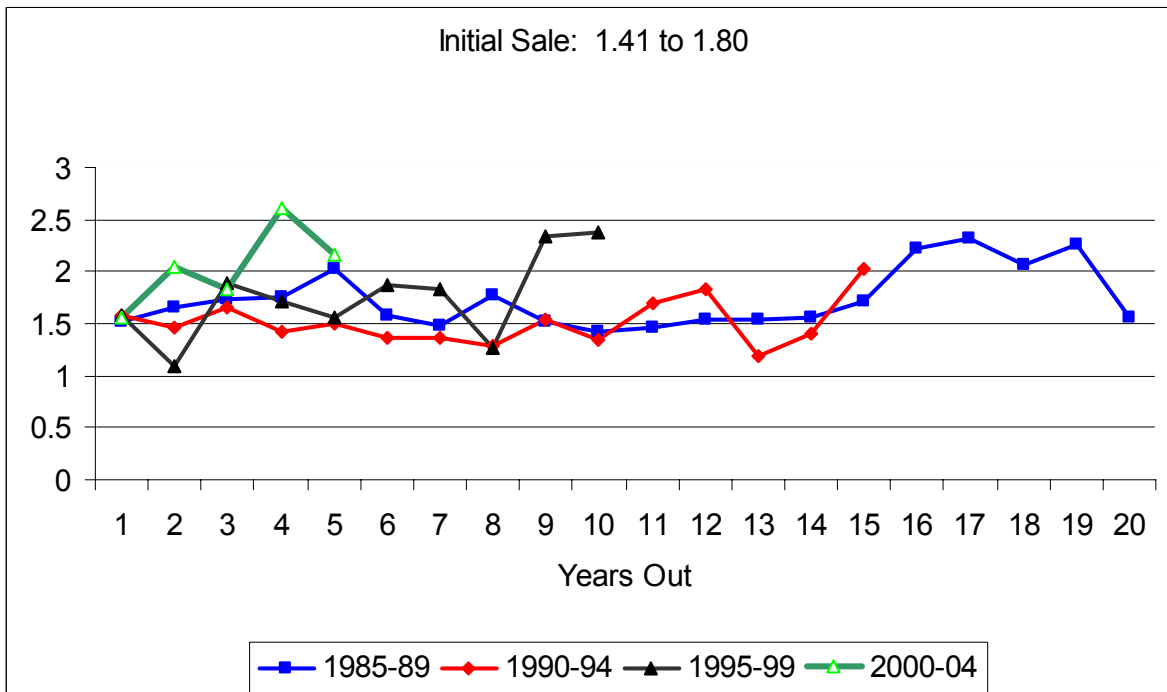


Exhibit 5-O: RESALE AFFORDABILITY, UNITS INITIALLY SELLING FROM 1.41 TO 1.80, KAUAI



APPENDICES

A. ACKNOWLEDGMENTS

This study was developed by SMS Research & Marketing Services, Inc., in consultation with Land Use Research Foundation Executive Director Dean Uchida and Director of Research and Legal Affairs Paul Schwind. Within SMS, project director John Kirkpatrick wishes to thank James Dannemiller, Aaron Peterson, Naomi Akamine, Jenine Dankovchik, Chris Gettman, and Jennifer Patricio for contributions to the project. Dr. Michael Sklarz provided advice and criticism throughout the project.. We relied on Hawaii Information Service for the data, and thank their help desk personnel for many conversations and exchanges concerning the records. We thank the following for providing valuable information and criticism:

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Debbie Luning, The Gentry Companies
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Honolulu Board of Realtors

Harvey Shapiro

B. METHODOLOGY

The historical data analysis conducted for this report relies on the Tax Map Key (TMK) databases maintained by the Real Property Taxation Branches of each county. The data are copied by Hawaii Information Service and made available to subscribers.

There are two standard sources for reports on real estate sales. The Multiple Listings Service (MLS) is maintained for Realtors. It includes listings and sales on the open market. Realtors are expected to record sales, even if they were not widely listed. However, the MLS does not include new units sold by developers. The TMK databases combine a comprehensive listing of all real property, in which each parcel or unit is assigned a unique identifier, with information on past transactions affecting each parcel. As a result, it was possible to track resale histories of individual properties, including the sale of new homes by developers.

The aim of compiling the database was to create a large set of records of fee simple sales of homes. Time-share properties are excluded.¹⁶ Transactions include sales of homes, transfers of leases, sales of partial interest in property, and purchases of the fee simple interest in leasehold properties. Only the first type of transaction is under study in this report, as transactions that give clear indications of the value being paid for a home. Accordingly, after downloading all records of residential sales over a twenty-year period, the records were filtered. SMS filtered the data from each county, as shown in Exhibit *.

Exhibit B-A: DATA CLEANING PROCESS

	Oahu	Maui	Hawaii	Kauai
Download	535,553	97,577	81,219	48,018
Data cleaning steps:				
1 Remove if Leasehold	46,066	5,125	3,225	6,733
2 Remove if Living area = 0 or greater than 10,000 sq. ft. for Pitt=700	673	161	251	0
3 Remove if PITT code missing, or = 500, 600, or *800 NOTE	83	2,025	5,061	705
4 Remove if no Year Built or Year Built is later than Sales Date	20,957	1,633	2,224	1,663
5 Remove if Sales Price under \$10,000	171,767	30,050	28,795	14,761
6 Remove if Leasehold to Fee Conversion	109,334	13,713	8,147	7,520
7 Remove AQ < 0.5	25,779		8,618	
8 Remove if duplicate case (same Taxkey, Sales Price and Sales Date)	22,949	1,638	1,529	360
9 Remove outliers	2			
10 Remove 2005 sales (after study period)	622	483	544	61
11 Pitt=200 and condo variable "No"			422	
Cases for historical analysis	137,321	42,749	22,403	16,215

Data: TMK data refer to a parcel or condominium unit, its properties, and its transaction history. Each record for this study is the record of a transaction, with current (2005)

¹⁶ Hawaii has recently seen several "condotel" sales, in which individual hotel rooms are sold, and nearly all continue to be operated as part of a hotel. These units are hardly "homes" in the sense used here. Since the analysis runs through 2004, no special rule was developed to exclude them. They could probably be excluded as having living areas too small to be used as a full-time dwelling.

information about the property. The cleaning process was designed to remove cases that do not describe fee simple residential transactions:

1. Leasehold properties were not counted, since any leasehold sale would be sale of a partial interest in the property.
2. PITT code 700 describes Hotels and resort properties. We sought to capture resort residential sales, but not sales of hotels, resort stores, and time share properties. "Living area" is defined as restricted to properties used as residential, so exclusion of cases without living area or with living area far greater than a household could use served to exclude non-residential cases.
3. SMS initially included all properties except Commercial and Industrial ones. Inclusion of Agricultural and Conservation lands in the study proved unwieldy, so these cases were set aside, along with ones for which no PITT code was listed.
4. In order to exclude sales of lots before homes were built (for which the sales price would reflect land costs, not home costs), cases in which the year the house was built occurred after the sales data were excluded. Cases for which the year the house was built was missing were also excluded.
5. A large number of transactions are between friendly parties, such as owners and their living trusts. These are not market transactions. Most of these are excluded by ruling out cases with prices below \$10,000.
6. Cases of leasehold to fee conversion are sales of a partial interest, and are accordingly excluded.
7. The preceding steps failed, in dealing with data from Oahu, to exclude conversions in some years that were recorded as "Deed," not as conversions. (Examination of records made it clear that many of these were in the data set in the late 1980s.) To exclude these, all cases in which the affordability level of the transaction was less than 0.5 were excluded. Again, for the Big Island, a large number of low prices remained. Some of these are lots with minimal shelter. The same rule was applied.
8. A buyer may transfer property to an entity he represents in short order. Often this transfer has no or minimal monetary value (and is hence excluded in step 5.) At times, the value is the same as the initial sale. To exclude these transfers, cases in which the taxkey, sale price and date are all the same were excluded.
9. The Oahu data included outlying cases with values over \$35 million. These were removed. In the other cases, this was not necessary (although the data were sampled for high and low values to check for outliers).
10. Year 2005 sales were excluded as outside the study period.
11. The Hawaii County data include some cases of PITT 200 ("Apartment") which are not condominiums. They could be rental apartment buildings. These were excluded.

The data set used here is somewhat larger than the set used for the report to the Honolulu City Council. We wish to note that the outlier rule (No. 9) was added after review of that report, since inclusion of the outliers affected means for the late 1980s in that report.

Summaries of MLS transactions are often reported in Hawaii. For many years, the Prudential Locations also reported annual summaries of residential sales. While the data set is different from the MLS data, both are large-sample approximations to the universe

of residential sales in Hawaii, and should show similar results when similar indicators, such as median sales prices, are produced. (Readers should note that the “median home price” reported in the newspapers is often the median single family home, not the median housing unit, price.)

C. AFFORDABLE HOUSING REQUIREMENTS BY COUNTY

	HONOLULU	HAWAII	MAUI		KAUAI	
	Existing	Existing	Existing	Admin Proposed	Existing	Proposed
Authorization	DHCD Rules for the Terms of Unilateral Agreements Requiring Affordable Housing, Eff 10/31/94*	Ordinance 05-23 Eff. 2/9/05	Admin. Guidelines Revised 5/31/05	Administration Proposal. Presentation made to the County Council on 6/15/05**	Policy proposal drafted 1995; revised 2002	Proposed April 2005
Percent Affordable	30% of total residential units	20% - Residential with 5+ units 1 credit/4 FTE jobs - resort, hotel, industrial that create 100+ jobs	15% of total residential 25% for hotel (Maui County Code 2.94.030)	15% of total residential	30% - Residential with 13+ units 15% - Resort with 25+ units Per analysis - commercial, industrial that create 100+ jobs	15% - 5-19 units 25% - 20+ units
Targeted Income Groups	1/3 @ 80% and below 2/3 @ 80-120%	140%	<i>120% and below for single family sales 110% and below for multi-family sales 100% and below for rentals</i>	120% and below for single family sales 110% and below for multi-family sales 100% and below for rentals	3% @ 50-80% 4.5% @ 80-100% 4.5% @ 100-120% 3.0% @ 120-140%	<u>5-19 units, 15%</u> 10% @ 80-100% 5% @ 100-120% <u>20+ units</u> 10% @ <80% 5% @ 80-120% 5% @ 120-140% 5% @ 140-180%

	HONOLULU	HAWAII	MAUI		KAUAI	
	Existing	Existing	Existing	Admin Proposed	Existing	Proposed
Credit Structure	0-BR/1-BA = .68	<u>For Sale</u>	<u>Enhancement Credits</u> 31-60% - 2 credits Up to 30% - 3 credits	<u>Enhancement Credits</u> for units at 60% and below	<u>Building Type Index</u> 3BR/1-1/2BA SF unit on 6000 sf lot = 1 credit; different credit value for different size/type of unit <u>Target Income Group Index</u> Increase or decrease credits depending on targeted income group <u>Enhancement Credits</u> 150% - SF for sale 200% - buildable lot 200% - rental for 10+ years	<u>Building Type Index</u> may be used

	HONOLULU	HAWAII	MAUI		KAUAI	
	Existing	Existing	Existing	Admin Proposed	Existing	Proposed
Options to Satisfy Housing Condition	Units or finished lots on site Units off site Land dedication In-lieu fee	Units or lots on site Units or lots off site (within 15 mile radius) Land dedication within 15 mile radius In-lieu fee (used within 25 linear miles of project) Infrastructure directly related to future affordable housing Other subject to approval	Units on site Units off site but in same community plan, with approval of DHHC director Land dedication In-lieu fee Finished house lots Infrastructure to affordable housing Facility upgrades to existing affordable housing	Units on site Units off site Land dedication In-lieu fee In-kind services	Units on site Units off site Land dedication In-lieu fee Finished house lots	Units on site Units off site (for projects of 20+ units subject to 25% penalty) Land dedication In-lieu fee Finished house lots

	HONOLULU	HAWAII	MAUI		KAUAI	
	Existing	Existing	Existing	Admin Proposed	Existing	Proposed
Trigger	Zone change.	Zone change;	Zone change, community plan amendment, district boundary amendment, SMA	Zone Change	Zone Change	Zone change Agreement at planning permit
Bank or Sell Credits		Yes, within 15 mile radius	Bank subject to execution of agreement	Bank subject to execution of agreement	Bank with Council approval	Bank with Council approval
Density Bonus		10% density bonus except in Ag or Rural SLU districts				
Eligibility Criteria	<ul style="list-style-type: none"> • 18 years • U.S. citizen • No majority interest in property suitable for dwelling • Financial ability • Intent to reside 	<ul style="list-style-type: none"> • Residency • Income • Others set by Housing Agency or OHCD Administrator 	Specified in project's affordable housing agreement	Specified in project's affordable housing agreement	<ul style="list-style-type: none"> • 18 years • U.S. citizen • No majority interest • Financial ability • Intent to reside • Income/family size • No prior ownership of state/county unit 	<ul style="list-style-type: none"> • Hawaii resident • Owner occupant • 18 years • 1st time homebuyer • No majority interest • Preference for Kauai residents

	HONOLULU	HAWAII	MAUI		KAUAI	
	Existing	Existing	Existing	Admin Proposed	Existing	Proposed
Sales or Rental Flexibility		<u>Sales</u> 90 days – only eligible buyers 30 days – eligible but may have previously owned a residence After 120 days – open	<u>Sales***</u> 90 days – only eligible buyers; 90 days – eligible but at next higher income; 30 days – up to 180% of median After 210 days - open		Initial marketing period – only eligible 45 days – eligible but at next higher income 45 days – eligible but at next higher income After 90 - open	60 days – only eligible 60 days – eligible but 120% income 60 days – eligible, no income limit After 180 – open
Transfer/ Resale Restrictions	<ul style="list-style-type: none"> • 2-8 year buyback depending on income group • Shared appreciation 	May include buyback, shared appreciation and other restrictions	Specified in project's affordable housing agreement	Specified in project's affordable housing agreement	<ul style="list-style-type: none"> • 4-10 year buyback depending on income group • May include shared appreciation 	<ul style="list-style-type: none"> • 15 year buyback • Shared appreciation
Rental Restrictions	<ul style="list-style-type: none"> • 10 years 	<ul style="list-style-type: none"> • Agency determines affordable rental price annually • Rental prices are controlled for no less than 20 years 			<ul style="list-style-type: none"> • 10 years • County has 1st option to purchase 	<ul style="list-style-type: none"> • 15 years

NOTES:

*Ordinance 99-51 placed a moratorium on buyer eligibility requirements and transfer restrictions from 8/5/99-8/5/01. Ordinance 01-33 extended the moratorium from 8/15/01 to 8/5/05.

Resolution 05-252 proposes to temporarily amend, until 6/30/06, subject to extension, the affordable housing requirements to permit the sale of affordable housing units free from any conditions related to buyer eligibility and restrictions on transfer. Policy in flux at both administrative and legislative levels.

**The Maui County Council is considering proposals submitted by the County Administration, Maui Nui and Maui Tomorrow. Currently, it is uncertain what will be adopted.

*** Added by SMS, per Maui County Code 2.86.610.

SOURCE: Housing and Community Development Corporation of Hawaii, materials prepared for briefing before Land Use Commission, September 2005, slightly amended by SMS.



D: LAND USE APPROVALS IN HAWAII

Overview of Jurisdictions:

Hawaii's centralized land use entitlement system involves the State Land Use Commission and the respective County Planning Commissions, Planning Departments, County Councils and Mayors. The State Land Use Commission (LUC) classifies or designates all of the lands in the State (fast and submerged lands) into one of four land use districts: Urban, Conservation, Rural and Agricultural. In the Rural and Agricultural Districts, the LUC not only designates the lands within these Districts but also provides management oversight on uses within these two districts.

Urban District (+/-194,000 acres) managed by the Counties through their respective General Plans, Community Plans, Development Plans, Land Use and Zoning maps. Reclassification of 15 acres or less of lands from the Agricultural District is also processed by the County and not the LUC.

Conservation District (+/-1.9 million acres) managed by the State Board of Land and Natural Resources.

Rural District (+/-10,000 acres) managed by both the State Land Use Commission and the Counties.

Agricultural District (+/-1.9 million acres) managed by both the State Land Use Commission and the Counties.

The Counties' General/Development/Community plans are subsets of the State land use districts. Generally, the Counties identify existing and proposed urban areas in their respective General/Development/Community plans. County zoning is used to identify specific land uses within the State Urban Land Use District (i.e. residential, apartment, commercial, industrial, etc.). The Counties also zone uses within the State Conservation Land Use District (i.e. Preservation), and State Agricultural Land Use District (i.e. Agriculture).

Land Use Approval Process:

There are six (6) distinct elements of the Land Use Approval Process in Hawaii (see attached). In general, they are:

1. **Application/Petition Preparation**—Usually done when the site and project have been identified.
2. **County General/Development/Community Plan Amendment Process**— Depending on which County, this process occurs prior to, during or after the State Land Use Commission process.
3. **State Land Use Commission Reclassification**—Any major land use proposal requiring a land use district boundary amendment goes through a Land Use Commission quasi-judicial hearing process (Contested Case Hearings before Hearings Officer), with extensive information and notice requirements. It also involves the County process with significant overlaps on issues.
4. **County Rezoning Process**—Occurs after the Land Use Commission decision and requires much of the same information.

The first four (4) elements basically involve rezoning at the State and County levels. The next two (2) elements are more administrative and discretionary at the County level.

5. **Subdivision Process:**

- i. Product Development Varies

Time required for this item will vary from project to project depending upon the complexity of the specific project. The specific product needs to be developed sufficiently to have final building footprint dimensions in order to prepare an accurate site plan.

- ii. Preliminary Site Plan Varies

The Preliminary Site Plan is generally hand drawn by an architect or site planner. This is then converted to a CAD file for civil engineering design.

- iii. Final Site Plan 1 month

Time is for both the submission and review of the Preliminary Subdivision Map by the Department of Planning and Permitting (DPP). Action on the Map is required within 30 days, but action may consist of deferral.

- iv. Tentative Approval of Preliminary Map 3-4 months

The Preliminary Map and Mass and Pad Grading Plans [construction plans] may be submitted for review at the same time. Legally, approval of Pad Grading Plans is not permitted before approval of the Preliminary Map, although the Mass Grading Plan may be approved if it does not show lot lines. While the DPP may allow individual divisions and branches to review the construction plans before

tentative subdivision approval, the risk is that if the Preliminary Map changes, the plans need to be resubmitted to the reviewing agencies.

Some developers combine the Mass and Pad Grading Plans with the Roadway and Utility Plans into one set of construction plans. However, one option is to separate them in order to obtain approval of the grading plans sooner and start construction earlier. These plans typically only require Civil Engineering Branch review and DPP approval. Therefore, applicants may prepare and submit the Preliminary Map for review and approval *prior* to beginning design of the Roadway and Utility Plans.

v. Submittal of Construction Documents 6 months

Time includes both design and all required approvals. These plans are blueprints for all the roadway and utility improvements, including all underground utilities (sewer, water, storm drain, irrigation, electric, CATV, phone, etc.) and all surface improvements (curb and gutter, sidewalk, ramps, paving, etc.). These plans typically are approved by Urban Design Branch (street trees), Department of Design and Construction (street lights), Department of Transportation Services (traffic signals), Traffic Review Branch, Civil Engineering Branch, Wastewater Branch, Department of Water Supply, State Department of Health, Hawaiian Electric, Hawaiian Telcom and Oceanic Cable.

vi. Site Permitting 2 months

Time includes processing of grading, grubbing, and stockpiling permits which can be obtained concurrently.

vii. Site Building Permits 9 months

After the Roadway and Utility Plans are approved, a construction cost estimate based on final design needs to be submitted for review and approval. Building permits can take up to 6 months to obtain for site work, including walls and fences.

viii. Bonding of Improvements 2 months

After the construction estimate is approved, a subdivision bond needs to be submitted and accepted by the County prior to final subdivision approval.

ix. Final Map Approval 1-2 months

The Final Subdivision Map can now be approved, *before* the site improvements are constructed and certified, *if* a subdivision bond is obtained. This map **must be filed within 1 year** after tentative approval of the Preliminary Map has been received, although up to two 6-month extensions may be allowed.

x. Construction of Site Improvements 6-8 months

Upon approval of Construction Documents, roadway and utilities site improvements can be constructed, and upon approval of as-built documentation and final inspection, be certified.

- xi. Land Court Subdivision Recordation 6 months

Allow 6 months for recordation. Up until about two years ago this would take between 12 and 14 weeks. A year ago the time required increased to approximately 16 weeks. More recently, this process has taken between 23 and 27 weeks. Phasing of project construction to achieve faster recordation will no longer be permitted by the DPP.

- xii. First Building Construction 3 months

Permits for building construction can be obtained after Final Map Approval, but do not require recordation. Building construction can commence after roadway and utility construction is complete and accepted by the City Chief Inspector. Construction time for the building may be longer depending upon complexity of the building.

Items i, ii, iii & iv are sequential. Items v, vi & vii may begin at the same time but follow item iv. Item viii (bonding) is not required for construction of roadway and utilities, just for final subdivision approval. Other than grading, which may follow item vi (site permitting), item x (site construction) cannot begin until item vii (building permits) is approved. Item xii (building construction) must follow item ix (final map approval), but item xi (recordation) is not required.

- 6. **Other Discretionary permits** (does not include building permits)—The time frames listed after each permit or approval reflects the amount of effort or man-hours of staff time at the County. It does not reflect actual processing time for the approvals, as this will vary depending on staffing levels and work load.

Permit or Approval	Time Frame (Weeks)
Cluster Housing	6
Conditional Use Permit—Major	4
Conditional Use Permit—Minor	3
Discharge of Effluent other than Storm Water Runoff	1 Day
Driveways, Variance Applications	1 Day
Encroachments	1 Day
Exclusive Agriculture Site Approval	6
Existing Use	2
Flood Hazard District Interpretation	1
Flood Variance	2
Grading and Grubbing and Stockpiling Permit	1
Minor Modifications to Various Discretionary Permits	2
Nonconforming Use Certificate Renewal	1 Day
Plan Review Use	4
Planned Development—Commercial and Resort	50
Planned Development—Housing	6
Public Infrastructure Maps, Additions/Deletions to	3
Seawall and Non-Seawall Variances	4
Service Connection, Repairs to Utilities and Trenching	1 Day
Signs	1 Day
Site Development Plan	2
Special Districts: Downtown Building Heights in Excess of 350 Feet	6
Special Districts: Establishment of or Amendment to	6
Special Districts: Major Project	6
Special Districts: Minor Project	2
Special Management Area Minor Permits	1
Special Management Area Use Permit for Agriculture, Aquaculture or Outdoor Recreational Developments	4
Special Management Area Use Permit for All Other Developments	4
Special Use Permit, State	4
State Boundary Petition	4
Storm Drain, Private Connection Fee	1 Day
Subdivision (see Section 5 above)	2
Temporary Use Approval	1
Waiver	1
Zoning Adjustment	2
Zoning Board of Appeals, Contested Case Hearings	2
Zoning District Boundary Adjustment	2 Days
Zoning Variance	2
Zoning, Written Clearance or Confirmation	1

E. ISSUES, STAKEHOLDERS AND MINIMUM DURATION OF PERMIT PROCESSES

1. Application/Petition Preparation:

Players: 1) Applicant

Time Frame: 12-18 Months

Issues Addressed in Process:

1. Air Quality	11. Notice to Buyers	22. Transportation Improvements
2. Archeological—State Historic Preservation Office	12. Park Dedication	23. Wastewater Improvements
3. Buyer Notification	13. Phasing	24. Solid Waste Management
4. Civil Defense	14. Police and Fire Facilities	25. Water Improvements
5. Drainage Improvements	15. Progress Reports	26. Child Care
6. Golf Course Tee Times (Public)	16. Public Access Easements	27. Ground Water Monitoring
7. Housing	17. Recording Conditions	28. Park and Ride
8. Land Transactions/Dedications	18. School Facilities (Fair Share Contribution)	29. Urban Design Plan
9. Noise	19. School Sites (Dedication)	30. Setbacks
10. Notice of Intent to Sell	20. Soil Erosion	31. Other Agency Approvals
	21. Sound Attenuation	

2. County General/Development/Community Plan Amendment:

- Players:
- 1) Applicant
 - 2) Citizen’s Advisory Committee
 - 3) County Agencies
 - 4) Planning Commission
 - 5) County Council
 - 6) Mayor

Process:

Citizen Advisory Committee	Public Hearing	Planning Commission Approval	Public Hearing	County Council Approval	Mayor Approval
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Time Frame: 22 Months *[not including time for EA/EIS process, if not concurrent]*

Issues Addressed in Process:

1. Statement of Problems and Opportunities	5. Design Principles
2. Social/Economic/Environmental Impacts	6. Historic/Archeological/Cultural Impacts
3. Development Patterns and Sequence	7. Transportation
4. Planning Standards and Principles	8. Population Goals

3. State Land Use Commission Reclassification:

- Players:
- 1) Applicant
 - 2) State Agencies
 - 3) County Agencies
 - 4) Interveners (Community and other interest groups)
 - 5) Land Use Commission

Process:

File Petition	Quasi-judicial Public Hearings with Various Parties (Interveners)	Commission Approval
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Time Frame: 18 Months

Issues Addressed in Process:

<ul style="list-style-type: none"> 1. Air Quality** 2. Archeological—State Historic Preservation Office 3. Buyer Notification 4. Civil Defense 5. Drainage Improvements 6. Golf Course Tee Times (Public) 7. Housing 	<ul style="list-style-type: none"> 8. Land Transactions/ Dedications 9. Noise 10. Notice of Intent to Sell 11. Notice to Buyers 12. Park Dedication 13. Phasing 14. Police and Fire Facilities 15. Progress Reports 16. Public Access Easements 	<ul style="list-style-type: none"> 17. Recording Conditions 18. School Facilities (Fair Share Contribution) 19. School Sites (Dedication) 20. Soil Erosion** 21. Sound Attenuation 22. Transportation Improvements 23. Wastewater Improvements 24. Solid Waste Management 25. Water Improvements
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**** Bold different from County Requirements**

4. County Rezoning Process:

- Players:
- 1) Applicant
 - 2) County Agencies
 - 3) Planning Commission
 - 4) County Council
 - 6) Mayor

Process:

Public Hearings	Planning Commission Approval	Public Hearings	County Council Approval	Mayor Approval
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Time Frame: 16 Months

Issues Addressed in Process:

<ol style="list-style-type: none"> 1. Urban Design Plan*** 2. Archeological—State Historic Preservation Office 3. Buyer Notification 4. Civil Defense 5. Drainage Improvements 6. Golf Course Tee Times (Public) 7. Housing 8. Land Transactions/ Dedications 9. Noise 10. Notice of Intent to Sell 	<ol style="list-style-type: none"> 11. Notice to Buyers 12. Park Dedication 13. Phasing 14. Police and Fire Facilities 15. Progress Reports 16. Public Access Easements 17. Recording Conditions 18. Setbacks*** 19. School Site 20. School Facilities (FSC) 21. Other Agency Approvals*** 	<ol style="list-style-type: none"> 22. Sound Attenuation 23. Transportation Improvements 24. Wastewater Improvements 25. Solid Waste Management 26. Water Improvements 27. Child Care*** 28. Ground Water Monitoring*** 29. Park and Ride***
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*** **Bold different from State Requirements**

5. Subdivision Review and Approval:

Players: 1) Applicant
 2) County Agencies

Process:

Final Plan	Site	Preliminary Subdivision Map	Mass and Pad Grading Plans	Roadway and Utility Construction Plans	Final Subdivision Map	Certification of Site Improvements
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Time Frame: 28 Months [exclusive of recordation]*

Issues Addressed in Process:

<ol style="list-style-type: none"> 1. Grading, Grubbing, Stockpiling 2. Roadway Improvements (curb and gutter, sidewalk, curb ramps, paving) 3. Utilities Improvements (sewer, water, storm drain, irrigation, electric, CATV, telephone) 	<ol style="list-style-type: none"> 4. Construction Dewatering 5. Traffic Control Plan 6. Sign and Marking Plan 7. Street Trees 8. Street Lights
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6. Other Discretionary Permits

Varies. See list of County permits in Appendix D. Not included here (as involving different timelines): Army Corps of Engineers permits for wetlands; State Department of Health involvement with brownfields, and other agencies with oversight.

SOURCE: LURF.

F. HRS 201G-118

§201-G-118 Housing development; exemption from statutes, ordinances, charter provisions, rules. (a) The corporation may develop, on behalf of the State or with an eligible developer, or may assist under a government assistance program in the development of, housing projects which shall be exempt from all statutes, ordinances, charter provisions, and rules of any governmental agency relating to planning, zoning, construction standards for subdivisions, development and improvement of land, and the construction of units thereon; provided that:

- (1) The corporation finds the project is consistent with the purpose and intent of this chapter, and meets minimum requirements of health and safety;
- (2) The development of the proposed project does not contravene any safety standards, tariffs, or rates and fees approved by the public utilities commission for the public utilities or the various boards of water supply authorized under chapter 54; and
- (3) The legislative body of the county in which the project is to be situated shall have approved the project.
 - (A) The legislative body shall approve or disapprove the project by resolution within forty-five days after the corporation has submitted the preliminary plans and specifications for the project to the legislative body. If on the forty-sixth day a project is not disapproved, it shall be deemed approved by the legislative body;
 - (B) No action shall be prosecuted or maintained against any county, its officials, or employees on account of actions taken by them in reviewing, approving, or disapproving the plans and specifications; and
 - (C) The final plans and specifications for the project shall be deemed approved by the legislative body if the final plans and specifications do not substantially deviate from the preliminary plans and specifications. The final plans and specifications for the project shall constitute the zoning, building, construction, and subdivision standards for that project. For purposes of sections 501-85 and 502-17, the executive director of the corporation, or the responsible county official may certify maps and plans of lands connected with the project laws and ordinances relating to consolidation and subdivision of lands, and the maps and plans shall be accepted for registration or recordation by the land court and registrar; and
- (4) The land use commission shall approve or disapprove a boundary change within forty –five days after the corporation has submitted a petition to the commission as provided in section 205-4. If on the forty-

sixth day the petition is not disapproved, it shall be deemed approved by the commission.

(b) For the purpose of this section, "government assistance program" means a housing program qualified by the corporation and administered or operated by the corporation or the United States or any of their political subdivisions, agencies, or instrumentalities, corporate or otherwise. [L 1997, c 350, pt of §2; am L 1998, c 212, §23]

G. AFFORDABILITY LEVELS BY COUNTY

Each county calculates maximum affordable sales prices based on incomes, interest rates, and family sizes. Assumptions must be made, in pricing units or qualifying buyers, about the importance of family size, the size of down payments, and the share of income that can be expected to go to housing costs. The counties may change their approach from year to year, or even within the year. Maui County has come to use separate income levels for Molokai and Lanai Islands.

In order to transform historical prices into affordability ratios, SMS used the approach already pioneered in the *Housing Policy Study* (2003). It was developed by Dr. Michael Sklarz as Research Director for The Prudential Locations, Inc., using the HUD median income estimates and consistent assumptions about the share of income devoted to housing costs. The prices treated as equivalent to 1.00 in terms of affordability are shown in Exhibit *:

Exhibit E-A: AFFORDABLE HOME PRICES

Year	Interest rate	"Affordable" Home Price			
		Hawaii County	Honolulu County	Kauai County	Maui County
1980	12.30%	\$67,131	\$86,967	\$72,191	\$78,406
1981	14.42%	\$67,084	\$86,905	\$72,139	\$78,349
1982	13.74%	\$73,379	\$95,062	\$78,910	\$85,702
1983	12.70%	\$79,541	\$103,046	\$85,536	\$92,899
1984	12.73%	\$82,855	\$107,336	\$89,096	\$96,767
1985	11.96%	\$89,208	\$115,567	\$95,928	\$104,189
1986	9.92%	\$102,007	\$132,150	\$109,696	\$119,138
1987	9.54%	\$108,276	\$140,271	\$116,436	\$126,459
1988	9.17%	\$115,483	\$149,604	\$124,183	\$134,873
1989	9.83%	\$115,776	\$149,984	\$124,498	\$135,217
1990	9.78%	\$118,685	\$152,807	\$129,441	\$139,826
1991	8.60%	\$130,971	\$167,477	\$145,047	\$155,589
1992	6.74%	\$147,915	\$196,195	\$164,916	\$182,276
1993	6.05%	\$153,958	\$211,802	\$172,843	\$196,785
1994	6.53%	\$135,059	\$199,681	\$170,059	\$144,896
1995	7.51%	\$163,029	\$175,099	\$126,134	\$131,077
1996	7.17%	\$138,466	\$182,079	\$156,883	\$169,574
1997	7.58%	\$190,501	\$157,853	\$149,669	\$190,836
1998	6.96%	\$183,206	\$186,643	\$185,341	\$188,185
1999	7.21%	\$174,649	\$194,430	\$173,887	\$201,156
2000	7.74%	\$167,814	\$186,895	\$167,031	\$193,226
2001	7.01%	\$179,303	\$237,081	\$203,911	\$222,980
2002	6.64%	\$199,016	\$260,679	\$218,818	\$205,144
2003	5.53%	\$219,957	\$291,546	\$243,285	\$227,856
2004	5.50%	\$221,867	\$297,585	\$246,861	\$230,977

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