

# Housing Trends

Final White Paper – May 2018



# Housing Trends

Prepared for the City and County of Honolulu by Strategic Economics, Inc., May 2018

This white paper provides information about housing conditions and trends in the Primary Urban Center of Honolulu. This is one of a series of seven thematic white papers prepared to inform the comprehensive update to the Primary Urban Center Development Plan (PUC DP) which covers the area from Pearl City to Kahala. This paper highlights key issues and opportunities that will be important to consider as part of the planning process. The PUC DP is one of eight regional plans required by the City Charter and adopted by City Council Ordinance. The PUC DP employs a time horizon of roughly 20 years and is periodically updated.

This paper draws from a variety of previous research and analysis, including the 2016 Hawaii Housing Planning Study and other sources focusing on housing trends in the City and County, and their relationship to the PUC.

## Content and Structure

### Section Headings:

1. *Background and Purpose*
2. *PUC Housing and Demographic Profile*
3. *Market and Development Trends*
4. *Affordable Housing*
5. *Homelessness*
6. *Housing Demand Projections*
7. *Key Considerations for the PUC Development Update*

### Key considerations identified for the PUC Development Plan include:

- Barriers to housing development, including high development costs and infrastructure needs;
- Providing in-town housing choices, including a range of building types and tenures for a range of household needs and preferences;
- Addressing the impact of short-term rentals on the housing market;

- Addressing affordable housing needs and homelessness; and
- Supporting in-fill development in existing neighborhoods that are not expected to be the focus of major development.

## 1. Background and Purpose

Housing availability, quality, and affordability are critical issues for the City and County of Honolulu (“City”) and for the PUC. A variety of recent studies have focused on housing, including the 2016 Hawaii Housing Planning Study. In addition, the State and City are engaged in a variety of efforts to encourage development of both affordable and market-rate housing, including:

- Transit-oriented development (TOD) planning and implementation efforts along the future rail corridor;
- Implementing an Affordable Housing Requirement for all new development, along with financial incentives to support creation of affordable housing;
- Efforts to mitigate the negative impact of short-term rentals on the housing market; and
- Efforts to address homelessness.

This report provides context on housing conditions and trends in the PUC, as well as an overview of ongoing City and State activities related to housing.

## 2. PUC Housing and Demographic Profile

This section presents housing and demographic characteristics of the PUC with comparisons to the City and County as a whole.<sup>1</sup> It also provides a summary of recent population and growth trends.

### Housing Characteristics

Key characteristics of housing in the PUC and the City and County are shown in **Table 1** and summarized below.

**The PUC includes approximately 177,100 housing units, accounting for about half of the City and County of Honolulu’s housing supply.** The PUC includes a greater proportion of multifamily units (58 percent compared to 44 percent for the City and County). About 31 percent of PUC units are in buildings with greater than 50 units, and nearly half (47 percent) are in buildings with greater than 10 units.

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<sup>1</sup> An aggregation of census tracts was used to define the PUC. Data tables on population, households, and housing characteristics include the Waipio Peninsula.



**Housing in the PUC is more likely to be renter-occupied than elsewhere in the City and County.** Over half (54 percent) of PUC households are renters, compared to 46 percent of countywide households.

**A majority of the housing supply in the PUC and City and County was built between 1950 and 1989.** Less than 10 percent of the PUC's housing stock was built in 2000 or later, compared to 13 percent in the City and County overall.

**Housing units in the PUC are more likely to be vacant (11 percent in the PUC, compared to nine percent countywide).** Of those vacant units, 37 percent were held for seasonal, recreational, or occasional use. The remainder, classified as for rent, for sale, or other, represent about seven percent of all housing units in the PUC. In the City and County overall, nine percent of all housing units were reported vacant, and three percent of all units were held for seasonal, recreational, or occasional use.

## Demographic Characteristics

During 2011 to 2015, an estimated 448,675 residents lived in the PUC, about 46 percent of the population of the City. Information about residents of the PUC and the City and County of Honolulu are summarized below.

**During 2011 to 2015, the PUC had a greater proportion of Asian residents than the City and County, but a smaller share of the Native Hawaiian and Pacific Islander population.** As shown in **Figure 1**, the racial and ethnic breakdown of the PUC was similar to the City and County as a whole; however, 51 percent of people in the PUC were of Asian descent, compared to 42 percent in the City and County. The Native Hawaiian and Other Pacific Islander population represented seven percent of the PUC's population, compared to nine percent in the City and County.

**About 58 percent of the City and County's foreign-born population lived in the PUC.** Within the PUC, the foreign-born population comprised 24 percent of the PUC population and 19 percent in the City and County overall.

**The PUC had a greater proportion of senior residents than the City and County.** The population 65 and older accounted for 18 percent in the PUC, compared to 15 percent in the City and County.

**The share of households with children is lower in the PUC compared to the City and County as a whole.** About 27 percent of households in the PUC have children, compared to 34 percent countywide.

**Education levels in the PUC were relatively similar to the City and County.** However, a higher share of the PUC population has not attained a high school degree (11 percent in the PUC compared to nine percent in the City and County).

**Household incomes are lower in the PUC.** The median household income was \$65,023 in the PUC in 2015, compared to \$74,460 in the City and County as a whole. Ten percent of the PUC’s population for whom poverty status is determined are living below the poverty line.

### ***Honolulu’s Age-Friendly Cities Initiative***

In 2015, the City and community partners completed an Action Plan focused on ways to make Honolulu an Age-Friendly City. Recognizing that more than a quarter of the population will be over 60 by 2030, the Plan identified a wide range of recommendations to improve the lives of seniors on Oahu. Goals specifically related to housing include:

- Enabling people to stay in their homes for as long as they desire, including enabling home modifications and retrofits for older adults and persons with disabilities.
- Encouraging age-friendly “universal” design in new housing communities and units.
- Encouraging affordable housing options, including ohana and accessory dwelling units (ADUs).
- Ensuring that neighborhoods have public transportation options, “Complete Streets” to safely accommodate multiple transportation modes and pedestrians, and accessible and safe outdoor spaces.

**Table 1: Housing Characteristics: PUC and City and County, 2015**

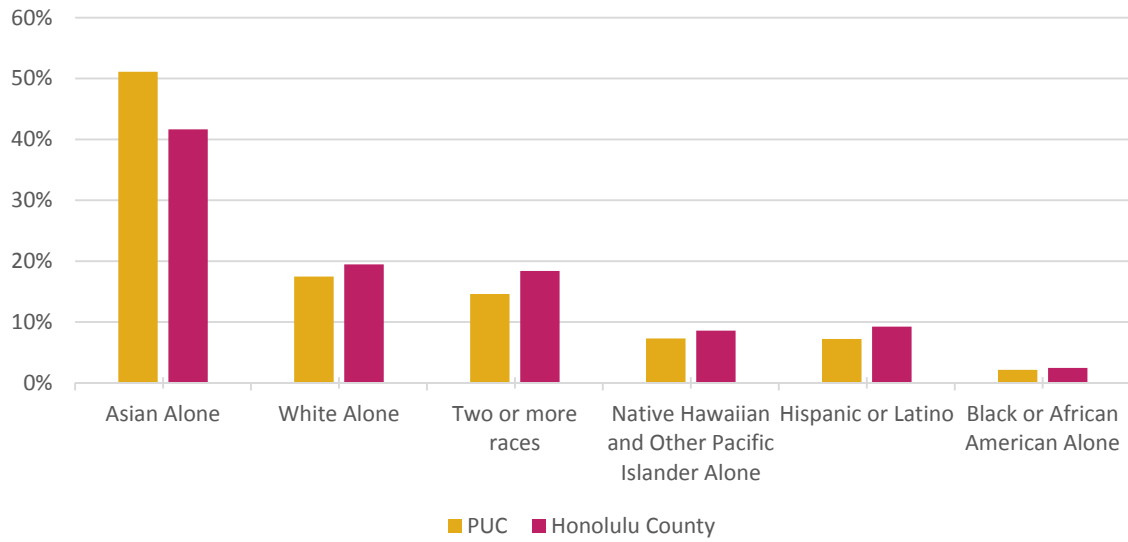
	PUC		City and County		PUC as % of City and County
	#	%	#	%	
Housing Units in Structure					
Single Family	73,760	42%	191,772	56%	38%
Multifamily	103,373	58%	149,019	44%	69%
2 to 4 Units	10,111	6%	22,948	7%	44%
5 to 9 Units	9,889	6%	23,181	7%	43%
10 to 49	28,144	16%	38,509	11%	73%
50 or more	55,229	31%	64,381	19%	86%
Other (a)	249	0%	448	0%	56%
Total Housing Units	177,382	100%	341,239	100%	52%
Tenure					
Owner Occupied	71,734	46%	168,551	54%	43%
Renter Occupied	85,433	54%	141,051	46%	61%
Total Occupied Housing Units	157,167	100%	309,602	100%	51%
Year Structure Built					
Built 2010 or Later	2,220	1%	6,290	2%	35%
2000 to 2009	13,738	8%	38,307	11%	36%
1990 to 1999	14,868	8%	43,030	13%	35%
1970 to 1989	67,261	38%	127,094	37%	53%
1950 to 1969	61,777	35%	101,066	30%	61%
Before 1950	17,518	10%	25,452	7%	69%
Total Housing Units	177,382	100%	341,239	100%	52%
Vacant Housing Units					
For Rent	5,380	27%	7,325	23%	73%
For Sale	799	4%	1,894	6%	42%
For Seasonal, Recreational, or Occasional Use	7,431	37%	11,810	37%	63%
Other Vacant (b)	6,605	33%	10,608	34%	62%
Total Vacant Housing Units	20,215	100%	31,637	100%	64%

(a) Other includes mobile homes, boats, RV, van, etc.

(b) This category includes units held for settlement of an estate, units held for occupancy by a caretaker or janitor, and units held for personal reasons of the owner.

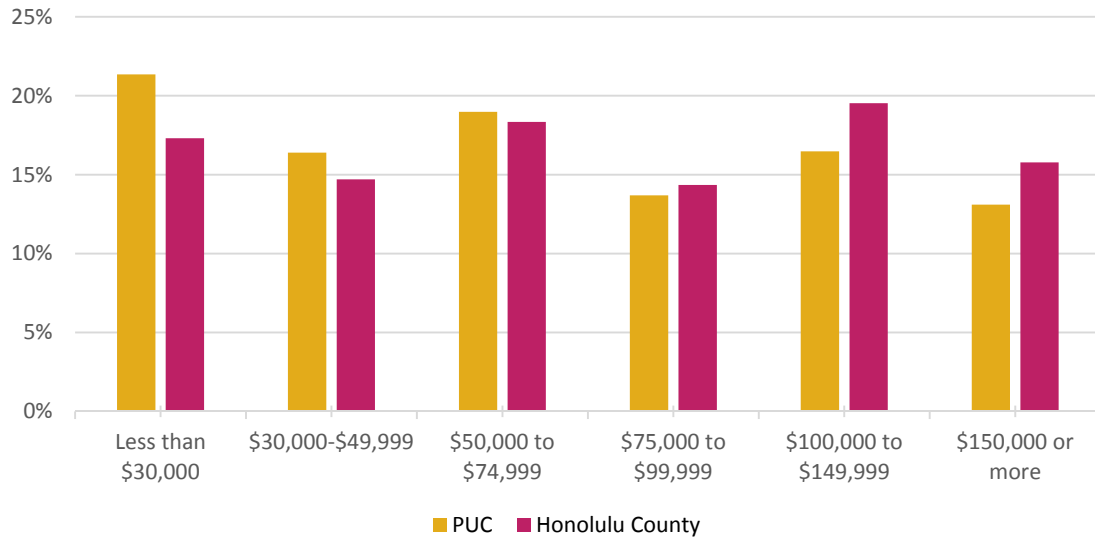
Sources: American Community Survey 5-Year Estimates 2011-2015; Social Explorer, 2017; Strategic Economics, 2018.

**Figure 1: Race/Ethnicity in the PUC and City and County of Honolulu, 2015**



Sources: American Community Survey 5-Year Estimates, 2011-2015; Social Explorer, 2017.

**Figure 2: Income Distribution in the PUC and City and County of Honolulu, 2015**



Sources: American Community Survey 5-Year Estimates, 2011-2015; Social Explorer, 2017.

Table 2: Population Characteristics, PUC and City and County, 2015					
	PUC		City and County		PUC as % of City and County
<b>Population By Race/Ethnicity</b>					
White	78,333	17%	191,473	19%	41%
Black or African American	9,606	2%	24,130	2%	40%
American Indian and Alaska Native	385	0%	1,217	0%	32%
Asian	229,280	51%	409,854	42%	56%
Native Hawaiian and Other Pacific Islander	32,704	7%	84,465	9%	39%
Some other race	406	0%	1,071	0%	38%
Two or more races	65,541	15%	180,932	18%	36%
Hispanic or Latino	32,420	7%	91,036	9%	36%
Total Population	448,675	100%	984,178	100%	46%
<b>Foreign Born Population</b>	<b>108,361</b>	<b>24%</b>	<b>187,669</b>	<b>19%</b>	<b>58%</b>
Total Population	448,675		984,178		
<b>Senior Population (65 and older)</b>	<b>81,315</b>	<b>18%</b>	<b>152,330</b>	<b>15%</b>	<b>53%</b>
Total Population	448,675		984,178		

Sources: American Community Survey 5-Year Estimates, 2011-2015; Social Explorer, 2017; Strategic Economics, 2018.



Table 3: Household Characteristics, PUC and City and County, 2015					
	PUC		City and County		PUC as % of City and County
<b>Average Household Size</b>	2.7		3.1		
<b>Population Density (Per Sq. Mile)</b>	4,152		1,638		
<b>Households by Presence of People Under 18</b>					
Households with Children	43,167	27%	106,072	34%	41%
Households Without Children	114,000	73%	203,530	66%	56%
Total Households	157,167	100%	309,602	100%	51%
<b>Educational Attainment</b>					
Less than High School	34,322	11%	60,985	9%	56%
High School Graduate or Equivalent	81,090	25%	176,099	26%	46%
Some college	95,630	30%	212,300	32%	45%
Bachelor's Degree and Above	109,816	34%	217,986	33%	50%
Total Population 25 Years and Over	320,858	100%	667,370	100%	48%
<b>Household Income</b>					
Less than \$30,000	33,560	21%	53,592	17%	63%
\$30,000-\$49,999	25,771	16%	45,520	15%	57%
\$50,000 to \$74,999	29,837	19%	56,796	18%	53%
\$75,000 to \$99,999	21,512	14%	44,411	14%	48%
\$100,000 to \$149,999	25,899	16%	60,450	20%	43%
\$150,000 or more	20,588	13%	48,833	16%	42%
Total Households	157,167	100%	309,602	100%	51%
<b>Median Household Income (2015\$)</b>	\$65,023		\$74,460		
<b>Poverty Status</b>					
Persons Living Below Poverty Level	28,443	10%	54,484	9%	52%
Population Age 18 to 64 for Whom Poverty Status is Determined	270,950		593,437		46%

Sources: American Community Survey 5-Year Estimates, 2011-2015; Social Explorer, 2017; Strategic Economics, 2018.

## Population and Household Growth

**A higher proportion of population and household growth has been happening outside the PUC than within it (Table 4).** Between 2000 and 2015, the City and County's population grew by 12 percent, while the PUC population grew by only 7 percent. The number of households increased by 8 percent in the City and County while the PUC increased only 2 percent. During the same period, the average household size increased in both the PUC and the City and County.

Table 4: Population and Household Change: PUC and City and County, 2000-2015								
	PUC				City and County			
	2000	2015	# Change	% Change	2000	2015	# Change	% Change
Population	420,169	448,675	28,506	7%	876,156	984,178	108,022	12%
Households	153,461	157,167	3,706	2%	286,731	309,602	22,871	8%
Average Household Size	2.6	2.7			2.9	3.1		

Sources: U.S. Decennial Census, 2000; American Community Survey 5-Year Estimates, 2011-2015; Social Explorer, 2017; Strategic Economics, 2018.

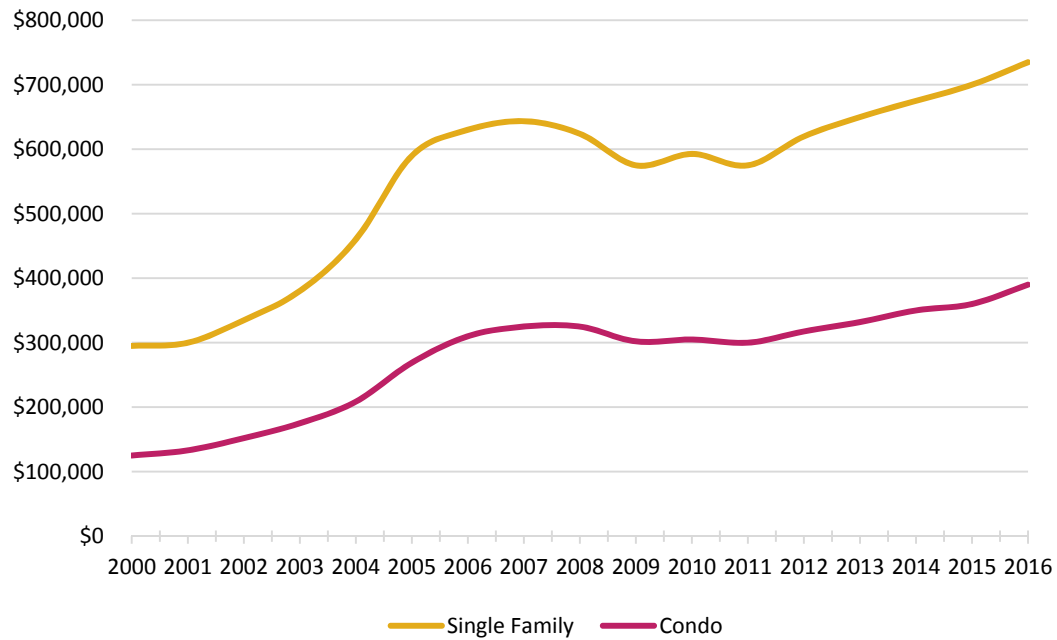
## 3. Market and Development Trends

### Sales Prices and Rents

Honolulu's home prices and rents have climbed steadily since the 2007-2009 economic recession (Figures 3 and 4), with growth in demand outpacing housing construction. In September 2017, the Honolulu Board of Realtors reported a median home sales price of \$760,000 for a single-family home and \$425,000 for a condominium. Since 2000, the median sales price for a single-family home grew at an average rate of 6 percent annually, while condos grew at 8 percent annually. Between 2009 and 2016, rents increased by 23 percent, compared to 13 percent in the state overall. As of August 2017, the median rent for a one-bedroom apartment was reportedly \$1,766, placing Honolulu among the top ten markets for rents in the United States (number 10, after Chicago).<sup>2</sup>

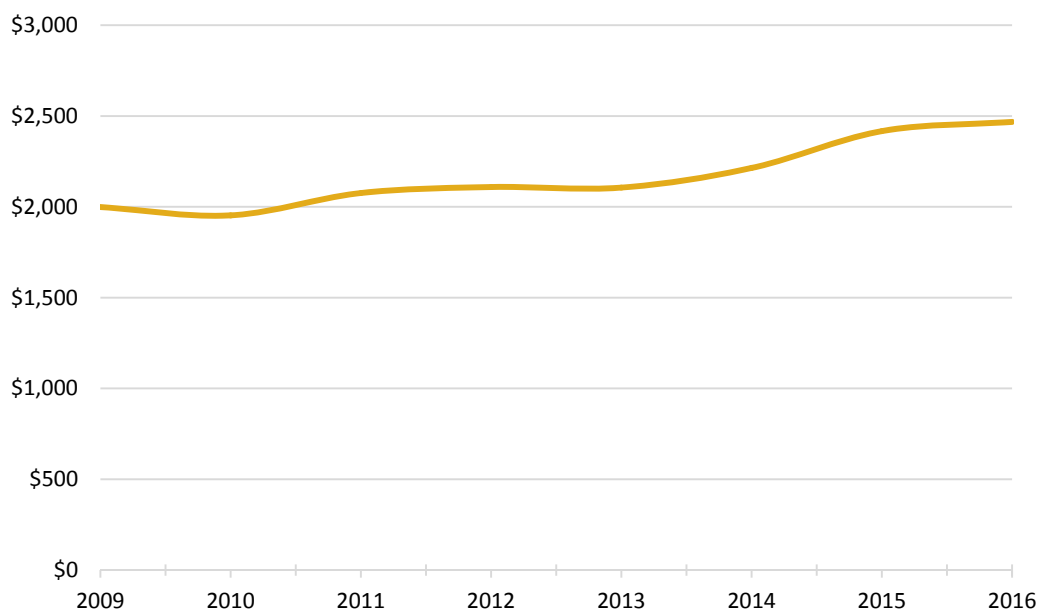
<sup>2</sup> "Honolulu Among Top 10 Most Expensive Cities for Renters in August 2017," Honolulu Magazine, August 11, 2017. <http://www.honolulumagazine.com/Honolulu-Magazine/Real-Estate/August-2017/Honolulu-Among-Top-10-Most-Expensive-Cities-for-Renters-in-August-2017/#.WiC1AbaZPBI>

Figure 3: Median Sales Price: Honolulu County, 2000-2016



Source: Honolulu Association Board of Realtors, 2017

Figure 4. Average Rent: Honolulu County, 2009-2016



Source: RentRange; Hawaii Housing Planning Study, 2016.

## Recent and Planned Housing Development

**Honolulu is experiencing a building boom, with a significant amount of development focused in the PUC.** Between FY 2015 and 2017, an estimated 6,500 units were completed in the City and County.

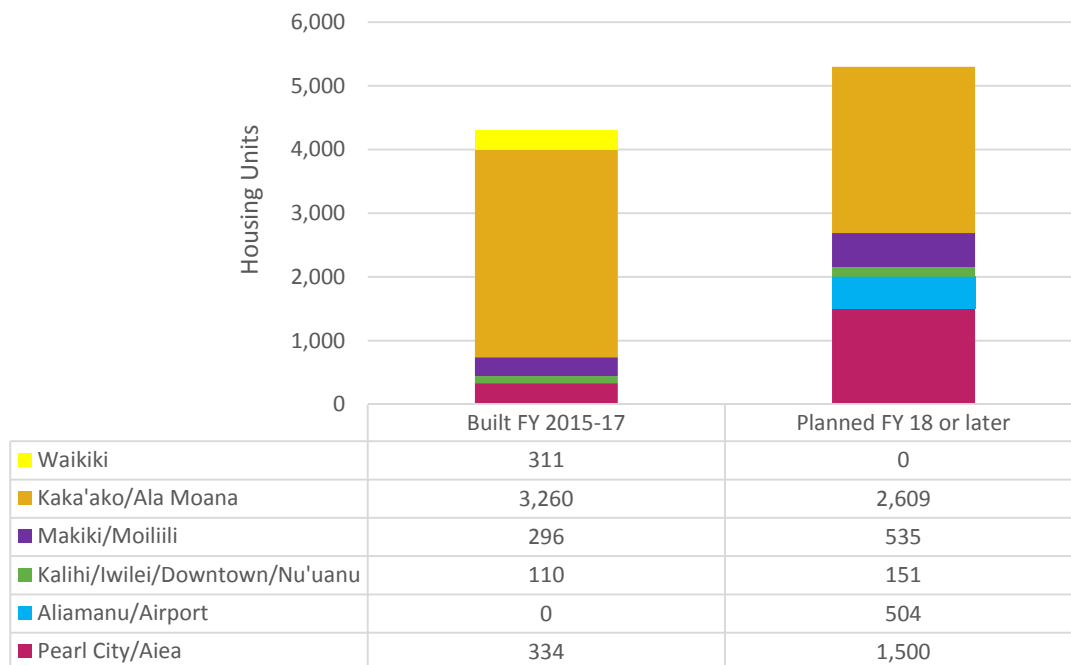
**Sixty-three percent of recently constructed units were built in the PUC (4,520 units between FY 2015 and 2017).** Most other units were built in Ewa (31 percent).

**Most recent development in the PUC consists of high-end high rise development in Kakaako and Ala Moana.** Figure 5 shows recent housing development in the PUC by location (FY 2015 - 2017), as well as the location of planned future development.

**More than 5,000 additional residential units are currently planned in the PUC.** This includes another 2,600 units in Kakaako and Ala Moana. A considerable number of units are also planned in the Pearl City/Aiea area, most as part of the proposed Live Work Play Aiea project on the former site of the Kamehameha Drive-In Theater.

**Almost all recent market rate residential development in the PUC consists of for-sale units.** A few recent projects have targeted renters with income restrictions or as assisted living/senior homes, such as Keauhou Lane and 400/440 Keawe in Kakaako, Kalakaua Gardens in Ala Moana, and Aina Hau Vista II in Wakiki. However, the vast majority of the rental housing inventory consists of single family homes and condominium units leased by private owners.

Figure 5. Recent and Planned Housing Development in the PUC



*Sources: City of Honolulu Department of Planning and Permitting; Strategic Economics, 2018. Based on a summary of current projects with more than 25 units as of 2015, updated based on a list of 2016 projects.*

## Large Detached Dwellings

There has been growing concern over recent development of “super-sized” homes, or large residential structures containing as many as 10 to 25 bedrooms on a single-family lot.

Although the existing codes do not limit the size of a home, they do limit the number of unrelated people who live in a home together to five. The homes are reportedly being built to house large, multigenerational families, but enforcement over occupancy violations has been a challenge. Some houses are suspected of being rented as single rooms, or as vacation rental units. Concerns have also been raised about the strain these large homes can place on existing streets, parking capacity, sewer, and other infrastructure capacity, as well as the visual impact on neighborhoods.

As of March 2018, Ordinance 18-6 was enacted imposing a temporary ban of up to two years on building permits for these extra-large homes, giving the Department of Planning and Permitting time to come up with permanent rules.

In the longer term, potential changes to the Land Use Ordinance include:

- Requiring a minimum number of parking stalls within the footprint of the building
- Changes to floor-area ratio (FAR) requirements to limit the size of a home relative to the size of its lot; and
- Increasing required building setbacks from property boundaries.

## Role of Short-Term Rentals

**Demand for second homes and vacation rentals places additional pressure on the housing market in Honolulu and the PUC.** Critics of short-term vacation rentals argue that they reduce Honolulu’s housing stock and inflate demand for investment properties at the high end of the market, exacerbating the island’s housing affordability challenges. As described previously, only a relatively small proportion of housing units in the PUC are reported to the Census as held for occasional or seasonal use (**Table 1**). However, results from the recent State Housing Demand Survey suggest higher rates of out-of-state ownership for residential property. For instance, between 2008 and 2015, approximately 15 percent of all sales on Oahu were to persons with out-of-state addresses. The study also found that statewide, prices paid by international buyers were 65 percent higher than that paid by local buyers. Sales prices paid by mainland buyers were 28 percent higher than prices paid by local buyers.<sup>3</sup>

**The popularity of “home sharing” internet sites has led a growing number of visitors to Oahu to stay in short-term rentals.** These short-term rentals have been a segment of Oahu’s tourism industry for years, but the segment has grown significantly in recent years due to increased

<sup>3</sup> SMS, *Hawaii Housing Planning Study*, 2016. Prepared for the Hawaii Housing Finance and Development Corporation. December 2016, 16.

demand by travelers. According to data from the Hawaii Tourism Authority (HTA), air travelers to the island grew by 35 percent between 2009 and 2016. The share of visitors using vacation rental units grew rapidly during this time, while the share of visitors using traditional accommodations (e.g., hotels, apartment hotels, condominium hotels, hostels, or timeshare) decreased by two percent. In a 2016 vacation rental survey conducted by real estate management company Jones Lang LaSalle, visitors surveyed stated that the most common reasons for using home or short-term vacation rentals are the relatively lower cost and more flexible/larger accommodations than traditional lodging. The survey also found that a significant portion of vacation rental guests do not view hotels as a substitute. This suggests that preferences are changing as demand grows for travelers seeking authentic, local experiences.

**While there are no definitive estimates of the number of short-term rentals on Oahu, the Hawaii Tourism Authority (HTA) estimated that about 8,798 units were individually advertised online in 2016, a 30% increase from the previous year.<sup>4</sup>** The popularity of Airbnb, VRBO/HomeAway, and others provide many homeowners an easy platform for advertising their units. However, most short-term rentals are unlicensed; the City stopped issuing new permits in 1989. Recently, the City Council has considered various resolutions aimed at allowing a limited number of units, but with stricter regulations and enforcement. In 2017, the State debated a bill to allow Airbnb to collect and remit taxes on behalf of its hosts.<sup>5</sup>

**Like other communities across the US, the City is currently exploring policy approaches to address the challenges associated with short-term rentals.** A common tactic is to define short-term residential rentals as a distinct use and establish licensing, permitting, or taxation requirements, as well as operational or procedural standards to reduce illegal rentals and mitigate potential nuisances. Some communities have passed zoning amendments specifying permitting requirements for short-term residential rentals and imposing performance standards or separation requirements on these units; others simply use business licensing ordinances to focus on registration of units and payment of any applicable taxes and fees (see San Francisco case study, below).<sup>6</sup>

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<sup>4</sup> Hawai'i Tourism Authority, *2016 Visitor Plant Inventory Report*, p. 59.

<sup>5</sup> "Hawaii Lawmaker counting on collaboration to push business package through Legislature," *Pacific Business News*. 1 December 2017.

<sup>6</sup> American Planning Association, Planning Advisory Service. "Regulating Short-Term Residential Rentals." December 2015.



### ***Case Study: Short-Term Rentals in San Francisco***

The City of San Francisco legalized short-term rental activity, allowing permanent city residents to rent out their primary residences, but not locations in which they don't live (i.e., second or vacation homes). San Francisco has also established an Office of Short Term Rental (OSTR) to enforce the law, and created a Short-Term Residential Rental Starter Kit with detailed guidance. To comply with the Short-Term Rental Ordinance, hosts are required to receive a certificate from the Office of Short-Term Rentals (OSTR) and obtain a business registration, including paying a \$250 registration fee and a \$90 business license fee. These requirements have only been enforced for a few months, but so far the result has been a significant decline in short term rental listings.

## **Role of the Military**

**The presence of the military has an impact on the housing market on Oahu and within the PUC.** Approximately 40,674 military personnel lived in the City and County as of 2015, along with an estimated 53,900 dependents.<sup>7</sup> Combined, the military and their families represent approximately 10 percent of Oahu residents. Between 10,000 and 20,000 private housing units are occupied by military households.<sup>8</sup>

**The Basic Allowance for Housing (BAH) has increased faster than rents over the past decade, and as a result, military personnel can often afford higher rents than non-military households.** The BAH, which varies by rank and presence of dependents, is provided to military personnel who choose to live in private housing. The allowance is intended to cover the rent or mortgage payment as well as other costs associated with housing (e.g., utilities). The 2016 Hawaii Housing Study found that the BAH for enlisted personnel was greater than the amount that a household earning Honolulu's median income can afford, and that rents in the vicinity of Oahu military bases are affordable even for low-ranking military personnel.<sup>9</sup> Because the BAH is set each year based on area rents and cost of living increases, it has the potential to drive rents upward over time.

**The future numbers of military personnel remains unknown.** The number of military personnel in Hawaii grew during the 2000s, but declined in the past few years, consistent with national trends.<sup>10</sup> However, the Fiscal Year 2018 National Defense Authorization Act includes more than \$300 million in military investments in the state, including construction at Fort Shafter, as well as a sewer lift station and consolidated training facility at Joint Base Pearl Harbor-Hickham.<sup>11</sup>

<sup>7</sup> Estimated based on American Community Survey 2015 labor force information and an estimated number of dependents statewide from the 2016 Hawai'i Housing Planning Study (p. 42).

<sup>8</sup> Estimate cited by Rick Cassiday, "How the military impacts rent prices in Hawai'i," *KITV Island News*, February 23, 2017, <http://www.kitv.com/story/34591771/how-the-military-impacts-rent-prices-in-Hawai'i>

<sup>9</sup> Hawai'i Housing Planning Study, 2016, p. 42.

<sup>10</sup> Ibid.

<sup>11</sup> "Defense bill includes over \$300 million for Hawai'i," *West Hawai'i Today*, November 22, 2017. <http://westHawai'itoday.com/news/state-wire/defense-bill-includes-over-300-million-Hawai'i>

## 4. Affordable Housing

### Affordable Housing Need

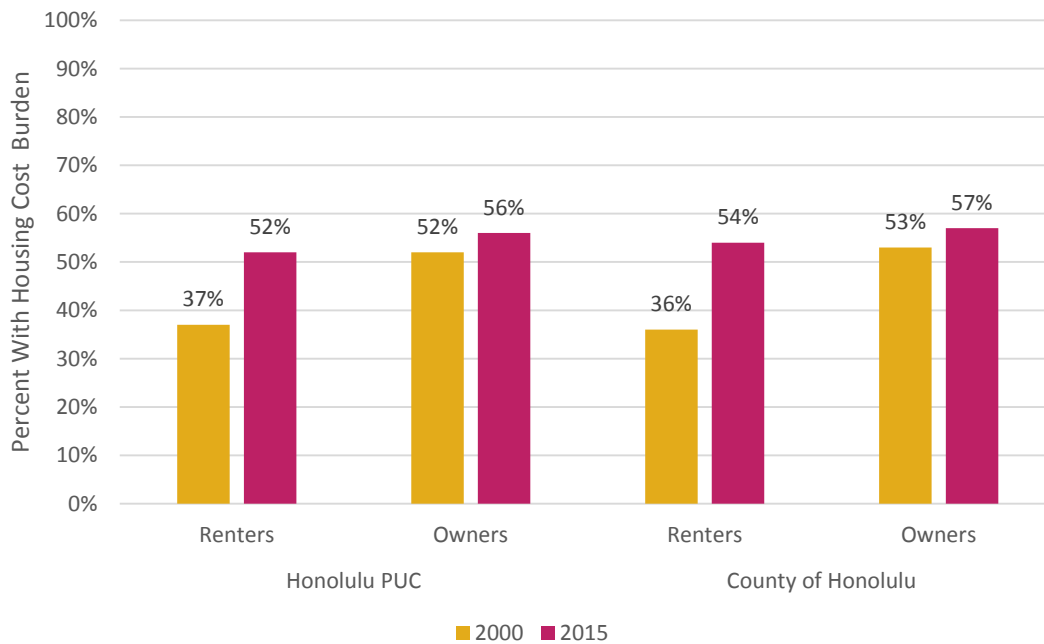
**Honolulu is in the midst of an affordable housing crisis.** As rents and sales prices have increased over the past several years, households are spending a growing proportion of their incomes on housing. **Figure 6** shows the percentage of households in the PUC and City and County experiencing housing cost burden (defined by HUD as spending more than 30 percent of household income on housing). In 2015, more than half of all households in the PUC and City and County experienced a housing cost burden. This proportion has been increasing, especially for renters. In 2000, 37 percent of renters in the PUC were cost burdened; this number rose to 52 percent by 2015.

**Twenty six percent of renter households in the PUC pay more than 50 percent of income on rent.** These households live throughout the PUC, with concentrations near Downtown, as well as in the Salt Lake/Aliamanu area and Pearl City (**Figure 7**).

**High housing costs are also leading to high rates of crowding and doubling up.** According to the 2016 Housing Demand Survey, 11 percent of households in Honolulu were “crowded,” defined as having more than two persons per bedroom (**Table 5**). An additional 12 percent were “doubled up,” defined as having more than one family in a single household. Crowding is especially common among renters (22 percent). In all, nearly one third of all renter households were either crowded or doubled up. The study also notes that the rates of crowding and doubling up were more volatile in the City and County of Honolulu than in other parts of the State.

**The 2016 Hawaii Housing Demand Survey estimated demand for an additional 5,565 housing units affordable to households at or below 80 percent of Area Median Income (AMI) between 2016 and 2020 in the City and County.** This represents more than half of total demand. Two-thirds of this demand is for rental units (**Figure 8**).

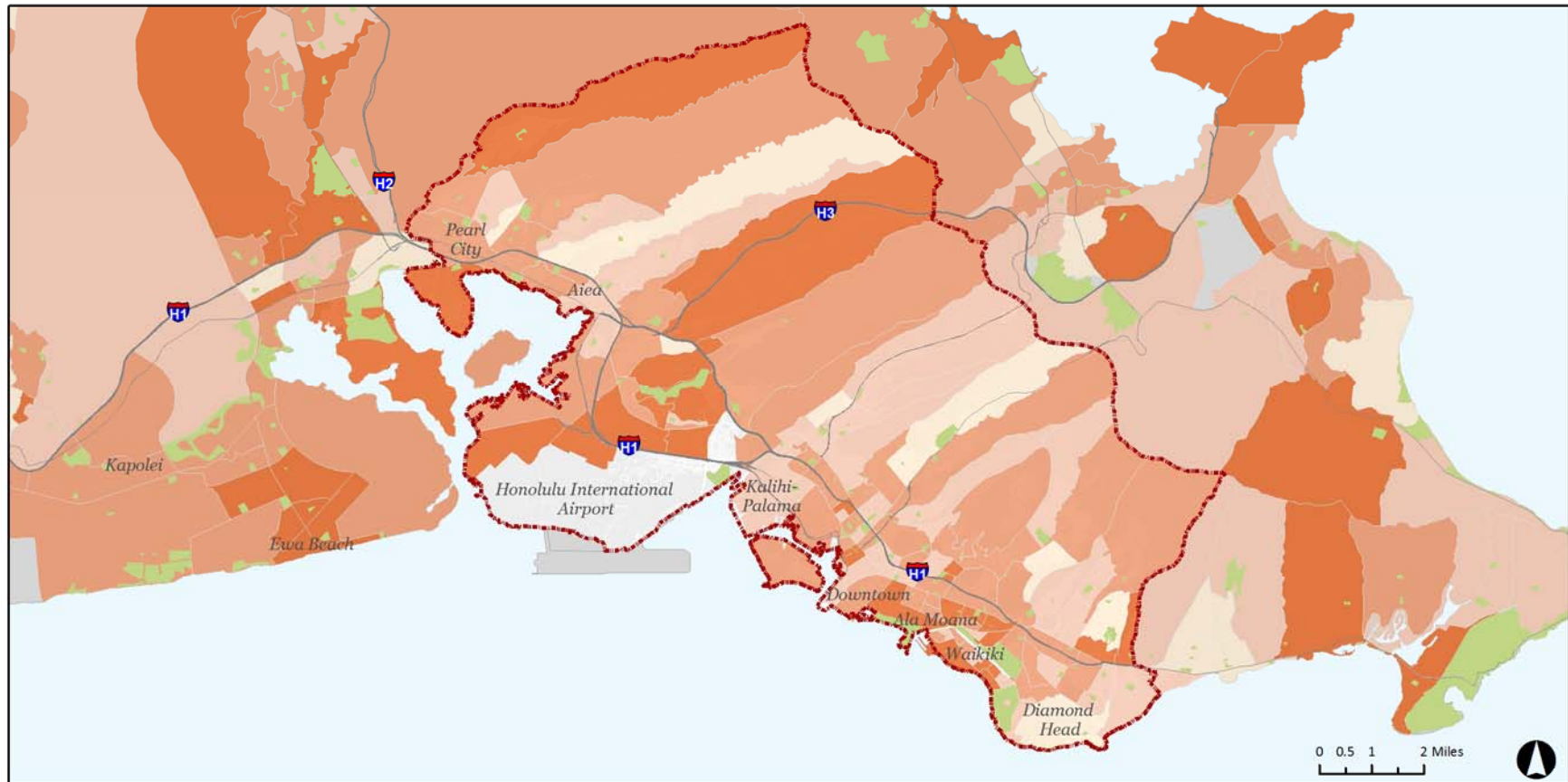
Figure 6. Households with a Housing Cost Burden, PUC and City and County of Honolulu, 2000 and 2015



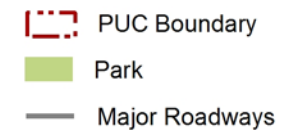
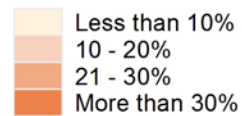
*Note: The U.S. Housing and Urban Development (HUD) defines housing cost burden as households spending 30 percent or more of household income on housing costs*

*Sources: U.S. Decennial Census, 2000; American Community Survey 5-Year Estimates, 2011-2015; Social Explorer, 2017; Strategic Economics, 2018.*

Figure 7. Share of Renter Households Paying More than 50% of Income on Rent



Share of Renter Households Paying More than 50% Of Income on Rent, by Census Tract



Sources: American Community Survey 5-Year Estimates, 2011-2015; Strategic Economics, 2017.

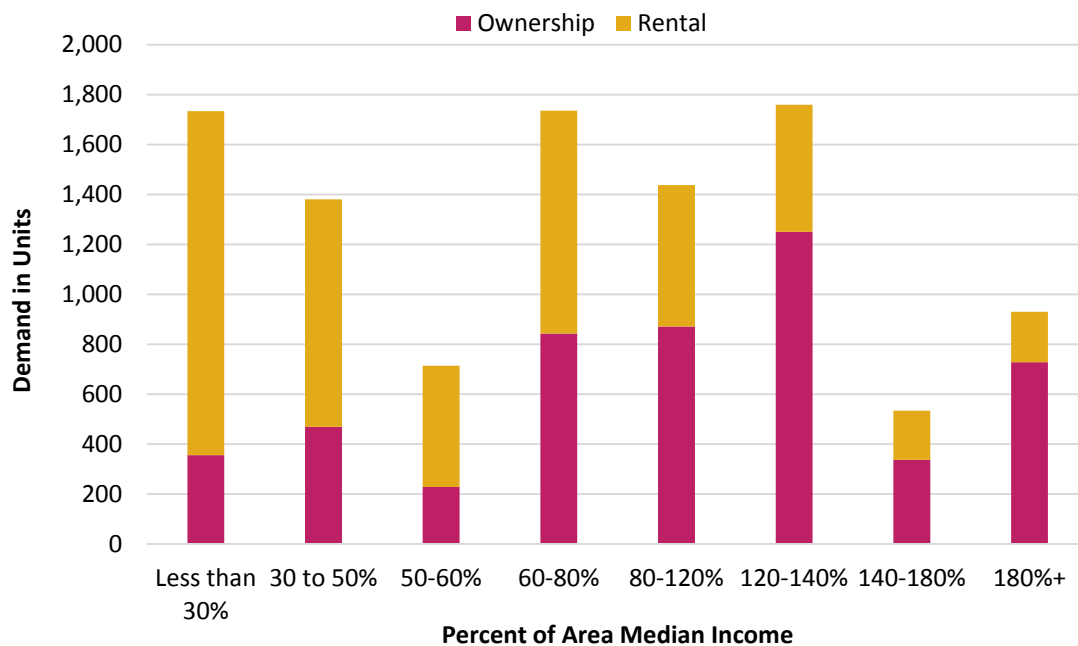
Table 5. Household Crowding and Doubling Up Honolulu County, 2016			
	Crowded(a)	Doubled Up(b)	Crowded and/or Doubled Up
Owners	5%	12%	17%
Renters	22%	11%	27%
<b>Total Households</b>	<b>11%</b>	<b>12%</b>	<b>21%</b>

(a) Based on more than 2 persons per bedroom.

(b) More than one related or unrelated family in a single household

Source: Housing Demand Survey results in Hawaii Housing Planning Study, 2016. Adapted from Tables A-9 and A-9b

Figure 8: Needed Housing Units by HUD Income Classification (2016-2020), Honolulu



Note: Housing units needed to eliminate pent-up demand and accommodate new household formation.

Source: Housing Demand Survey and Hawaii Housing Model, 2016.

## Income-Restricted Housing

The Hawaii Housing Finance and Development Corporation (HHFDC) maintains an inventory of income-restricted housing owned by private, non-profit or governmental entities, developed with funding or support from Federal, State or City resources.

**According to the Hawaii Housing Finance and Development Corporation, there were 17,668 income-restricted housing units on Oahu as of April 2017, representing about 5 percent of the housing stock.** Of these units, 68 percent were located within the PUC. **Table 6** shows the number of affordable housing units by type of project in the PUC and City and County.

Table 6: Income-Restricted Housing by Project Type: PUC and Honolulu County, 2017					
Type of Affordable Housing	PUC		County		PUC % of County
	Units	% of Total	Units	% of Total	
Elderly	2,605	22%	4,070	23%	64%
Elderly Public Housing	1,138	9%	1,507	9%	76%
Family	6,004	50%	8,999	51%	67%
Labor Housing, Agricultural Workers	0	0%	12	0%	
Public Housing	2,098	17%	2,733	15%	77%
Special Needs	197	2%	347	2%	57%
<b>Total Affordable Housing Inventory</b>	<b>12,042</b>	<b>100%</b>	<b>17,668</b>	<b>100%</b>	<b>68%</b>

Sources: Hawaii Housing Finance and Development Corporation, April 2017; Strategic Economics, 2018.

### Recent Development

**Approximately 13,000 government-assisted units were constructed between 2000 and 2015 in Honolulu.** In the 2000-2010 period, nearly 1,000 units were produced on an average annual basis. After 2010, the average annual production fell by 24 percent.<sup>12</sup>

### Planned Redevelopment of Hawaii Public Housing Authority Units

**The Hawaii Public Housing Authority (HPHA) is planning to redevelop several of its properties located in TOD areas at significantly higher densities, including a mix of uses and housing for a range of income levels.** These redevelopment projects could contribute a net gain of up to approximately 8,500 residential units within the PUC over time, with initial phases completed beginning in 2021. The planned projects are summarized in **Table 7**.

<sup>12</sup> Hawaii Housing Planning Study, 2016, p. 85.



Table 7: Hawaii Public Housing Authority TOD Redevelopment Projects					
Project Name	Units	Proposed	Gain	Start	1st Phase Complete
<b>Within PUC</b>					
Mayor Wright	364	2,500	2,136	2019	2021
School Street Project	0	300-800	300-800	2020	2022
Kuhio Park Terrace Phase 2	176	425	249	2020	2022
Puuwai Momi	260	1,500	1,240	2021	2023
Kalanihua	151	500	349	2022	2024
Kamehameha & Kaahumanu	373	2,500	2,127	2022	2025
Hale Laulima	36	1,000	964	2023	2026
Makua Alii & Paoakalani	362	1,000	638	2025	2027
<b>Subtotal Within PUC</b>	<b>1,722</b>	<b>9,725 – 10,025</b>	<b>8,003– 8,503</b>		
<b>Other Locations</b>					
Waipahu I and II, Hoolulu, Kamalu	260	1,000	740	2023	2026

Source: Hawaii Public Housing Authority, December 2017.

## “Naturally Occurring” Affordable Housing

“Naturally occurring” affordable housing (NOAH) refers to residential properties that are affordable to households without public subsidy.<sup>13</sup> Typically, housing is considered “affordable” if the mortgage or rent requires no more than 30 percent of a household’s income.<sup>14</sup>

**The 2016 Hawaii Housing Planning Study found that a third of all occupied housing units in the City and County are affordable to very low-income households, defined as households earning 50 percent of Area Median Income (AMI).** The study also found that rental units were significantly more likely than ownership units to be affordable to low-income households. In the City, one-third of all occupied rental units were affordable to households earning 50 percent of AMI, but less than 10 percent of all occupied ownership units.<sup>15</sup> Fifty seven percent of all occupied units in the City are affordable to households earning 80 percent of AMI.

**Many naturally occurring affordable units are located in older two- to four-story walk-up apartment buildings and low-rise condominium projects.** Figure 9 shows the location of renter-occupied multifamily units (2 or more units in structure) built before 1980. The map shows the concentration of older rental housing stock in areas such as Moiliili, Kapahulu, Makiki and Kaimuki.

<sup>13</sup> Definition provided by the National Low Income Housing Coalition.

<sup>14</sup> This definition of “affordable” is consistent with the one used in the 2016 Hawaii Housing Planning Study prepared by SMS.

<sup>15</sup> Hawaii Housing Planning Study, 2016, p. 30.

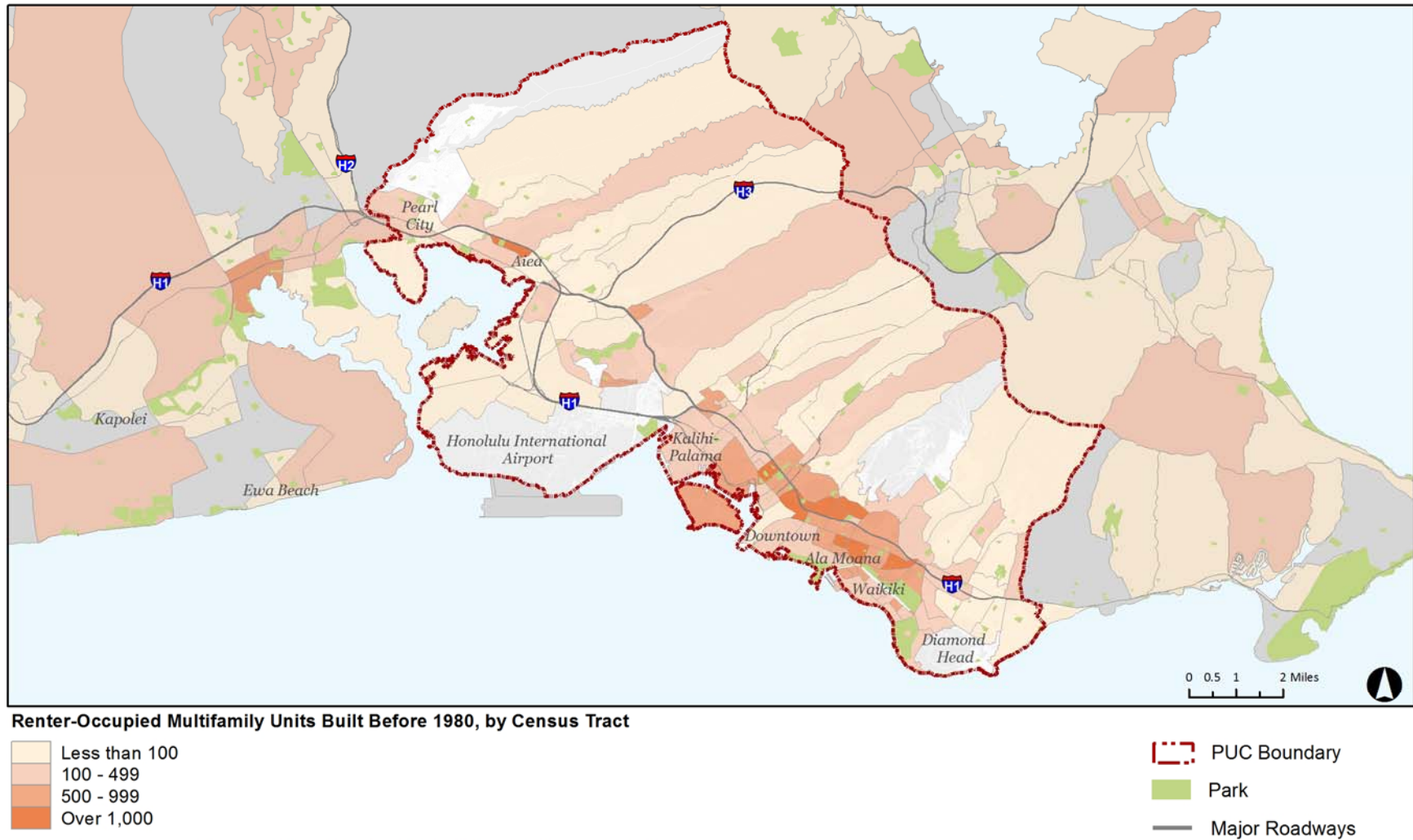
Table 8: Occupied Units by Affordability Level: Honolulu, 2014			
	Total Occupied Units	Occupied Rental Units	Occupied Ownership Units
% affordable at 50% AMI (very low income)	33%	33%	9%
% affordable at 80% AMI (low income)	57%	65%	31%
% affordable at median AMI*	61%	69%	49%
<b>Total Occupied Units</b>	<b>250,162</b>	<b>132,483</b>	<b>117,679</b>

*Note: In 2014, the median income for Honolulu was \$82,600.*

*Sources: American Community Survey, 5-Year Estimates, 2014; Hawai'i Housing Planning Study, 2016.*

*Adapted from Table 26.*

Figure 9: Renter-Occupied Multifamily Units Built Before 1980



Sources: American Community Survey 5-Year Estimates, 2011-2015; Strategic Economics, 2017.

## Affordable Housing Policies and Funding Sources

The City and State are both actively engaged in efforts to address the affordable housing crisis. Current policies and funding sources are described below.

### Affordable Housing Policies

**In the past, the main mechanism used by the City to encourage private development of affordable housing was the use of the Unilateral Agreement.** Administered by the City's Department of Planning and Permitting, a Unilateral Agreement comes into play when a planned residential project receives an approved zoning change. Under these agreements, residential developers agree to provide a minimum of 30 percent of residential units to low and moderate-income households with incomes at or below 140 percent of AMI. Within that 30 percent, at least 10 percent must be affordable to households at or below 80 percent of AMI, at least 10 percent must be affordable to households at or below 120 percent of AMI and at least 10 percent must be affordable to households at or below 140 percent of AMI. Units are required to remain affordable for at least 10 years. The obligation may be met by building affordable for-sale or rental units, conveying land, or making an in-lieu payment to the City to support affordable housing programs. All proposals are subject to the approval of the Director of DPP.<sup>16</sup> Now that the Affordable Housing Requirement (AHR) has been approved, the Council will have the option to apply the new AHR requirements or the Unilateral Agreement requirements as a condition of approval to projects that receive a zoning change.

**Recently, the City Council approved a new affordable housing requirement for for-sale residential development projects.** Key elements of the requirement are summarized below.

Additional details can be found on the City's website:

<https://www.honolulu.gov/housing/affordable-housing.html>.

- The AHR applies to for-sale projects with 10 or more units, including subdivisions and conversions from other uses.
- Affordable units target homebuyers earning 120% of AMI and below, and renters earning 80% of AMI and below. In the event that developers are not able to find buyers or renters at the required income levels, a series of "step-up" marketing periods allow the units to be marketed to households with higher income levels.
- Developers may provide a lower required number of income-restricted units with a longer affordability period, or opt for a higher number of units with a shorter affordability period.
- The requirement is designed to offer some flexibility for developers in how they meet the requirement. Affordable units may be provided as for-sale or rental units, and may be

<sup>16</sup> City and County of Honolulu Department of Planning and Permitting, "Affordable Housing Required by Unilateral Agreement." <http://www.honoluludpp.org/Planning/AffordableHousing.aspx>

built on-site or off-site. Conveyance of improved land may also satisfy the requirement, subject to Director approval.

- The requirement differs according to whether projects are in the TOD areas or other locations on the island. Within the TOD areas, the percent of affordable units ranges from 10 to 35 percent, depending on whether units are provided on- or off-site, whether they are for-sale or rental units, and according to the affordability period. Outside the TOD areas, the percentage range is lower, from 5 to 20 percent.

**The City is also offering a number of new incentives to accompany the AHR.** Ordinance 18-1 was recently adopted to provide incentives for affordable housing that would help to offset the burden of the affordable housing requirement on developers. The incentives include exemptions to real property taxes and waivers for wastewater system facility charges, plan review and building permit fees, and park dedication requirements.

**Ohana Units and Accessory Dwelling Units (ADUs) also play an important role in providing affordable housing in Honolulu.** The City's ADU ordinance was passed by the Council in 2015 to assist in providing affordable rental housing and alleviating overcrowding. The ordinance allows the construction of an accessory unit up to 800 square feet on a single-family lot. Unlike an Ohana Unit, which can only be legally rented to a family member, an ADU can be rented to anyone and does not need to be attached to the main dwelling.<sup>17</sup> Ohana Units and ADUs cannot be conveyed separately from the primary residence.

**In addition to the policies described above, the City is actively engaged in a number of other efforts aimed at addressing the affordable housing crisis.**<sup>18</sup> The City has identified several properties that it is planning to make available to developers through a Request for Proposals (RFP) process. Potential sites within the PUC are the Aiea Sugar Mill site and the Pearlridge bus transit facility site. Other efforts include exploring additional funding sources for affordable housing, addressing infrastructure needs that inhibit housing development, and a variety of efforts to expand homeless services.

**Within Kakaako, developers must meet Reserved Housing Requirements established by the Hawaii Community Development Authority (HCDA), which require a share of units to be offered to households with incomes at or below 140 percent of AMI.** The share of income-restricted units is 20 percent if provided as for-sale units, or 15 percent if rental. The minimum term is five years for condominiums and 15 years for rentals. Developers receive a 20 percent density bonus

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<sup>17</sup> An **Ohana Unit** must be attached by the roof to the existing home, and can only be rented to family related to the homeowner by blood, adoption, or marriage. Because Ohana units are an addition to a home, they are not required to have a fully functional kitchen. An **ADU** is a second unit built on a single-family lot, and can be attached or detached from the main dwelling. They are required to have a sink, stovetop range, and refrigerator in the unit. The ADU must also have one parking spot.

<sup>18</sup> See "Affordable Housing Implementation Status" for a full list of ongoing City efforts.  
[https://www.honolulu.gov/rep/site/ohou/AH\\_Strategy\\_Imp\\_Summary\\_2-16-17.pdf](https://www.honolulu.gov/rep/site/ohou/AH_Strategy_Imp_Summary_2-16-17.pdf)

and fee waivers for income-restricted units. HCDA also has a voluntary Workforce Housing Program, which provides incentives for residential projects that provide 75 percent of units to households at or below 140 percent of AMI. Recently, modifications to the HCDA rules were proposed that would have extended the affordability term for units to 30 years (as well as other changes), however these modifications were not approved by the Governor.

**Affordable housing projects are also incentivized by the Section 201H Program.** Under Section 201H-38 of the Hawaii Revised Statutes, qualifying projects (often referred to as “201H projects”) receive expedited processing and a variety of exemptions from fees and other City and State requirements. In return, at least half of the residential units required by the City must be affordable to households at or below 140 percent of AMI. Multiple projects have made use of this program, especially since its rules were revised in 2010 to better align eligibility certification requirements between the State and City programs.

### Affordable Housing Funding Sources

**Because of the high development costs in Honolulu, most projects that target households with income levels below 80 percent of AMI must use a variety of Federal, State and City sources.** Federal funding sources include Low Income Housing Tax Credits (LIHTC), HOME Investment Partnership Act funds, Community Development Block Grant (CDBG) funds, and the National Housing Trust Fund. State funding sources include Hawaii Housing Finance and Development Corporation’s Hula Mae Bond Multifamily Bond Program (HMMF), the Rental Housing Revolving Fund, the Dwelling Unit Revolving Fund, and the Housing First Program.<sup>19</sup> The City’s Affordable Housing Fund was also established to further the development of affordable housing. Limitations on funding, especially the Low Income Housing Tax Credits, restrict the pipeline of new housing development for low-income households. The City is actively exploring ways to expand funding and financing options for affordable housing, including the use of Private Activity Bonds.<sup>20</sup>

**The recently passed federal tax legislation will negatively impact the availability of funding for affordable housing.** Two significant sources of funding for affordable housing - the Low Income Housing Tax Credit (LIHTC) and private activity bonds - were retained in the tax code. LIHTC allows corporations to lower their effective tax rates in exchange for purchasing tax credits, the proceeds of which are used by affordable housing developers as equity in their projects. However, the corporate tax rate reduction reduces the value of the LIHTC for investors, and thus the amount of funding generated for affordable housing. According to an analysis by Novogradac and Company, this is expected to reduce funding from tax credits by 14 percent.

<sup>19</sup> For a more extensive discussion of state affordable housing funding sources, see the Hawaii Housing Finance Development Corporation website: <http://dbedt.hawaii.gov/hhfdc/>

<sup>20</sup> Private activity bonds are tax-exempt and are issued by state or local governments and loaned to private companies for qualified projects that may include infrastructure, affordable housing, airports, hospitals, and universities.



**The U.S. Department of Housing and Urban Development is a significant funding source for tenant-based rental assistance in the City and County.** In 2015, the City received over \$96.5 million in federal housing assistance, of which over three-quarters was used to fund Section 8 Housing Choice Vouchers and the Project-Based Rental Assistance (PBRA) program.<sup>21</sup> Section 8 vouchers can be used by low-income households to rent any private apartment that meets program guidelines. Different from housing choice vouchers, the PBRA subsidy stays with a specific building. According to the Hawaii Public Housing Authority (HPHA), the waitlists for both programs are closed indefinitely and are not accepting new applications.<sup>22</sup> HUD's Veterans Affairs Supportive Housing (VASH) program also provides rental assistance and supportive services for homeless veterans and their families.

## 5. Homelessness

**Homelessness is a major challenge in Honolulu.** As of the 2017 Point in Time Count, an estimated 4,959 people were homeless on Oahu. Of those people:

- Twenty-three percent were chronically homeless<sup>23</sup>;
- Nine percent were veterans; and
- Thirty-eight percent were Native Hawaiian or Other Pacific Islander.

**The number of homeless remained relatively flat between 2016 and 2017, but the proportion who are unsheltered has been steadily increasing (Figure 10).** As of 2017, 53 percent of all homeless individuals and 87 percent of homeless families were sheltered. Of the 399 sheltered families, over 70 percent were living in transitional housing. The City's main transitional housing facilities include the Family Assessment Center in Kakaako, Hale Mauiola and Kahauiki Village at Sand Island.

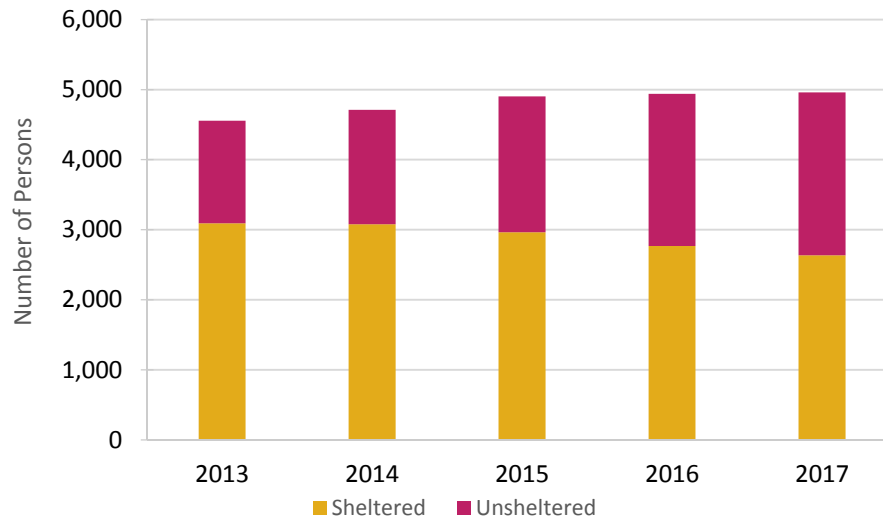
**The City is engaged in a number of efforts to address homelessness, including participating in the state Interagency Council on Homelessness, providing support for permanent supportive housing, and administering a variety of federally-funded programs.** In early 2017, the Hawaii Interagency Council on Homeless formed a working group to study possible sites for the creation of government-sanctioned "safe zones," where homeless people could legally camp or dwell temporarily. Although the concept remains controversial, such safe zones also exist in Washington, Oregon, New Mexico, and other areas.

<sup>21</sup> Hawaii Housing Planning Study, 2016; Table 56.

<sup>22</sup> Hawaii Public Housing Authority. <http://www.hpha.hawaii.gov/housingprograms/loinchsgmenu.html>. Accessed on 12/6/17

<sup>23</sup> The U.S. Housing and Urban Development defines a chronically homeless person as either an individual with a disabling condition who has been continuously homeless for a year or more, or an individual with a disabling condition who has had at least four episodes of homelessness in the past three years.

Figure 10: Homeless Point-in-Time Count: Honolulu, January 2017



Source: State of Hawaii Homeless Point-In-Time Count, January 22, 2017.

## 6. Housing Demand Projections

**The City and County of Honolulu would need to add approximately 2,600 new housing units per year to accommodate forecasted population growth.** The State Department of Business, Economic Development and Tourism (DBEDT) projects demand for between 25,847 and 26,443 additional housing units in Honolulu during the 2015-2025 period, an average of 2,584 to 2,644 each year.<sup>24</sup> Alternatively, preliminary projections for 2040 provided by DPP estimate average annual growth in demand for nearly 2,600 new units.<sup>25</sup>

The Hawaii Housing Planning Study developed more detailed estimates of housing need by income level and building type between 2016 and 2020 (**Table 9**). The total need in Honolulu was estimated to be 10,227 units over the period, an average of 2,557 per year. Approximately half this need is projected to be for rental units, and two-thirds is expected to be generated by households with incomes below 80 percent of AMI.

<sup>24</sup> *Measuring Housing Demand in Hawaii, 2015-2025*, Department of Business, Economic Development and Tourism (DBEDT), March 2015.

<sup>25</sup> Draft 2040 estimates provided by the City and County of Honolulu Department of Planning and Permitting, November 2017.

**Table 9: Needed Housing Units for City and Honolulu, 2016-2020**

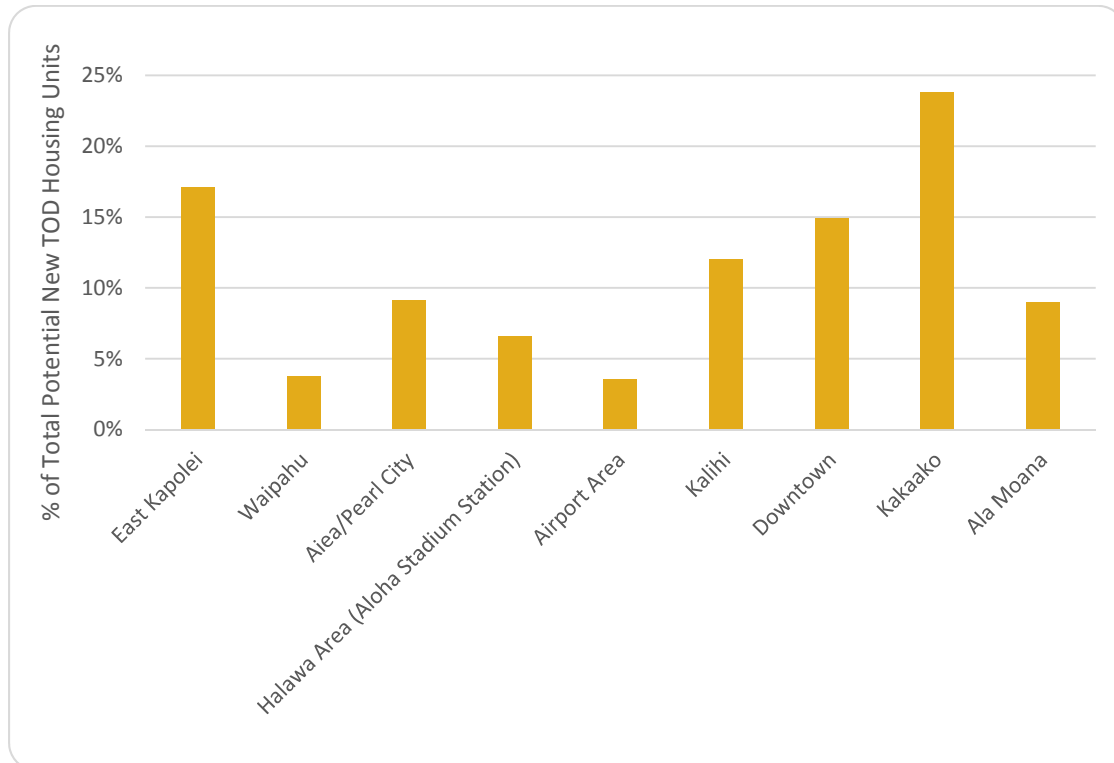
	HUD Income Classification (% of Area Median Income)								Total
	Less than 30%	30 to 50%	50-60%	60-80%	80-120%	120-140%	140-180%	180%+	
Ownership	356	469	228	843	871	1,251	337	728	5,083
Single Family	220	276	135	587	407	848	264	486	3,223
Multifamily	136	193	93	256	464	403	73	242	1,860
Rental	1,378	912	486	893	567	509	197	202	5,144
Single Family	390	119	107	316	286	141	46	146	1,551
Multifamily	988	793	379	577	281	368	151	56	3,593
<b>Total</b>	<b>1,734</b>	<b>1,381</b>	<b>714</b>	<b>1,736</b>	<b>1,438</b>	<b>1,760</b>	<b>534</b>	<b>930</b>	<b>10,227</b>
<b>Annual Average</b>	<b>434</b>	<b>345</b>	<b>179</b>	<b>434</b>	<b>360</b>	<b>440</b>	<b>134</b>	<b>233</b>	<b>2,557</b>

Source: Hawaii Housing Planning Study, 2016. Units needed to accommodate pent up demand and new households.

## Relationship to TOD Plans

The TOD planning areas are estimated to accommodate up to a total of 62,215 additional housing units at build out, approximately 75 percent of which is within the PUC.<sup>26</sup> As shown in Figure 11, Kakaako is projected to accommodate the highest proportion of new units (24 percent).

Figure 11. Share of Projected New TOD Housing Units, by TOD Station Areas



Source: “TOD Development Potential,” prepared by City and County of Department of Planning and Permitting, June 2017.

<sup>26</sup> “TOD – Projected Development Potential”, prepared by DPP, June 2017. The PUC is defined to include all stations from Ala Moana to Pearlridge Station.

## 7. Key Considerations for the PUC Development Plan Update

This section summarizes key consideration for the PUC Development Plan Update. Note that some of the issues are beyond the implementation scope of the PUC Development Plan itself; nevertheless, they are important to consider as part of the overall planning process.

### Barriers to Housing Development

**High costs for building materials, labor, and land, are major barriers for housing development in the PUC.** Development costs in Honolulu are consistently among the highest in the U.S., and rose substantially during the recent building boom. The high cost of development pushes residential developers to build to the top of the market in order to achieve revenues high enough to offset high costs. The development boom has also led to rising land costs.

**Developers consistently cite infrastructure needs, especially sewer capacity, as a key barrier to infill development.** In many locations, especially existing neighborhoods, significant investments in infrastructure capacity are required in order to enable development. In some cases, these costs are more than a development project can bear, especially in the case of smaller infill projects. Developers of infill projects must often assemble multiple layers of funding and financing since these deals are considered more expensive and complicated than projects located elsewhere. Focusing public investment and working with property owners and developers to find ways to address infrastructure needs in key neighborhoods within the PUC can help to enable additional housing development.

**The cost structure of development favors residential projects that are either very high density or low density.** Higher density development has higher construction costs on a per square foot basis. With increased density comes additional cost for building materials, structured parking, elevators, and other building systems. In neighborhoods such as Ala Moana and Kakaako, developers can achieve sales prices and rents high enough to make high rise development feasible. Because the per square foot cost is similar for a mid-rise (e.g., 8-10 stories) building and a high rise, it is always more cost effective to build to the highest density possible. Meanwhile, in neighborhoods such as Kapolei and Ewa, development tends to consist of very low-density building types such as single-family homes, townhomes and two- to three-story multi-plexes with surface parking that are less expensive to build on a per square foot basis. In these areas, even a four-story building is often cost prohibitive due to the additional cost to build structured parking.

**Affordable housing developers face additional challenges, particularly related to obtaining funding and entitlements.** Developers interviewed for this white paper cited a number of barriers, including a lack of funding sources for pre-development “soft” costs, difficulty in competing with market rate developers for site acquisition, and challenges associated with competing for and assembling financing for affordable projects. In addition, developers noted that

while the 201H process is intended to streamline entitlements and permitting for affordable housing projects, many of the requirements can be difficult to meet. These include a complicated application process, high costs associated with meeting design requirements needed for approval, and difficulty in meeting the requirement that 50 percent of project financing must be in place before receiving entitlements. Processing delays and the need for better coordination between City agencies were also identified as barriers to affordable housing.

## Providing In-Town Housing Choices

**The PUC currently provides a wide range of housing for a range of household types, ages and incomes.** The existing PUC Development Plan highlighted the importance of maintaining and promoting a diversity of housing choices within the PUC, including single-family communities, mixed-use, low-rise and townhouse developments.

**Encouraging development of rental housing will be important for meeting future housing demand.** The Honolulu housing market favors development of for-sale residential products such as single-family homes and condominiums. The rental market exists mainly in the form of older apartment buildings or homes rented out by private owners. Finding ways to encourage development of rental apartments in the PUC can help to meet future housing demand. For example, the City is currently evaluating city-owned sites in TOD areas for future development of rental projects.

**The TOD plans provide an important opportunity to encourage a variety of housing development in infill locations near transit.** As described above, the TOD planning areas have the potential to accommodate a considerable amount of future housing development. The plans envision a wide range of housing types for households with different lifestyles and income levels. Focused efforts to enable TOD, such as the current Infrastructure Master Plan for the Iwilei/Kapalama area, can help to encourage a wider range of residential development. Due to the scarcity and high cost of developable land, the City and State should continue to partner with housing developers on infill projects near TOD areas.

## Addressing the Impact of Short-Term Rentals on the Housing Market

**As discussed previously, demand for short-term rentals is one factor serving to drive up the cost of housing in the City and the PUC.** The growing popularity of home sharing internet sites is increasing demand for short-term rentals. As a result, units that would otherwise be available to residents are held off the market. Increased regulation of short-term rentals can play an important role in preserving housing options for City residents in the PUC. As mentioned previously, the City is currently exploring potential new regulations to address this challenge.



## Encouraging Affordable Housing and Addressing Homelessness

**The PUC already plays an important role in providing affordable housing, including both income-restricted units and “naturally occurring” affordable housing.** Sixty-eight percent of the City’s existing income restricted units are located within the PUC. In addition, older residential buildings in neighborhoods such as Moiliili, Makiki and Kaimuki play an important role as “naturally occurring” affordable housing. Preserving and maintaining the quality of these units is another important way to address affordable housing need.

**There is significant need for additional affordable housing in the PUC.** Households in the PUC and the rest of the City face very high housing costs, and these costs are increasing. More than half of households pay more than 30 percent of income on housing, and more than a quarter of renters pay more than 50 percent of income on housing. It makes sense to focus additional affordable housing in the PUC and along the rail line – locations that offer better access to jobs.

**Homelessness is another critical issue for the PUC.** Providing additional affordable housing, transitional housing, and permanent supportive housing and services within the PUC can help to address this challenge.

## Supporting Existing Neighborhoods

**The PUC Development Plan can also support existing neighborhoods that are not expected to be the focus of major new development.** Mauka neighborhoods and others not along the rail line are not expected to experience the same kind of change as neighborhoods in and around the Downtown and in the TOD areas. Topics to address in these residential neighborhoods include:

- Preserving the character, quality, and affordability of the existing housing stock, possibly through an improvements program;
- Ensuring safety and quality of life for families, aging residents, and special needs populations;
- Promoting home retrofits to support aging-in-place;
- Providing connectivity, open space, and recreation opportunities;
- Encouraging infill development where appropriate;
- Addressing local infrastructure needs;
- Promoting complete streets and increased transit access; and
- Exploring reduced parking requirements in neighborhoods well served by transit.