SB645

General Growth Properties, Inc.

Senator Norman Sakamoto, Chair
Senator Michelle Kidani, Vice Chair
Senate Committee on Education & Housing

Wednesday, February 4, 2009; 1:15 p.m.
Conference Room 225

RE: SB 645 Relating to Kaka`ako - Testimony in Opposition

Aloha Chair Sakamoto, Vice Chair Kidani and Members of the Committee:

My name is Jan Yokota, Vice President- Development of the Hawai`i Region for General Growth Properties. General Growth Properties **opposes SB 645**.

The purpose of SB 645 is to increase the reserved housing requirement for a planned development with a height of more than forty-five feet or a floor area that equals or exceeds 1.5 times the lot area for such development in the Kaka`ako Community Development District Mauka Area for lots three acres or more in size which are part of a master planned area. Additionally, this bill would require reserved housing in every planned development even if only commercial, industrial or resort uses are intended.

General Growth agrees that there is a significant need for affordable housing in Hawai`i. However, the bill, as drafted and revised, does not facilitate the development of reserved housing in Kaka`ako. In today's market, development projects have thin margins as a result of high construction costs and inflated land prices. Therefore, it is essential that the State, counties and developers work together to formulate a workable program to provide reserved housing.

The Hawai`i Community Development Authority (HCDA) currently requires that a planned development containing multi-family dwelling units on a lot of at least 20,000 square feet set aside a minimum of twenty percent of the total number of dwelling units as "reserved housing units" for sale or rental. Meeting the current 20% reserved housing requirement is challenging for developers, even in good economic times. To support the construction of reserved housing that exceeds this requirement, we propose the creation of incentives that would work towards minimizing the high development costs involved. Such incentives may include density and height bonuses, relaxed parking requirements and expedited permitting processes. Landowners and developers would be entitled to receive these incentives if they build more reserved housing units than is required by HCDA.

Finally, we respectfully request that the reserved housing requirement not be applied to commercial, industrial and resort projects. Adding such a requirement to these projects may make these projects financially infeasible.

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In summary, while General Growth Properties agrees that there is a significant need for affordable housing, we believe that the creation of incentives that would work towards minimizing the high development costs is the key to facilitating the development of affordable housing. Therefore, we strongly urge the committee to defer action on SB 645 to allow an opportunity to work collaboratively with you on these incentives. Thank you.

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To: Senator Norman Sakamoto
Education and Housing Chair
Hawaii State Senate
EDHTestimony@Capitol.hawaii.gov

From: Marshall Hung, President of Marshall Realty, Inc. –
Affordable Housing Developer of:
1133 Waimanu Street (282 Units in Kakaako),
1450 Young Street (245 Units in Makiki),
1448 Young Street (200 Units in Makiki),
215 N. King Street (251 Units in Iwilei), and
Country Club Village 6 (269 Units in Salt Lake)

Re: **2009 Kakaako Affordable Housing Legislation / Senate Bill No. 645**

The introduction of the 2008 Kakaako Legislation to increase the affordable apartments in the Kakaako Redevelopment Neighborhood to 50% was to remind the Legislature of the original intent of its 1976 Legislation, as recorded in the 1982 Rules of HCDA. To remember the visionary purpose of the State Government, which was to change this blighted neighborhood by cleaning the industrial pollution in the land and install high density infrastructure for an apartment neighborhood to house 60,000 Hawaii residents. Seventy-five percent (75%) of the 19,000 apartments were to be affordable for Hawaii residents. Twenty percent (20%) were to be public housing, government restricted occupancy. With the demographic changes of Hawaii's middle class and HCDA's modifications of its "Reserved Housing" definition to include both lower income and medium income housing, HCDA's Reserved Housing definition now is equivalent to the Federal Government's census income levels for affordable housing in Honolulu.

Today's housing crisis in Hawaii is mainly a shortage or supply issue from the past three decades. In general, if a 1.5 million population State averages three persons per household, there needs to be 500,000 residential units. The older and wealthier population, generally occupy more land and large single family homes located in the better geographical locations. The older and less wealthy occupy homes on smaller parcels of land and many share their land with others and live in low density apartment buildings located in the second tier geographical locations. The lower income households generally can only afford homes on smaller parcels located in the third tier locations or the apartment buildings with high density. In general, new buildings in the same neighborhood with similar living space will attract a higher price and rent amount than older buildings. In general, the fifty year old buildings will be occupied by the lower income groups and the five year old buildings by the medium income groups. This generally describes the "ladder" of housing and how the market forces work. Government subsidy programs target special groups with good intent, but most of the time disrupts the "fairness" of the housing market. Be it understood, that markets are not perfect and that federal government low-income financing makes it stupid not to build this special group inventory when there is a shortage crisis.

Hawaii's housing shortage has been measured by the State Government as 30,000 housing units. In Kakaako, there have been built approximately 2,000 affordable apartment units and 5,000 luxury apartment units built over the last 30 years. This quantity of luxury units is because of a big demand that will grow greater when the economy gets better from the non-resident, second home purchaser. These non-residents can afford higher prices than Hawaii's medium class income threshold of $100,000 per annum for a household of four. These second home purchasers desire luxury-size living units of 1,200 to 3,000 square feet and will pay maintenance fees of $400 to $1,000 per month for additional services. They generally will not rent their living units, because rental income is not important. Shame on HCDA and the State Government for only 2,000 affordable apartments for Hawaii residents being built over a 30 year period in Kakaako.

Kakaako was planned to take Honolulu to a new urban living level for Hawaii's residents. It has become more important than ever for the following reasons:

1) The housing shortage crisis is increasing because new construction has been building for the wealthy, second home demand instead of Hawaii's residents,
2) Urban apartment housing has become desirable for the 20 to 40 years old generation,
3) Most 20 to 30 year old Hawaii residents prefer the Urban Life style to the slower pace life style,
4) A higher percentage of college graduates could be attracted to live in Honolulu,
5) Sales prices and rental amounts need to go lower in the surrounding older apartment building neighborhoods because of added new supply and thus provide more low-income apartment availability,
6) Senior citizens need the option of living in a neighborhood of convenience with easy walking and little auto usage,
7) The high-density infrastructure in Kakaako can support high-rise apartment buildings, which is the most economical living unit to develop and thereby help the largest quantity of households.

Landowners and Developers left unregulated want to make the higher profits from luxury residential and commercial developments in Kakaako. We are saddened to see the landowners oppose the 2008 Legislation for a 50% requirement for affordable housing. It is much less than the original 75% legislation intent of 1976 and still left 50% of their lands and new developments to maximize their profits.

We pray that the 2009 Legislature accepts its responsibility to correct the Kakaako Authority, HCDA, with an affordable housing requirement that equates to be a high enough percentage of all future development, so that landowners will be forced to take advantage of the slow economic times to fulfill their affordable housing requirements. With correct legislation, it becomes possible for new construction projects to start because of the shortage crises, lowering construction costs and the abundance of labor during these bad economic times. It would mean that Landowners would have to value a percentage of their lands at approximately $100 per square foot instead of the higher amounts that the past economic boom brought. Without this corrective Legislation, we predict 10 years of no new construction in Kakaako, except for State Government financed construction.

The 2009 Legislature has both the moral and legal rights to require 75% of all development to be affordable housing based on the 1982 Kakaako Rules signed by Chairman Kenneth Brown with the support of most of Hawaii's community and political leaders. Hawaii's State Government has invested approximately $500 million for the industrial pollution cleanup, high density infrastructure, parks and medical school anchor to date for Hawaii's taxpayers. But since the Cayetano Administration in the 1990's and deaths of the past community leaders created the Kakaako Authority, the landowners with their developers and lobbyists have secretly taken control of HCDA and manipulated this governing authority. At present the State Government still has ownership to the air rights above 45 feet or 1.5 building density. However, the air rights ownership for the two major landowners are now about to be transferred by land entitlements through a Master Plan approval from HCDA. It appears that the 2009 Legislature has one last chance to prevent this taking from Hawaii's residents and taxpayers.

To our knowledge, there are two Senate Bills and three House Bills attempting to preserve the affordable housing for Hawaii residents in Kakaako at the beginning of this 2009 Legislative session. It is evident that lobbyists and developer friends of the small and large landowners have influenced some of these Bills. If this Legislation includes an exclusion increase for landowners for three acres of land, it is the equivalent of saying that all Mauka Kakaako Lands should not be subject to this Legislation. From our reading, House Bill 1227 introduced by Speaker Calvin Say is the best of the five Legislative Bills for Hawaii's taxpayers and residents. It is the most comprehensive, free of the landowner lobbyists' influence and addresses the General Growth Properties January 2009 master plan approval by HCDA.

WATERHOUSE

February 3, 2009

Senator Norman Sakamoto, Chair
Senator Michelle Kidani, Vice Chair
Committee on Education and Housing
State Capitol, Room 225
Honolulu, HI 96813

RE: **SB645, Relating to Kakaako**

Dear Chair Sakamoto, Vice Chair Kidani and Members of the Committee:

As the President of Waterhouse, Inc., I am writing to voice our support for SB 645 Relating to Kakaako.

Waterhouse is a small land and business owner in Kakaako and has been for more than 35 years. We currently lease our Kakaako commercial real estate to over 50 businesses. We are also active members of the Kakaako Improvement Association. In short, we are and have been long-time stakeholders in Kakaako.

We understand the need for affordable housing in Kakaako, however, the changes proposed to the reserved housing requirements in this and other pending bills would act as a huge disincentive for smaller landowners to ever redevelop their land. We cannot afford the risk of capital for redevelopment without sufficient opportunity to make a return on that capital. This bill recognizes that fact by properly exempting small landowners from the more onerous proposed requirements. The reality is that without sufficient incentive to redevelop, landowners will not risk the capital to do so. Without redevelopment the State will not accomplish its affordable housing goals in Kakaako.

We respectfully urge the Committee to continue to recognize small landowners in Kakaako through the passage of this bill.

Very truly yours,

Scott Whiting

Scott D. Whiting
President

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KENNETH T. MATSUURA
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February 3, 2009

SUPPORT BILL PASSAGE
WITH 3 CHANGES

Senator Norman Sakamoto, Chair
Committee on Education and Housing (EDH)
Hawaii State Capitol
415 South Beretania Street, Room 230
Honolulu, Hawaii 96813

Dear Senator Sakamoto:

Attached is my testimony for Senate Bill 645.

Mahalo for your consideration and support for more affordable housing in Kakaako and for creating jobs in the construction industry to help counteract jobs being lost due to the current economic downturn.

Best Regards and Aloha,

Kenneth T. Matsuura
Hawaii Resident for more
Affordable Housing in Kakaako

Attachment

<u>Testimony for Senate Bill 645</u>

Senate Bill 645 has the potential to produce a "win-win" for the greater community and for the local residents of Hawaii.

The first "win" is that the Bill helps to produce <u>more</u> affordable housing for the local residents and the local workforce which is in <u>critical short supply</u>. Government alone cannot increase the needed supply to meet the overwhelming demand for affordable housing for those with incomes of 140% and below the median income in Hawaii. Government does not have unlimited resources, hence, can barely satisfy the 80% to 60"% of median income and below households. This leaves a supply gap for those households from 80% of median income and above. Hence, private landowners and developers need to participate and/or contribute toward increasing the supply of affordable housing.

The second "win" is that the Bill helps to produce more affordable housing <u>in Kakaako</u> which is a very attractive location for local residents and for workforce housing because it is in the primary urban core and close to Downtown Honolulu. Kakaako also has the infrastructure capacity to support high-rise/high density housing projects which allows for development and construction activity to occur quickly. Hence, with a high demand by local residents for affordable housing in Kakaako and the potential for faster development and construction activity, this Senate Bill 645 will not only help to fulfill the affordable housing demand, but will also help to create jobs in the construction industry to counteract the jobs being lost due to the current economic downturn.

In order to insure that this "win-win" potential can be realized to its greatest extent, there are three potential loopholes in the S. B. No. 645 that need to be addressed and closed. They are as follows:

1) The <u>3-acre exclusion</u> should be reduced to a <u>1-acre exclusion</u> from the increase in affordable housing requirements because landowners or developers can subdivide their larger land parcels below the 3-acre threshold to circumvent the increased affordable housing requirement.

2) Alternative substitutions in satisfying the affordable housing requirement outside of Kakaako should <u>not</u> be allowed for the following reasons:
   a) Kakaako is located in the primary urban core that makes it compatible for high-rise and high density housing projects that are attractive to local residents who work in Downtown Honolulu;

   b) Kakaako has the infrastructure capacity already in place to support high-rise and higher density housing projects, which allows for development activity to occur quickly; and

c) Kakaako has larger parcels of land that are either underdeveloped or vacant and are readily available to accommodate large high-rise and high density housing projects that provide the best economies of scale for cost efficiency which is necessary to produce affordable housing.

3) All Master Plan approvals granted by HCDA, like the General Growth Properties Master Plan approval granted in January 2009 by HCDA, needs to comply with the increased affordable housing requirements in Kakaako. This can be accomplished by having any legislation that becomes law clearly state that, "The Act shall apply to the unbuilt portion of a major master plan which was pending as of the effective date of this Act."

Mahalo for making this S. B. No. 645 a "win-win" proposition by providing <u>more affordable housing in Kakaako</u> for the local residents of Hawaii and by <u>creating jobs in the construction industry</u> to help counteract the current economic downturn.

February 3, 2009

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Senator Norman Sakamoto
Chair, Committee on Education and Housing
Hawaii State Capitol
415 South Beretania Street, Room 230
Honolulu, HI 96813

Subject: Senate Bill No. 645
Via email: EDHTestimony@capitol.hawaii.gov

In 1982, the Hawaii Community Development Authority (HCDA) created a redevelopment plan for Kakaako that called for a mixture of industrial, commercial, and residential land uses because of its strategic location in the primary urban core. The plan envisioned approximately 19,000 housing units of which three-fourths or roughly 15,000 would be affordable. The Authority predicted that this would largely satisfy the increase in housing that was projected in future years.

A compelling argument for affordable housing in Kakaako is that the State invested over $500 million of tax payer's dollars in converting this previously blighted area into valuable real estate. The infrastructure was upgraded with redeveloped roadways, sewers and drainage systems, improved electrical capacity and the removal of toxic waste. The people who once lived in Kakaako had to relocate to make way for these improvements, and to date, retail and luxury condominiums have swallowed up the bulk of the improved real estate. No reasonable or responsible planning can justify denying the very people who were originally evicted from Kakaako the ability to live there.

Kakaako is the right place for affordable housing because it will provide workforce housing in a central location that will minimize traffic congestion. Housing developments in east, west and central Oahu that have extended commute time and strained family budgets with fluctuating gas prices. Kakaako is right because it makes practical, good sense.

In spite of these compelling arguments, legislation introduced in 2008 session died. I wish to thank the legislators for introducing Senate Bill No. 645 to revisit this vital housing need.

That said, there are three critical points in Senate Bill No. 645 I feel should be included.

1. HCDA should not allow substitutions of the affordable housing requirement outside of Kaka’ako because of the state’s investment and because it is in a primary urban core.

2. Also, the 3-acre exclusion provides a loophole that negates the intent to build affordable housing in Kaka’ako.

3. Any additions to legislation proposing to increase the quantity of affordable housing in Kaka’ako should not permit exclusions that circumvent the intent of this bill. Doing so will put HCDA in direct conflict with its mandate.

Let me again thank you for your leadership in filling a critical need, especially in the present economic downturn.

KAMEHAMEHA SCHOOLS

Testimony to the Senate Committee on Education and Housing
Hearing Date: Wednesday, February 4, 2009
1:15p.m. – Conference Room 225

Kirk O. Belsby
Vice President for Endowment
Kamehameha Schools

Thank you for the opportunity to comment on SB No. 645.

Kamehameha Schools respectfully opposes this measure.

Kamehameha Schools broadly supports the increasing availability of affordable housing throughout Hawai'i. We believe that the housing crisis in Hawai'i is real and requires immediate action. We also believe it is critically important to implement policies that will result in the construction of new affordable units (or retention of existing supply) and not have the unintended and ironic consequence of inhibiting construction altogether.

Our overarching comment is that provisions in statute, rules and policies concerning affordable housing must be viewed collectively for their contribution to an overall effective policy that promotes actual development of affordable housing. Legislating a prescribed percentage of "affordable" units in specific districts or communities will not accomplish the desired result. To be truly effective, we must find ways to build low-to-gap group housing throughout our state. We believe that a range of strategies will help provide realistic options for many Hawaii residents. We want to engage in constructive dialog with you and key stakeholders and thank you for allowing us to highlight several key issues.

Address the Need for Housing Broadly.

The basis for mandating construction of affordable housing should be tied to market residential units constructed and should be considered on a statewide or at least island-wide basis. We would propose a statewide, coordinated effort to set a maximum level, such as 10 percent of residential units constructed with the opportunity for developers to donate land within the state (or island) in lieu of on-site construction. The governing agencies would have discretion to set the appropriate level depending on market conditions and other considerations. This will result in many more units of affordable housing across the state being built. And it will not inhibit, the way a higher mandated threshold might, construction in Kaka'ako.

Provide Meaningful Incentives - Facilitate Free Award of Development Credits and Trade Between Developers.

Credits for developing affordable housing should to be transferrable between developers (across the state or the island) and credits should be granted on a pro-rata basis when developed for residents with a lower median income than required by law or when committed to a longer than statutory period. This will promote construction. Without these kinds of policies, developers find it economically infeasible to construct projects even when land is free or already paid for.

For example, we believe that units designed and offered to residents with income at 70 percent of the average median income should be given double the credits as those offered to residents at 140 percent of average median income. This type of a program serves two important needs: 1) it encourages developers to target more than just the 140% median income populace, thereby creating broader access to affordable housing units and 2) it helps target housing opportunities to greater at risk income categories.

Similarly, the state should be concerned with the preservation of existing affordable housing stock as much as creating new housing stock. Currently, most ordinances require new reserved housing units to remain in the affordable housing pool for a period of 10 years. Since a unit removed from the affordable housing pool exacerbates the need for new units to be constructed, investors and developers should be incentivized to preserve affordable units. One easy strategy is to give twice the credit for an affordable unit dedicated for a 20-year period than a unit dedicated for a 10-year period. Another option is to create legislation that allows owners of existing, older housing product to upgrade and then income restrict their units and sell credit to developers of new housing. This provides the dual benefit of improving older housing stock that is increasingly in disrepair and preserving affordable housing stock for longer periods, thereby reducing the need to build replacement housing as redevelopment occurs in older communities.

Provide Flexibility.

In the Kaka'ako area, which is so close to many jobs in the Honolulu urban core, the HCDA should be given the flexibility to allow for fewer or even zero parking spaces per unit to lower costs. Some cities set maximum parking limits to encourage more people to use other mobility methods. Rental housing can also provide access to many who might not otherwise be able to afford home ownership.

While many jurisdictions recognize and provide credit for rental housing, they often punish developers of rental housing by establishing lower income threshold exist relative to "for sale" housing. This restricts adding viable units to the market. Across the island and the state such flexibility can promote the development of true affordable housing.

The worldwide economic turmoil has put Hawai`i in an precarious position financially. We commend the State Legislature for seeking ways to stimulate economic activity in our state that also provides housing options for more of our residents and families. Unfortunately, this measure will not accomplish that objective.