

JOSH GREEN, M.D.
GOVERNOR



DENISE ISERI-MATSUBARA
EXECUTIVE DIRECTOR

STATE OF HAWAII
DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT & TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

IN REPLY PLEASE REFER TO:

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Statement of
DENISE ISERI-MATSUBARA
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON FINANCE

February 24, 2023 at 10:00 a.m.
State Capitol, Room 308

In consideration of
H.B. 678 HD1
RELATING TO HOUSING.

HHFDC **has concerns** about H.B. 678 HD1, which requires the counties to recognize housing units developed pursuant to Chapter 201H, Hawaii Revised Statutes, and to issue affordable housing credits to developers of those housing units.

HHFDC shares the concern that the current, high-interest-rate environment is negatively impacting affordable housing production in Hawaii. However, the affordable housing credits program offered by the counties are complex and need to have adequate internal controls to ensure the credits are properly issued, controlled, and accounted for.

We would suggest the Legislature consider researching the effectiveness of the current programs to see if they are working properly before expanding it to apply to 201H units.

Thank you for the opportunity to provide testimony.



PO Box 2300
Honolulu HI 96804-2300

February 22, 2023

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the Committee on Finance

RE: **HB 678 – RELATING TO HOUSING**
Hearing date – February 24, 2023 at 10:00 a.m.

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee,

Mahalo for the opportunity to submit testimony in **support** of HB 678. American Savings Bank is a kamaaina institution with roots dating back to 1925. It is the third largest bank in Hawaii with over \$9 billion in assets and 36 banking centers across the state. We are deeply committed to Hawaii.

Interest rate spikes during the past year combined with record high construction costs have impaired HHFDC's 201H program, rendering it unusable by the homebuilder community to produce workforce housing for families in the 80% – 140% AMI range, during this critical time in need. The elevated interest rates have decreased the formulaic restricted sale price for 201H units, resulting in 201H projects being infeasible.

American Savings Bank supports HB 678, which creates an affordable housing credit program for 201H projects by requiring the counties to issue affordable housing credits to eligible developers for income-specified housing units. The credits are market based, issued on a one-to-one basis, and may be applied within the same county in which the credits were issued to satisfy county and HCDA affordable housing obligations.

American Savings Bank believes HB 678 would provide a valuable enhancement to the capitalization for a project, and revitalize the production of workforce homes under the 201H program

Respectfully,

AMERICAN SAVINGS BANK

A handwritten signature in black ink, appearing to read "Dean", with a stylized flourish at the end.

Dean Hirabayashi
First Vice President
Commercial Real Estate Loans

February 22, 2023

Dear Chair Yamashita, Vice Chair Kitagawa, and Finance Committee members,

I write in support of HB678, which clarifies a county's obligations with respect to housing developed through the housing development programs overseen by the Hawai'i housing finance and development corporation.

More than a decade ago, UHERO released a report which concluded that inclusionary zoning policies were failing on O'ahu.¹ The truth is, such policies have failed statewide. We are simply not building enough supply to meet demand. And inclusionary zoning policies are partly to blame.

Economist Paul Brewbaker recently gave a talk on Sen. Stanley Chang's podcast. Brewbaker argues that our housing deficit has been increasing for more than 40 years. As such, we now need 160,000 units on O'ahu alone to match the ratio of supply to residents achieved by Vienna, a city which has abundant affordable housing.²

Short of radical reform to inclusionary zoning policies, the best thing we can do is to allow developers to satisfy inclusionary zoning requirements by building workforce housing, which includes housing for middle-class families earning up to 140% AMI.

HB678 will incentivize the development of middle income housing which is necessary to support the home ownership aspirations of young locals.

Please support HB678.

Thank you,



Sterling Higa
Executive Director
Housing Hawai'i's Future

sterling@hawaiifuture.org

+1 (808) 782-7868

¹ <https://uhero.hawaii.edu/wp-content/uploads/2019/08/UHEROProjectReport2010-1.pdf>

² <https://www.youtube.com/watch?v=-FWy2JahiOM>



February 23, 2023

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the Committee on Finance

RE: **HB 678 – RELATING TO HOUSING**
Hearing date – February 24, 2023 at 10:00 a.m.

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee,

Thank you for allowing NAIOP Hawaii to submit testimony in **STRONG SUPPORT FOR HB 678 – RELATING TO HOUSING**. NAIOP Hawaii is the Hawaii chapter of the nation's leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders and other professionals.

HB 678 creates an affordable housing credit program for 201H projects by requiring the counties to issue affordable housing credits for income-specified housing units. Specifically, HB 678 seeks to resolve the potential concern by allowing for the issuance of affordable housing credits to eligible developers for residences required to be sold or rented to individuals within a specific income range. The credits are market based, issued on a one-to-one basis, and may be applied within the same county in which the credits were issued to satisfy county affordable housing obligations. Further, the measure allows HHFDC to enter into memorandums of agreements with certain counties to establish, modify, or clarify the condition for the issuance, transfer, and redemption of the affordable housing credits.

NAIOP strongly supports HB 678 which will assist with the production of housing units under HRS 201H. Currently, Hawaii is in a housing crisis. In 2019, a study commissioned by DBEDT found that Hawaii will need an additional 50,156 homes by 2025. To meet this projection housing units will need to be developed in mass quantities. The affordable housing credit program seeks to assist in accomplishing this goal.

Furthermore, interest rates for 30 years fixed residential mortgages have significantly risen from 3.07% to 6.90% within the past 2 years representing a near 150% increase. This has led to a dramatic increase in monthly costs of owning a home in Hawaii. Moreover, the recent increases in interest rates have decreased the sales prices of income specified units built under HRS 201H due to the AMI price limitations. In

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the Committee on Finance
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conjunction, SOFR (Secured Overnight Financing Rate), a financial metric typically used to price construction loans, increased from .05% to 4.55% representing an over ninety-fold increase which dramatically increase the costs of building residential units.

The rising construction costs combined with the dramatic drop in sales prices due to AMI limitations has prevented projects from penciling out and rendered 201H nearly unusable by the home building community. Accordingly, NAIOP Hawaii is concerned that development of future 201H projects may come to a halt if policies are not implemented which further incentivize development and offset rising costs.

The affordable housing credits created by HB 678 will be a tool for homes to be built and provides a means for market developers to fulfill their affordable housing requirements with less risk. The incentivize created with these credits will help to encourage the production of more affordable units. For example, on Maui, the affordable housing credit program has been found to be an excellent tool to front load the immediate production of affordable housing units. This impact is consistent with our goal as a State to build housing units as fast as possible.

Ultimately, Hawaii residents need housing units to be produced to allow our local families to continue to thrive here. NAIOP Hawaii is supportive of all policies which encourage the production of much needed housing stock for our local residents. For instance, we similarly supported making the DHHL affordable housing credit program permanent as it would lead to the production of affordable housing units.

Accordingly, NAIOP Hawaii strongly supports HB 678 which will ensure the continued production of homes for our residents. Thank you for the opportunity to testify on this measure.

Mahalo for your consideration,



Jennifer Camp, President
NAIOP Hawaii

‘IKENĀKEA DEVELOPMENT LLC
1188 Bishop Street, Ste. 907
Honolulu, Hawaii 96813



Phone | (808) 529-0404
www.ikenakea.com

February 23, 2023

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the Committee on Finance

Re: **HB 678 – Relating to Housing**
Hearing Date – February 24, 2023 at 10:00 a.m.

Thank you for allowing ‘Ikenākea Development LLC to submit testimony in **STRONG SUPPORT FOR HB 678 – RELATING TO HOUSING**. ‘Ikenākea Development is a local family owned and operated affordable housing development company headquartered in Honolulu that builds affordable residential projects of all types across the state. Our residential communities serve individuals, families, and kupuna with income levels ranging from 30% area median income (AMI) and up to 120% AMI. The extremely low- to the very-low income (30-60% AMI) housing units are built using a combination of Low-Income Housing Tax Credits, Rental Housing Revolving Funds, and the use of Hula Mae Multi-family bonds issued through the Hawaii Housing Finance and Development Corporation (HHFDC).

Through our experience in developing affordable housing for the State of Hawaii, we understand the scarcity of financial resources and mechanisms to be a major challenge. However, the issuance of affordable housing credits for 201H projects provides an opportunity to help alleviate some of the strain on the current availability of resources to finance these projects. We have extensive experience in utilizing the 201H program in the City and County of Honolulu for several of our projects. For example, our most recent 201H project named Hale Makana O Mo‘ili‘ili, will be completed in March and will provide 104 units of affordable housing to serve kupuna at or below 60% AMI. Our company has over 1,000 units of workforce and affordable rental housing in the pipeline and the creation of an affordable housing credit program for these 201H projects will tremendously facilitate and expedite the completion of these affordable rental units.

The affordable housing credits created by HB 678 will be a tool for homes to be built and provides a means for market developers to fulfill their affordable housing requirements with less risk. The incentivize created with these credits will help to encourage the production of more affordable units. For example, on Maui, the affordable housing credit program has been found to be an excellent tool to front load the immediate production of affordable housing units. ‘Ikenākea Development recently utilized this affordable housing credit program on Maui to begin construction on 223 units of 100% truly affordable rental housing in Kihei. This impact is consistent with our goal as a State to build housing units as fast as possible.

Accordingly, ‘Ikenākea Development strongly supports HB 678 which will ensure the continued production of homes for our residents. Thank you for the opportunity to testify on this measure.

Mahalo for your consideration.

Sincerely,
‘Ikenākea Development

Christopher Flaherty

Christopher Flaherty, Managing General Partner
‘Ikenākea Development LLC



February 23, 2023

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the Committee on Finance

RE: **HB 678 – RELATING TO HOUSING**
Hearing date – February 24, 2023 at 10:00 a.m.

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee,

Thank you for allowing NAIOP Hawaii Developing Leaders to submit testimony in **STRONG SUPPORT FOR HB 678 – RELATING TO HOUSING**. NAIOP Hawaii is the Hawaii chapter of the nation’s leading organization for office, industrial, retail, residential and mixed-use real estate. NAIOP Hawaii has over 200 members in the State including local developers, owners, investors, asset managers, lenders and other professionals. The Developing Leaders division of NAIOP Hawaii represents the individuals ages 35 and under that work in the commercial real estate industry.

HB 678 creates an affordable housing credit program for 201H projects by requiring the counties to issue affordable housing credits for income-specified housing units. Specifically, HB 678 seeks to resolve the potential concern by allowing for the issuance of affordable housing credits to eligible developers for residences required to be sold or rented to individuals within a specific income range. The credits are market based, issued on a one-to-one basis, and may be applied within the same county in which the credits were issued to satisfy county affordable housing obligations. Further, the measure allows HHFDC to enter into memorandums of agreements with certain counties to establishes, modify, or clarify the condition for the issuance, transfer, and redemption of the affordable housing credits.

NAIOP and the Developing Leaders strongly support HB 678 which will assist with the production of housing units under HRS 201H. Currently, Hawaii is in a housing crisis. In 2019, a study commissioned by DBEDT found that Hawaii will need an additional 50,156 homes by 2025. To meet this projection housing units will need to be developed in mass quantities. The affordable housing credit program seeks to assist in accomplishing this goal.

Representative Kyle Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
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February 23, 2023
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Furthermore, interest rates for 30 years fixed residential mortgages have significantly risen from 3.07% to 6.90% within the past 2 years representing a near 150% increase. This has led to a dramatic increase in monthly costs of owning a home in Hawaii. Moreover, the recent increases in interest rates have decreased the sales prices of income specified units built under HRS 201H due to the AMI price limitations. In conjunction, SOFR (Secured Overnight Financing Rate), a financial metric typically used to price construction loans, increased from .05% to 4.55% representing an over ninety-fold increase which dramatically increase the costs of building residential units.

The rising construction costs combined with the dramatic drop in sales prices due to AMI limitations has prevented projects from penciling out and rendered 201H nearly unusable by the home building community. Accordingly, NAIOP Hawaii Developing Leaders is concerned that development of future 201H projects may come to a halt if policies are not implemented which further incentivize development and offset rising costs.

The affordable housing credits created by HB 678 will be a tool for homes to be built and provides a means for market developers to fulfill their affordable housing requirements with less risk. The incentivize created with these credits will help to encourage the production of more affordable units. For example, on Maui, the affordable housing credit program has been found to be an excellent tool to front load the immediate production of affordable housing units. This impact is consistent with our goal as a State to build housing units as fast as possible.

Ultimately, Hawaii residents need housing units to be produced to allow our local families to continue to thrive here. NAIOP Hawaii Developing Leaders is supportive of all policies which encourage the production of much needed housing stock for our local residents. For instance, we similarly supported making the DHHL affordable housing credit program permanent as it would lead to the production of affordable housing units.

Accordingly, NAIOP Hawaii Developing Leaders strongly supports HB 678 which will ensure the continued production of homes for our residents. Thank you for the opportunity to testify on this measure.

Mahalo for your consideration,

A handwritten signature in cursive script that reads "Chris Fong".

Chris Fong, Chair
NAIOP Hawaii Developing Leaders



February 24, 2023

Representative Kyle T. Yamashita, Chair
Representative Lisa Kitagawa, Vice Chair
Members of the Committee on Finance

RE: **HB 678, HD1 – RELATING TO HOUSING**
Hearing date – February 24, 2023 at 10:00 AM

Aloha Chair Yamashita, Vice Chair Kitagawa and members of the committee,

My name is Moe Mohanna and I am President of Highridge Costa Development Company (“HCDC”). Thank you for allowing me to submit testimony in **SUPPORT of HB 678, HD1 – RELATING TO HOUSING**. HCDC is an affordable housing developer with significant experience in Hawaii. We currently have over 2,300 affordable rental units in development or operation throughout Oahu and Maui, including downtown Honolulu, Kapolei, Waipahu and Kihei. HCDC works closely with various state and local agencies to bring low- and moderate-income housing to communities Hawaii’s communities.

HCDC supports HB 678 as it seeks to create affordable housing credits in favor of developers of non-LIHTC projects that meet the affordability restrictions and requirements of HRS 201H. The credits would be transferable and could be sold to developers building market rate/luxury housing in the same county that the affordable housing is being developed. This program would create a separate funding source for affordable housing developers to use, thereby reducing reliance on other state subsidies. HCDC is supportive of initiatives like HB 678, HD1 that provides financing for more affordable housing in Hawaii. Mahalo for your consideration.

Aloha,

Moe Mohanna, President
Highridge Costa Development Corporation

201H Affordable Housing Credit (HB 678)

BILL SUMMARY – EXPAND HRS 46-15.1 TO INCLUDE 201H. INCOME SPECIFIED HOUSING UNITS WILL RECEIVE CREDIT AS A REQUIRED AFFORDABLE HOUSING UNIT WITHIN EACH COUNTY.

HOW IS THE MAXIMUM UNIT SALE PRICE CALCULATED?

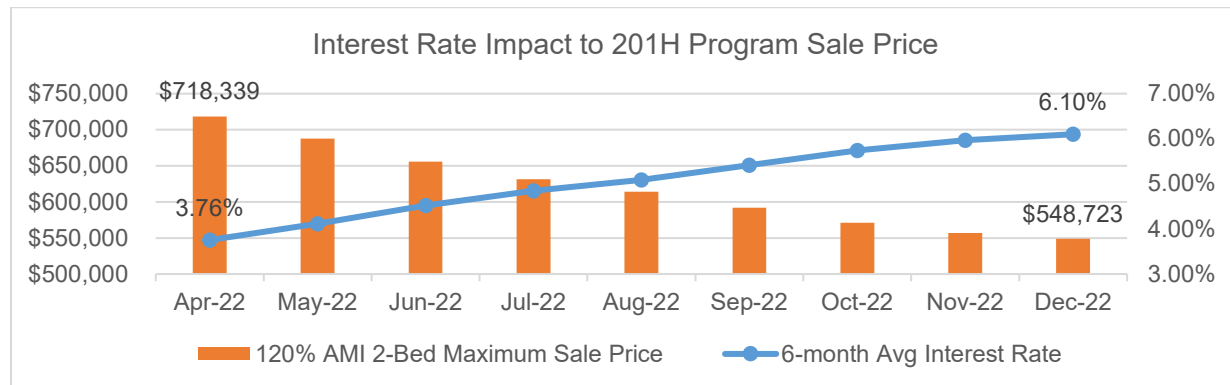
The 201H Program's **maximum unit sale price** is based on a household spending **33% of its income on Housing Expenses** within a specified AMI range

Housing Expenses: Mortgage Interest & Principal Payments, Mortgage Insurance, Maintenance Fees, Real Property Tax and Homeowner's Insurance. Mortgage based on 6-month average interest rate.

Household Size - Honolulu County	1 Person	2 Person	3 Person	4 Person	5 Person
120% AMI Household Income	\$109,800	\$125,400	\$141,120	\$156,720	\$169,320
33% of Income - Monthly	\$3,020	\$3,449	\$3,881	\$4,310	\$4,656

*AMI = Area Median Income; 120% AMI Household income is based on HHDFC published AMI Household Income by Family Size for 2022

201H HAS BEEN RENDERED UNUSABLE DUE TO THE SIGNIFICANT INCREASE IN HOME MORTGAGE RATES CAUSING HOUSING PROJECTS TO NOT BE FEASIBLE



April 2022 - Avg 6mo Interest Rate	
Monthly Mortgage Payment	\$2,996
Interest Rate	3.76%
Loan Amount	90% \$646,505
Purchase Price	\$718,339

Dec. 2022 - Avg 6mo Interest Rate	
Monthly Mortgage Payment	\$2,996
Interest Rate	6.10%
Loan Amount	90% \$493,851
Purchase Price	\$548,723

Diff (#)	Diff (%)
(\$0)	(0.0%)
+2.3%	+62.5%
(\$152,654)	(23.6%)
(\$169,616)	(23.6%)

OVER 4,000 AFFORDABLE HOMES WERE BUILT USING 201H IN THE PAST 5 YEARS (2016-2021)

201H PROJECTS - PAST 5 YEARS	60-140% AMI	Market	Total Units
Total Units Built (2016-2021)*	4,039	613	4,652

*Provided by HHDFC

NOTE: ALL PREVIOUSLY APPROVED 201H PROJECTS HAVE "GRANDFATHERED IN" UNIT PRICING AND ARE NOT AS IMPACTED BY THE RECENT MORTGAGE RATE INCREASES