

## The Dream of Hawaii's Affordable Housing

As in any market, there is a spectrum of housing costs but most of our attention gets drawn to the top end. With eye-popping stats on a regular basis, it is easy to get enamored with Hawaii's "equity elevator" and particularly so with the surge of the past several years.

But the top end only represents one end of the spectrum and increasing attention has been drawn to the need for affordable housing. In an island environment such as Hawaii, the term "affordable" is clearly subjective, but ultimately it means our residents not getting priced out of the housing market. Based on CPI (Consumer Price Index) it is clear that residents make lifestyle sacrifices to live in Hawaii as compared to the mainland, but the housing component alone is becoming increasingly difficult for many.

### *A Menacing Median*

In a state where the median household price seemingly continues to rise as an irrepressible tide, it is predictably difficult to solve an issue like affordable housing. It is almost an oxymoron with all of the momentum of the top end values leaving little room for affordable opportunities to arise.

The "price of paradise" now includes a price tag never before seen with housing costs at all-time highs and, with that backdrop, an emergent need of affordable housing. As seen in the chart below, the median price was \$580,000 in 2011 as compared to \$735,000 in 2016.



**THE BLOCK 803 WAIMANU: NEW AFFORDABLE HOUSING IN KAKA'AKO**

*The Affordable units will start in the mid \$200,000's.*



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Just the increase from 2015 to 2016 was a formidable five percent. The incremental gain of over 27% in the past six years dwarfs the rate of inflation over that same period which means that if someone was unsuccessful in securing themselves a home in 2011, they are considerably further behind now.

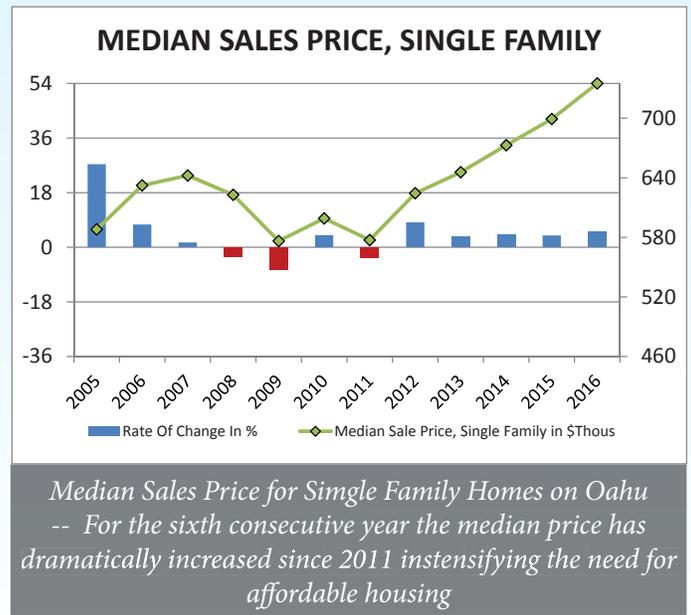
The rental market is no exception to this dynamic either. An extensive study was done in 2015 by the National Low Income Housing Coalition (NLIHC) and it found Hawaii was the most expensive rental market in the country. And when compared to the average renter wage, our state's residents are clearly the most challenged, creating a crisis as seen by the increase of homelessness in Hawaii. There have been a few times in Hawaii's history when the housing market has retracted, but it neither lasted long nor, with rare exception, did housing values retract significantly. Any such retraction was accompanied by a far more significant decline in consumer buying power, so no appreciable window of opportunity developed. Such is the plight of many attempting to gain a foothold in Hawaii's housing market.

### *Incentivized Trade Offs*

There is increasing discussion about taking a more significant bite at the mounting need for affordable housing. Quite a few projects within the Kaka'ako condominium boom included gap units or affordable components, but these developments infuse only small pieces of solution into a problem that is monumental. The tax credit approach or Low Income Tax Credit Program (LIHTC) is a program based on the utilization of federal tax credits which are intended to incentivize private developers to create & maintain affordable housing. Although the tax credits are complex, the cumulative incentives are substantial and well worth the investment.

As to the issue of creating affordable housing in bulk, projects based on LIHTC are entirely devoted to affordable housing and can bring to the marketplace tranches of units measured in 100's depending on site density. With mandates from the Honolulu Mayor calling for 3,200 affordable units within the next four years, it is approaches like LIHTC that are going to find more favor with local governmental agencies and their approvals. Developers will need it in order to prevent getting hamstrung by entitlements, off-sites, ancillary fees, etc.

In addition to the benefits of tax credits, the Honolulu Mayor Kirk Caldwell has said that he would consider incentivising developers of affordable housing projects with 1) giving developers city real estate for said projects, 2) giving other financial incentives to developers like waving permit and connection fees, and 3) changing the requirements for affordable housing production.



There are several sites being contemplated for affordable housing on Oahu currently and it will be revealing over the next 3-4 years how collaboratively the county will work with developers who are seeking to fill this niche. Further, as these projects come on line with 200-300 affordable residences activating in a matter of months there will be an instant impact in the surrounding community. These will not be foreign buyers or second home purchases only utilized for a few weeks out of the year. These developments will be profound, permanent and capable of changing the landscape of a community.

The domino effect of this kind of dynamic will impact property values, consumer needs in an area, test city infrastructure, etc. and the requisite adjustment in the nearby commercial markets will be no exception. Assuming these affordable developments succeed, we are going to be entering uncharted waters yet again in Hawaii's storied housing saga.



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