

Housing Affordability in Hawai`i, Post COVID

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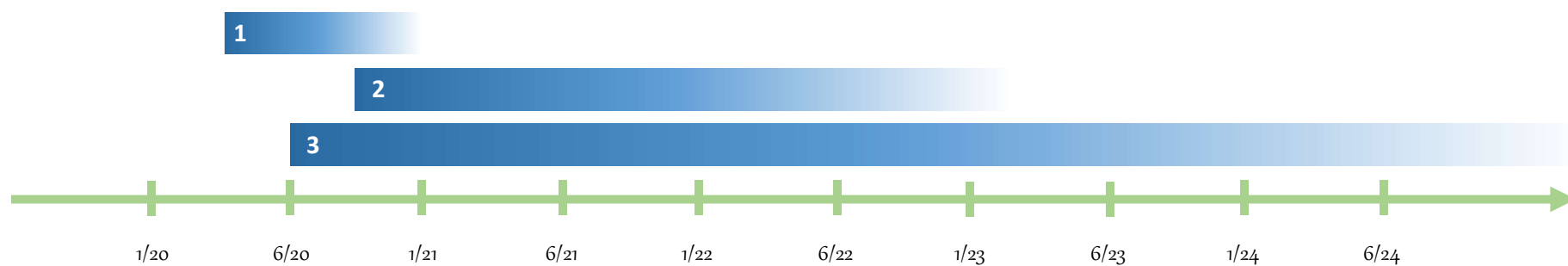
June 9th, 2020



UNIVERSITY
of HAWAII®
MĀNOA

Three Stages

- 1) Avoiding Displacement During a Pandemic (3/20 - ???)
- 2) Supporting Families During a Recession (8/20 – 2022)
- 3) Building a Better Housing System (6/20 - forever)

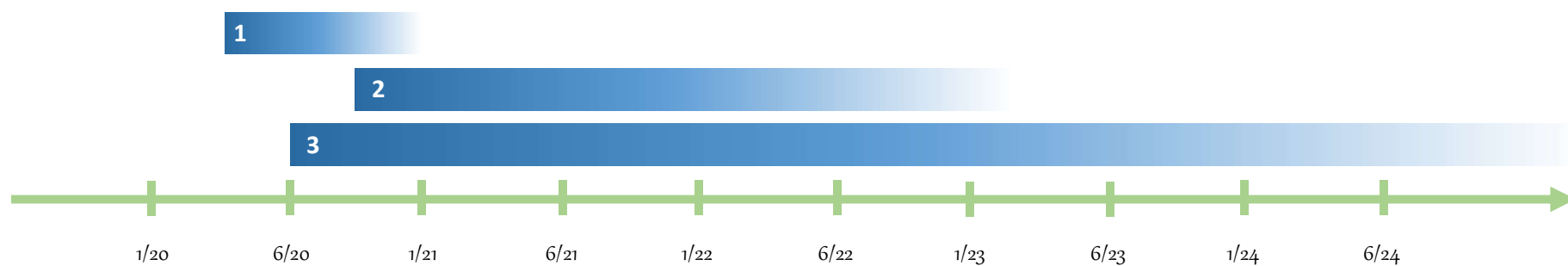


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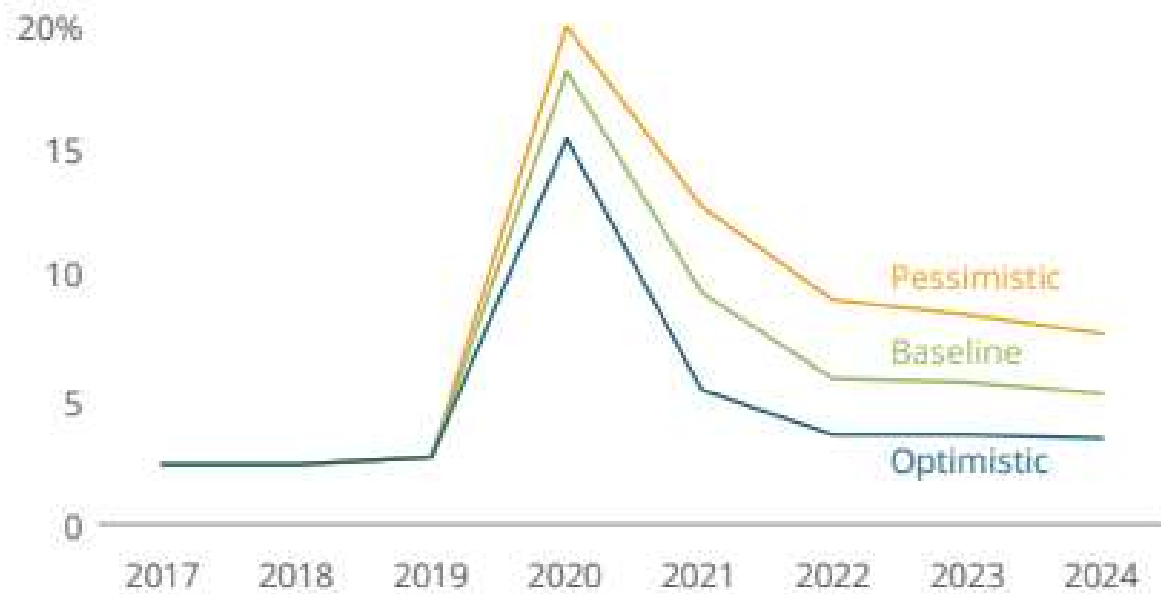


THE COVID CHALLENGE, PT 1

Income Decline and Increasing Need

UNEMPLOYMENT RATES

The statewide unemployment rate for 2020 would cross 20% in the pessimistic scenario.



Renters, Already Burdened, Work In At-Risk Industries

	Number of HHs with			Number of HHs Housing Burdened pre-COVID by Industry				UHERO Estimated Sector Decline (+/- Jobs 2019)			Number of Lost Renter Jobs if Proportional (Conservative)		
	All Income from	All or some income from		>30% Inc		>50% Inc		2020	2021	2022	2020	2021	2022
Accommodation and Food Services	10,355	35,326	19.7%	16,354	46%	7,546	21%	-43,933	-23,933	-15,401	-17,573	-9,573	-6,160
Arts, Entertainment, and Recreation	693	5,254	2.9%	1,975	38%	1,184	23%						
Construction	4,585	16,870	9.4%	4,794	28%	2,968	18%	-2,423	-765	-114	-969	-306	-46
Educational Services*	3,946	16,528	9.2%	7,775	47%	3,116	19%						
Finance, Insurance, Real Estate	2,245	9,889	5.5%	3,116	32%	1,011	10%	-1,171	-1,279	-1,134	-468	-512	-454
Health Care and Social Assistance	5,787	24,210	13.5%	7,795	32%	3,162	13%	-5,174	-1,863	1,242	-2,070	-745	497
Manufacturing	609	5,356	3.0%	1,561	29%	491	9%	-2,181	-1,360	-650	-872	-544	-260
Other Services	3,910	10,705	6.0%	4,368	41%	1,698	16%	-16,720	-7,379	-4,166	-6,688	-2,952	-1,666
Prof, Scientific, & Technical Services*	2,470	7,793	4.3%	2,219	28%	1,380	18%						
Public Administration	6,473	21,355	11.9%	10,415	49%	4,275	20.02%						
Retail Trade	5,146	26,195	14.6%	12,273	47%	5,589	21.34%	-29,699	-13,939	-7,180	-11,880	-5,576	-2,872

Source: ACS 2018, IPUMS microdata

* These industries may be include in the decline for Other Services.

Note: Excludes household income from military service (15k heads of household) and those not in the labor force such as the elderly or unclassified (35k heads of household)

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Neither retail nor accommodations, UHERO forecasts, will return to 2019 job levels by 2023.

THE COVID CHALLENGE, PT 2

Loss of Small Rental Stock



Why are small landlords vulnerable?

Limited access to capital and few cash reserves

Inconsistent (and low-tech) management practices

Poor (and sometimes illegal) screening techniques

Serve the lowest income tenants

Why are small landlords vulnerable?

Limited access to capital and few cash reserves

Inconsistent (and low-tech) management practices

Poor (and sometimes illegal) screening techniques

Serve the lowest income tenants

Single family rentals (generally owned by small landlords) can be easily lost to the rental market. Small multifamily properties run the risk of redevelopment or renovation to high price points.

OPPORTUNITY

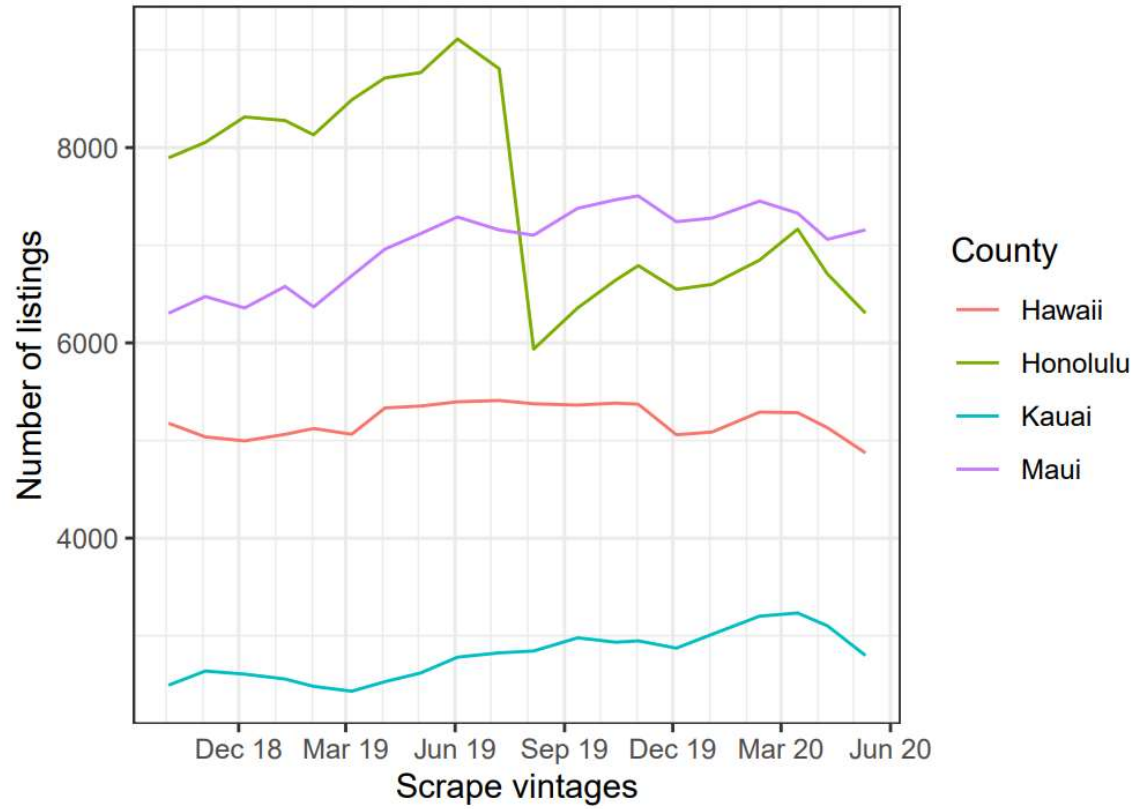
Potential To Acquire/Preserve Properties at “a Discount” for Affordable Housing

TABLE 1: MAJOR ECONOMIC INDICATORS
STATE OF HAWAII FORECAST

	2017	2018	2019	2020	2021	2022
Population (Thou)	1,424.2	1,420.5	1,415.9	1,413.7	1,402.3	1,390.1
% Change	-0.3	-0.3	-0.3	-0.2	-0.8	-0.9

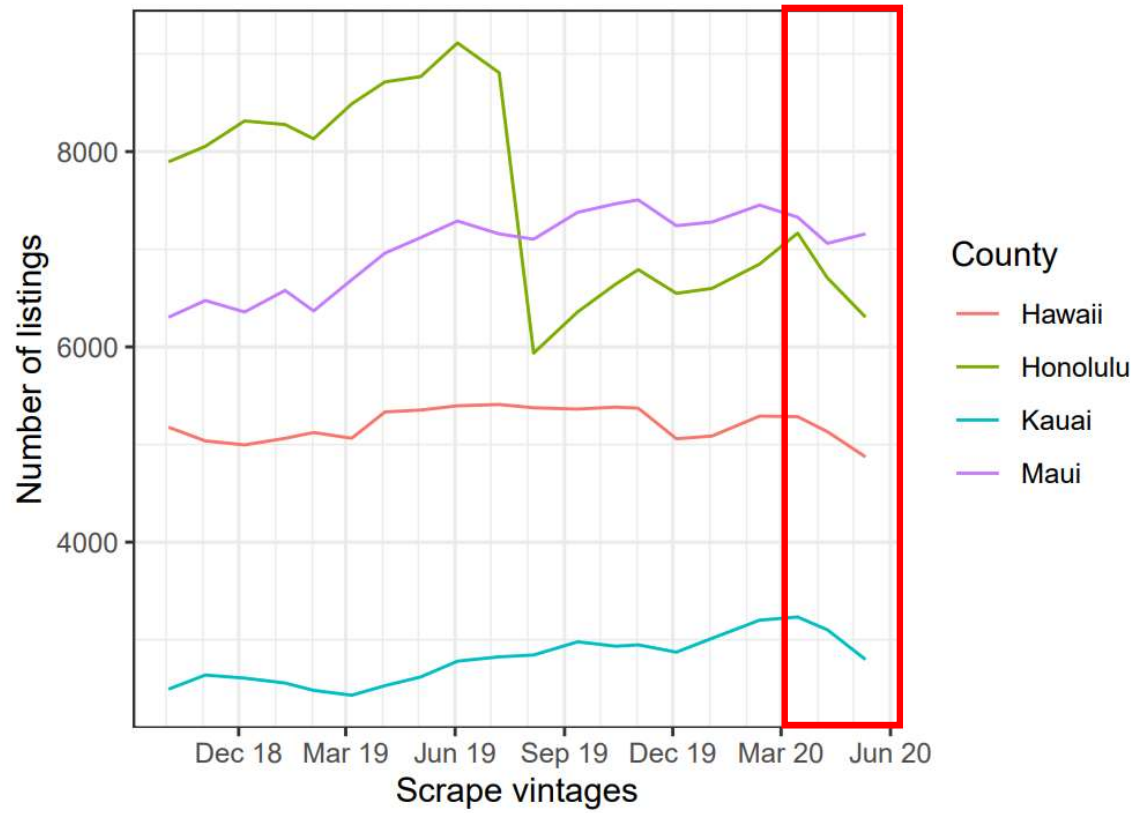
Airbnb

Number of listings with non-zero availability



Airbnb

Number of listings with non-zero availability



“The immediate recovery period after the pandemic subsides may offer a rare opportunity: If housing asset prices drop (as widely anticipated), affordable housing providers could purchase existing low-cost units and add them to the stock of long-term affordable housing.”

– Ingrid Ellen, Erin Graves, Katherine O’Regan, Jenny Schuetz

<https://www.brookings.edu/research/strategies-for-increasing-affordable-housing-amid-the-covid-19-economic-crisis/>

Master Lease

Rental Property Owner
Concerned About Future

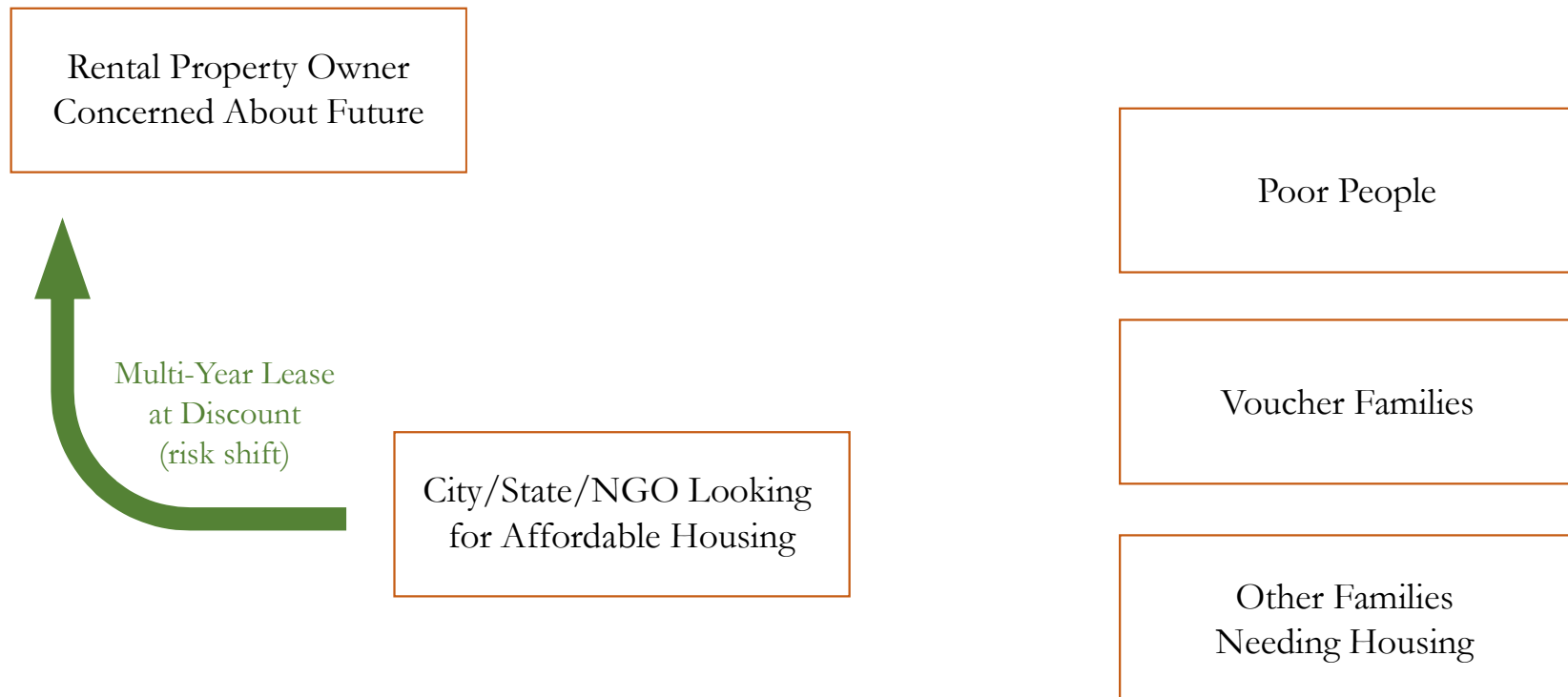
City/State/NGO Looking
for Affordable Housing

Poor People

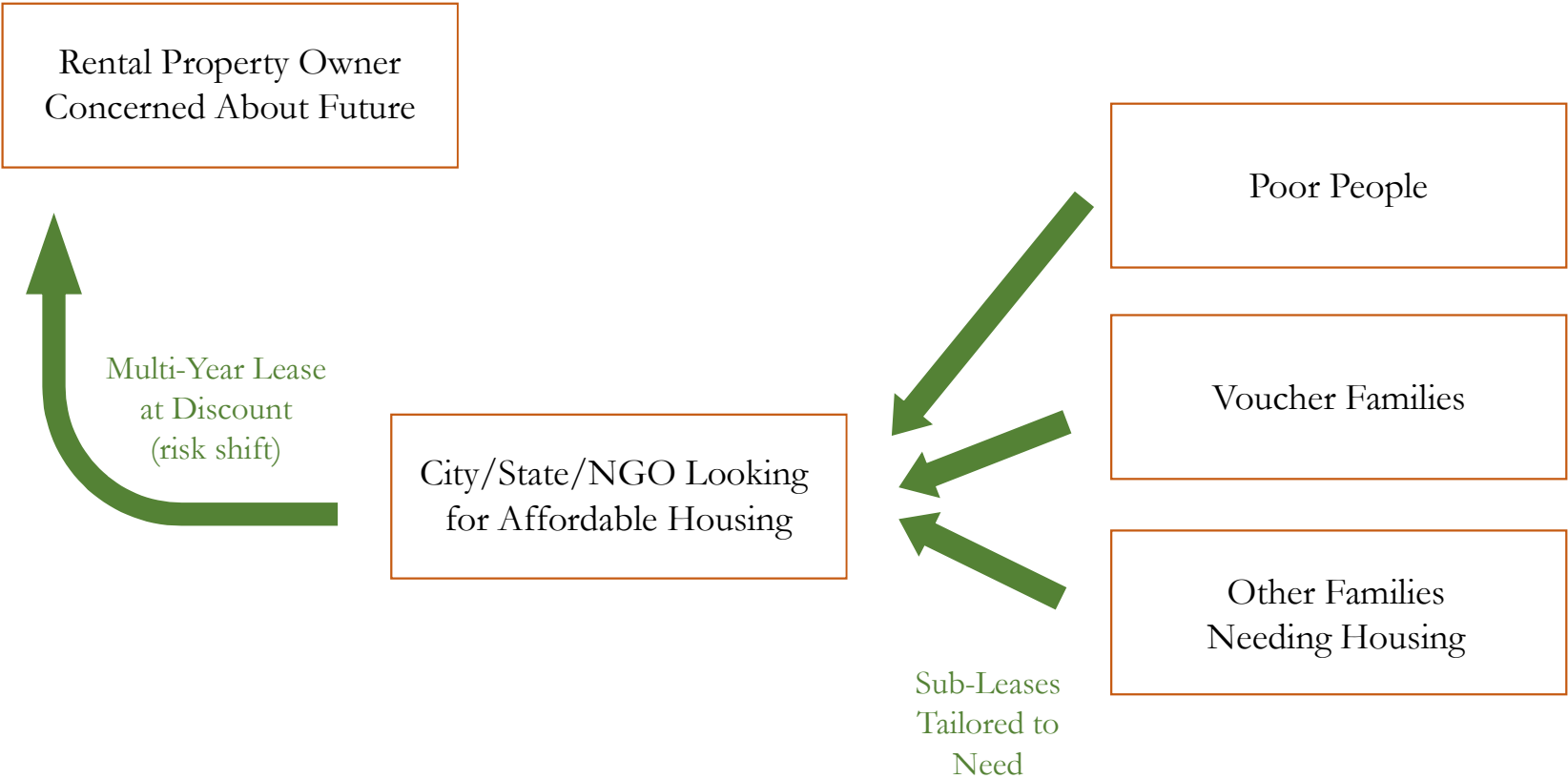
Voucher Families

Other Families
Needing Housing

Master Lease



Master Lease



Master Lease

PROS

- timing is good as landlords (should be) worried about higher vacancies, rent arrears
- City/State/NGO can recoup a significant amount of expense from renting to voucher holders, ALICE families, etc.
- can increase lease-up rates, making other programs more successful
- simpler/faster than acquisition

CONS

- perverse incentives around who served and location of rental units
- the longer the lease the better, but risk should not be ignored
- potential issues at end of lease

Property Acquisition and Preservation

NEGOTIATED PRESERVATION

- carefully track subsidized housing sunsets and “naturally occurring” affordable housing
- offer sub-market loans to current owners in exchange for maintaining affordability, accepting housing vouchers, etc.

ACQUISITION UNDER AUSTERITY

- sadly window of deepest affordability may coincide with deepest austerity
- solution is clearly bond financing (acquire today, pay tomorrow)
 - given nature of bond financing in HI plus likelihood of state being already extended, will need to make the case
- “lock in affordability before markets recover” – Ingrid Ellen, Erin Graves, Katherine O’Regan, Jenny Schuetz

OPPORTUNITY

Infrastructure and Housing Investment Means Jobs
(aka, we should still be developing affordable housing)

-- a bit of grab bag section of things we should be thinking about --

Infrastructure

[project ongoing]

Mixed Use / Mixed Income Development

BENEFITS

- depending on mix, can partially fund modest income units with proceeds from luxury development
- opportunity for higher-income residents to advocate for neighborhood-level resources, thus benefiting poor residents (schools being a major example)
- if pre-existing low-income community exists can prevent root shock (if done with a “build first” process)

CHALLENGES

- very little evidence of meaningful contact between income groups
- evidence that higher income groups can sometimes over-police behavior, leading lower income groups to feel stigmatized
- need for institutional support

Rental Assistance Demonstration

BENEFITS

- Decades long (and apparently bipartisan) under-investment in public housing operating funds
- For every dollars of PHA funds invested in the RAD conversion, the most recent evaluation suggests that PHAs are able to leverage \$7.47 in other financing sources.
- Requires 1-for-1 replacement of public housing units with Project Based Section 8 (same eligibility and subsidy)

CHALLENGES

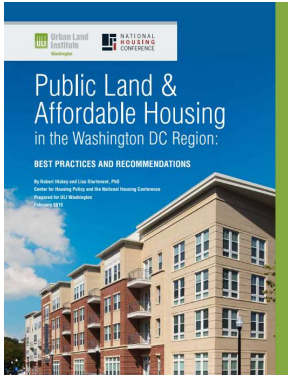
- Communication and “tenants first” / “build first” process is essential – legacy of failed PH redevelopment
- Incorporation of institutional needs of existing PH community

Leasehold

Leasehold \neq Aloha Homes \neq Limited Equity Cooperative

(it's a development subsidy)

Leasehold



https://ulidigitalmarketing.blob.core.windows.net/ulidcnc/2019/03/ULI_PublicLandReport_Final020615.pdf

2. BASE AFFORDABILITY EXPECTATIONS FOR INDIVIDUAL SITES IN AN UNDERSTANDING OF THE RELATIONSHIP BETWEEN LAND VALUES AND THE AFFORDABILITY GAP.

When examining just how much affordable housing can be built with the support of free or discounted public land, it is important to understand the relationship between the value of discounting land at the chosen location and the difference between revenue and development costs for below-market-rate housing, as this relationship clarifies the potential for cross-subsidizing the affordable housing component.

	WEAKER MARKET/ MID-RISE DEVELOPMENT	MODERATELY STRONG MARKET/ MID-RISE DEVELOPMENT	HOT MARKET/ HIGH-RISE DEVELOPMENT
LAND COSTS (PER UNIT)	\$25,000	\$50,000	\$100,000
TOTAL HARD AND SOFT DEVELOPMENT COSTS (PER UNIT)	\$250,000	\$250,000	\$300,000
TOTAL DEVELOPMENT COSTS (PER UNIT)	\$275,000	\$300,000	\$400,000
LAND AS A PERCENTAGE OF TOTAL DEVELOPMENT COSTS (TDC)	9%	17%	25%
PROJECTED SUPPORTABLE DEBT (PER UNIT)	\$100,000	\$100,000	\$100,000
PER-UNIT SUBSIDY GAP FOR AFFORDABLE UNITS (TDC-RENTAL INCOME)	\$175,000	\$200,000	\$300,000
PER-UNIT SUBSIDY GAP REMAINING FOR AFFORDABLE UNITS, ASSUMING LAND IS PROVIDED FOR AFFORDABLE UNITS FOR FREE	\$150,000	\$150,000	\$200,000
NUMBER OF MARKET UNITS FOR WHICH LAND NEEDS TO BE PROVIDED FOR FREE TO OFFSET SUBSIDY GAP FOR ONE AFFORDABLE UNIT	6	3	2
SHARE OF TOTAL UNITS THAT COULD BE AFFORDABLE WITH SUPPORT FROM FREE LAND FOR THE ENTIRE DEVELOPMENT	1/7 (14%)	1/4 (25%)	1/3 (33%)

Leasehold

The fundamental challenge is lease expiration issues.

- extremely long lease terms (99 years)
- rental rather than ownership
- detailed articulation of resident rights at expiration

CONCLUSIONS

- 1) It's going to be rough for a while.
- 2) Affordable housing development is more important than ever (and it was pretty darn important before).
- 3) There are opportunities in this crisis to create more housing, but we need to be proactive.