Report to the 2026 Hawaii State Legislature:

Pursuant to Senate Concurrent Resolution 60 Senate Draft 1 House Draft 1, adopted on May 02, 2025, URGING THE HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION TO DEVELOP A PLAN TO PRODUCE SUFFICIENT HOUSING TO MEET THE STATE'S DEMAND.

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Introduction

Hawaii faces a chronic housing shortage that affects its residents' quality of life and economic well-being. According to the *2024 Hawaii Housing Planning Study* (Table 39 on page 123), the projected demand for the state by the end of 2027 is 64,490 units. Table 1 shows the breakdown by counties:

Table 1
Housing Shortage

County	Units Needed	% of Units Needed	% of State Population
Honolulu	25,710	39.9%	68.7%
Hawaii	18,879	29.3%	14.8%
Maui	14,987	23.2%	11.5%
Kauai	4,914	7.6%	5.0%
Total Statewide	**64,490**	**100%**	**100%**

Recognizing the severity of the housing crisis, the Legislature adopted Senate Concurrent Resolution 60 SD1 HD1 on May 2, 2025 (SCR 60), which urged the Hawaii Housing Finance and Development Corporation (HHFDC) to develop a report that addresses the following:

1. Density and timing of development for projects identified by the Affordable Housing Land Inventory Task Force, should Senate Bill No. 26, S.D. 2, H.D. 2, (Regular Session of 2025) be enacted in any form.
2. How to maximize walkability and density.
3. The most efficient and sustainable financial plan and needs.
4. Personnel and government capacity needs.
5. How to overcome barriers to housing supply, such as ensuring adequate availability of land, sufficient infrastructure, and increasing available financing models.

This *Report to the 2026 Hawaii State Legislature* addresses items two through five above. Item one above could not be addressed at this time because Senate Bill 26 was not enacted, which would have provided funding to accomplish this task.

How to Maximize Walkability and Density

Three essential strategies to maximize walkability and density in housing projects are to:

1. Locate housing in Transit-Oriented Development (TOD) areas.
2. Promote production of medium- and higher-density housing types and allow more mixed-use zones in compact neighborhoods.
3. Integrate urban design and traffic calming features to promote walking, bicycling, and transit ridership.

Of the three strategies, TOD will yield the most housing units with the least consumption of land and extension of costly infrastructure. TOD is a planning and design approach that relies on higher density and mixed uses, which integrates residential, commercial, and recreational spaces in close proximity to public transportation hubs and accessible, frequent public transit service to create pedestrian-friendly neighborhoods and decrease reliance on private vehicles, thereby enhancing overall urban walkability.

Mixed-use development, which is a key to successful TOD, entails a combination of vertical and horizontal mixing of uses within a site or neighborhood, which promotes vibrant and dense communities where people can live, work, and play without needing to travel long distances for their daily needs. Attention to well-designed public spaces, such as parks and plazas, becomes even more critical in TOD to ensure that residents have communal areas for social interaction and leisure. These spaces are strategically placed to encourage walking and cycling, contributing to a healthier and more active lifestyle for residents.

In the City and County (City) of Honolulu's TOD initiative, a significant change involved transitioning from single-use zoning (e.g., only residential, business, or industrial) to compatible mixed-use zoning around the rail transit stations. The City-initiated TOD zone changes will enable mixed-use and broaden the range of permissible uses throughout the TOD Special Districts in each City TOD Plan area. Properties currently zoned for apartments will be rezoned as apartment mixed-use districts, allowing some neighborhood-oriented commercial uses. Business districts will become business mixed-use districts, permitting residential uses, and in some cases, industrial districts will be reclassified as industrial-commercial mixed-use districts. More varied land uses encourage walking and active areas by situating housing, jobs, shops, and services nearby.

Additionally, investing in transportation infrastructure improvements, such as pedestrian pathways, bike lanes, and efficient transit systems, is crucial for creating an accessible urban environment. Public transportation options, like the Skyline rail and a robust bus system, should be dependable, frequent, and well-connected to key destinations. Incorporating green infrastructure like green roofs, permeable pavements, and urban forestry can enhance high-density areas by reducing heat, managing stormwater, and improving air quality. These sustainable design elements contribute to environmental resilience and create more pleasant urban spaces.

Finally, addressing affordability is key to maximizing walkability and density. Ensuring that a portion of new housing units are designated as affordable housing can help create diverse and inclusive communities where people of all income levels can benefit from the advantages of living in a walkable, transit-oriented environment.

The Most Efficient and Sustainable Financial Plan and Needs

Affordable housing developers in Hawaii face significant financing challenges due to high development costs. HHFDC provides numerous programs that support a range of affordable housing development types. Each program targets a different segment of the housing market and offers various opportunities to enter the housing ladder. Table 2 below summarizes each program.

Table 2
HHFDC Programs

Program	Target AMI
Low-Income Housing Tax Credits (LIHTC) with infusion of Rental Housing Revolving Fund (RHRF)	30% to 80%
RHRF Tier II for mixed-income rentals	80% and above
Affordable Homeownership Revolving Fund (AHRF)	50% to 120%
Dwelling Unit Revolving Fund (DURF) for infrastructure and construction	80% and above
DURF Equity Program (DEP)	100% and above
Rent-to-Own Program (RTO)	100% and above

The housing ladder describes the process where individuals or households move from renting or owning a starter home to acquiring larger or more valuable properties over time. Each purchase is seen as taking a "rung" on the ladder, and the equity built up in the previous home helps finance the next one. Accession up the housing ladder is vital to a healthy housing market because of the benefits involved:

1. *Wealth Generation.* As homeowners pay down their mortgages and property values increase, they build equity, which can be used for future home purchases or other investments.
2. *Financial Security.* Owning a home offers a tangible asset that can act as a financial safety net and provide a more stable environment for a household.
3. *Mobility and Upgrading.* The ladder enables people to start with what they can afford and progress as their income and needs grow.
4. *Community and Civic Engagement.* Homeowners tend to invest more in their communities, both socially and economically.

Details of each HHFDC program are described below.

LIHTC with infusion of RHRF
Created by the Tax Reform Act of 1986, LIHTC is deemed the most significant resource for affordable housing in the United States today. LIHTC is a federal initiative designed to incentivize private investment in affordable housing, as it provides developers with a 10-year, dollar-for-dollar reduction in federal tax liability. By selling these credits to investors, developers can raise upfront funds to develop affordable housing, which decreases the need for debt and helps the project to meet affordability targets. LIHTC allocates nearly $8 billion annually to the budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing aimed at lower-income households.

There are two types of LIHTC:

1. Volume Cap LIHTC (9% LIHTC) are credits issued by the Internal Revenue Service (IRS) for affordable housing, based on a state's population. In 2024, the per capita multiplier is $2.90, allowing HHFDC to allocate approximately $3.96 million in Federal LIHTC.
2. Non-Volume Cap LIHTC (4% LIHTC) credits are not restricted by the volume cap but are less valuable than the 9% credit. They must be paired with tax-exempt financing under the State's private activity bond (PAB) volume cap. The limit for non-volume cap LIHTC depends on the allocation of State bond volume cap designated for affordable multifamily housing.

In Hawaii, the 4% LIHTC program is particularly critical for producing rental housing at scale. However, tax-exempt bonds and LIHTC equity alone are generally insufficient to cover total development costs. Most projects require significant gap financing to proceed, which HHFDC typically provides through RHRF, which are equity gap, low-interest loans to qualified developers for the development, pre-development, construction, acquisition, or preservation of affordable rental housing. This level of State investment is essential to fully leverage federal resources and ensure projects remain financially feasible while offering deep affordability. Without adequate RHRF, many otherwise viable projects may be delayed or abandoned, resulting in the underutilization of the state's federally authorized LIHTC and bond cap, leading to lost opportunities to address Hawaii's critical housing needs.

The average period of affordability of a project using RHRF is about 60 years, which is the time it takes for the funds to revolve.

RHRF Tier II
There is also a need for workforce housing for households with incomes 80% of the area median income (AMI) and above. RHRF Tier II offers a dedicated, flexible source of low-cost financing specifically designed to address critical funding gaps in affordable housing projects.

For the first time, the Legislature funded Tier II in 2022 with Act 236, which appropriated $150 million for the fiscal year (FY) 2023. In 2024, the Legislature allocated $25 million for FY 2025. During the most recent session, the Legislature allocated $50 million for FY 2026 and another $50 million for FY 2027. Without public subsidies, housing for this group has not been feasible. This funding aids in slowing the outmigration of Hawaii's workforce population, which helps to stabilize the tax base.

In this past session, Act 159 was passed. It establishes a mixed-income subaccount within the RHRF for five years, intended to finance projects, particularly those located in TOD areas, for qualified residents as defined in HRS 201H-32. The Act also requires the TOD Infrastructure Improvement District Board to consider transit-supportive density when identifying infrastructure needs, and mandates that the Hawaii Interagency Council for TOD delineates TOD areas for each county in its strategic plan. However, Act 159 does not include an appropriation or authorization of fund transfers into the new subaccount, which limits its immediate implementation. Legislative follow-up will be necessary to capitalize the subaccount and operationalize this policy tool.

Although Tier II loans are typically repaid over approximately 40 years, they are considered more self-sustaining than traditional RHRF loans. These projects benefit from higher rents, reduced compliance and layering costs, and simpler capital structures, which result in lower risk and a higher likelihood of full repayment over time. This helps preserve state capital and allows for future reinvestment in additional housing production.

AHRF
AHRF was established through Act 227, SLH 2021, to facilitate homeownership and expand self-help housing projects throughout the state. AHRF provides short-term loans to nonprofit community development financial institutions and nonprofit housing development organizations to develop affordable homeownership housing projects, including self-help projects.

Act 248, SLH 2022 appropriated $5,000,000 of general funds to seed AHRF. Hawaii Administrative Rules 15-321 became effective on November 27, 2023. Applications are accepted continuously until funding is exhausted.

DURF

Created by Act 105, SLH 1970, DURF supports the Housing Development Program. Act 132, SLH 2016, expanded its use to fund regional infrastructure projects involving counties, private landowners, and developers. Funds can be used to acquire real property, develop residential, commercial, and industrial properties, provide loans to developers, and cover necessary administrative costs.

DURF is typically used to make junior equity gap interim construction loans for developing both rental and for-sale projects. The short-term interim loan structure permits DURF funds to revolve, allowing the same money to be reused later.

DURF can additionally provide regional infrastructure loans to facilitate the development of land parcels adjacent to the new infrastructure improvements.

The DURF Equity Pilot (DEP) program, established by Act 92, SLH 2023, lowers the cost of for-sale housing through the state's investment of equity in units. By investing in selected for-sale units, HHFDC reduces the buyers' out-of-pocket costs, making homeownership more attainable for local families.

Rent-to-Own

The Rent-to-Own (RTO) program provides a transitional pathway to homeownership for residents who are not yet mortgage-ready but can afford stable monthly payments. HHFDC views this model as a long-term affordability strategy for residents earning 100% AMI and above, a population often ineligible for subsidized rental housing and priced out of fee simple homeownership.

RTO funds are expected to revolve more quickly than traditional rental loans, with repayment occurring as units are sold to tenants, typically within 5 to 10 years of initial occupancy. Repayment to HHFDC would be made directly from the sales proceeds of each unit at the time of purchase. The State's investment would be structured to ensure that, upon sale, a defined portion of the unit's purchase price is used to repay the original public contribution.

Although tenants may receive equity credit through rent payments to reduce their final purchase price, HHFDC would still be repaid from the full sales proceeds. The equity credit pool reduces the buyer's out-of-pocket cost, but not the repayment owed to the state.

The program would be implemented in partnership with nonprofit or mission-aligned private developers. Households would lease units for 5 to 10 years, with the right to purchase at a pre-established price or through a pricing formula agreed upon at lease-up.

HHFDC has been working to update its program rules. Though the existing program rules, HAR 15-302, have been effective since June 2007, the program itself has not been active in more than ten years. The new HRS 316 reflects updated program requirements and statutory references, introduces administrative fees, and references the option period established under HRS 201H-181, rather than specifying a fixed duration, to allow future statutory updates.

A critical feature of RTO is an equity credit structure, where a portion of the tenant's rent is set aside and applied to reduce the final purchase price. This helps tenants build equity-like value over time and makes homeownership more attainable.

If the project is owned by a private or nonprofit developer during the rental period, HHFDC's financing would be repaid directly from the developer's share of the unit sales proceeds, in accordance with the loan agreement. The structure ensures that HHFDC's investment is recovered on a per-unit basis as tenants convert to ownership, enabling the state to recycle funds into future rent-to-own developments.

25-Year Cash Flow Analysis

To determine the amount of financing needed to address Hawaii's housing shortfall, HHFDC prepared a cash flow analysis of HHFDC's various programs. As each program serves distinct housing needs, the analysis assumed that financing would be made available for each of HHFDC's programs at a level to produce 1,540 units annually. The results of the analysis are broken down into the following components:

First, the average subsidy needed per unit for each of HHFDC's programs is shown in Table 3. Note that the per-unit funding amount is an average based on recent projects and that the actual per-unit funding will vary from project to project. Under the analysis, funding is made available to rental programs (i.e., RHRF to support LIHTC and RHRF Tier II for mixed-income rentals) and homeownership programs (i.e., AHRF, DURF, DEP, and Rent-to-Own).

Table 3
Average Per Unit Funding by Program

Program	Subsidy Per Unit
RHRF	$270,000
RHRF Tier II	$270,000
AHRF	$175,000
RTO	$600,000
DEP	$140,000
DURF	$150,000

Second, the total amount of *initial* annual funding required to develop 1,540 units annually for each program is shown in Table 4. The *initial* amount of funding is derived by multiplying the per-unit funding for each program by the targeted number of units to be developed annually.

Table 4
Initial Annual Funding to Develop 1,540 Units Annually

Program	Target AMI	Units per Year	Initial Annual Funding
RHRF	30% to 80%	700	$189,000,000
RHRF Tier II	80% and above	150	$40,500,000
AHRF	50% to 120%	40	$7,000,000
RTO	100% and above	150	$90,000,000
DEP	100% and above	300	$57,200,000
DURF	80% and above	200	$30,000,000
		1,540	**$413,700,000**

Third, an important consideration in the cash flow analysis is how quickly funding for each program revolves. The typical revolving period is shown in Table 5. Funding for RHRF used to support LIHTC projects revolve very slowly because of limited project revenue associated with deeply affordable rents and because the loan is paid down on a cash available basis after project costs are accounted for. However, because LIHTC is the only program that provides units at a large scale for households earning less than 60% AMI, it is crucial that gap financing through RHRF be provided to make projects financially viable. Funding for RHRF Tier II for mixed-income rental projects can revolve more quickly due to higher rents generated, but even these projects may require 30 to 40 years to fully revolve.

Conversely, funding for AHRF, DURF, DEP, and Rent-to-Own programs revolve more quickly because they fund for-sale projects, and the State's funding is recouped when units are sold.

Table 5
Revolving Period of Programs

Program	Revolving Period
RHRF	60 years
RHRF Tier II	40 years
AHRF	5 years
RTO	7 years
DEP	10 years
DURF	5 years

Fourth, the total units produced, subsidy per unit after factoring in revolving of funds, and cumulative funding needed over 25 years are shown in Table 6. The analysis assumes construction costs will rise at 3% annually. The 25-year funding per unit is highest for RHRF (to support LIHTC) because of rising construction costs and because funds will not have fully revolved in 25 years. Likewise, per unit funding for RHRF Tier II (for mixed-income rentals) projects is comparatively high due to projected rising construction costs and because funds will not have fully revolved. Conversely, 25-year per-unit funding for AHRF, DURF, DEP, and Rent-to-Own units is relatively lower due to the fast revolving nature of the funds. Essentially, once sufficient funding is appropriated, the funds become self-sustaining and are able to maintain the level of production in the analysis.

Table 6
25-Year Funding

Program	Units per Year	Units produced over 25 Years	Funding per Unit over 25 years	Net Funding over 25 Years
RHRF	700	17,500	$393,760	$6,619,060,071
RHRF Tier II	150	3,750	$393,760	$1,327,717,829
AHRF	40	1,000	$37,164	$37,163,951
RTO	150	3,750	$204,028	$765,108,359
DEP	300	7,500	$64,352	$654,596,680
DURF	200	5,000	$31,855	$159,274,074
	1,540	38,500		**$9,562,920,964**

Other Concepts

Additionally, HHFDC is exploring three alternative concepts to increase homeownership opportunities as these alternative concepts can improve the financial feasibility of developing affordable for-sale housing projects in Hawaii. They include:

1. Leasehold condominium.
2. Rental equity investments.
3. For-sale equity investments.

Leasehold Condominium
In the quest for affordable housing solutions, the concept of leasehold condominium ownership emerges as a compelling alternative to traditional fee-simple ownership. This concept offers potential homeowners the chance to purchase a unit while leasing the land on which it stands, often from a government entity or private landowner.

The typical leasehold condominium arrangement involves a long-term lease, ranging from 30 to 99 years, granting the buyer ownership of the condominium unit itself. However, the land remains under the ownership of the lessor, and the homeowner pays ground rent for the duration of the lease. This concept significantly reduces the initial cost of purchasing a home, making it an attractive option for those who might otherwise be priced out of the housing market.

There are a number of advantages of leasehold condominiums:

1. *Affordability.* By separating the cost of the land from the cost of the unit, leasehold condominiums lower the entry barrier for potential homeowners. This can make home ownership accessible to a broader segment of the population.
2. *Security of Tenure.* With long-term leases, homeowners have the security of knowing they can remain in their homes for an extended period of time, often with the option to renew the lease.
3. *Community Development.* This model can foster the development of vibrant, mixed-income communities by offering homeownership opportunities in areas where land prices are prohibitively high.

Despite its advantages, leasehold condominium ownership also presents certain challenges:

1. *Market Demand*. Leasehold ownership may be unfamiliar to many homebuyers and at times has had a contentious history locally. Some homebuyers will prefer to purchase traditional fee-simple condominiums rather than leasehold units.
2. *Lease Expiry.* When the lease term expires, the land reverts to the lessor unless an extension or renewal is negotiated. This can create uncertainty for homeowners nearing the end of their lease.
3. *Ground Rent.* Homeowners must pay ground rent in addition to their mortgage and other housing-related expenses. While usually manageable, it can add to the overall cost of living.
4. *Resale Value.* The value of a leasehold property can decrease as the lease term shortens, potentially affecting the resale value and marketability of the unit.
5. *Project Financing*. The aforementioned challenges will require that leasehold units be priced below comparable fee simple units. This could present challenges to financing leasehold condominium projects.

Rental Equity Investments
Equity investments in housing production can be a significant source of funding for affordable housing projects. They could provide substantial funding, share financial risks, offer tax benefits, and ensure long-term commitment to housing projects. However, they also come with complexities, profit expectations, market dependence, and regulatory challenges. By carefully navigating these pros and cons, policymakers and developers can leverage equity investments to create sustainable and inclusive housing solutions, ultimately contributing to more equitable and diverse housing markets.
Equity investments may require comparable levels of initial public funding as soft loans, which are approximately $200,000 to $275,000 per unit, depending on project type and income mix.

However, unlike traditional RHRF loans, equity investments are not repaid through scheduled debt service. Instead, HHFDC's return would be based on project performance and is typically realized through a share of cash flow or residual sales proceeds. Because the public investment is tied to ownership, it may also carry governance rights, long-term affordability protections, and oversight within the project entity. This ownership position enables the state to help ensure that affordability is preserved not just during the initial compliance period, but throughout the life of the asset, even in future refinancing, restructuring, or disposition scenarios.

This model is particularly well-suited for:

1. Mixed-income housing, where cash flow from higher-AMI units can support returns.
2. Projects not using LIHTC, where the absence of tax credit investor compliance allows for more flexible equity structuring.
3. Partnerships on state-owned land, where HHFDC can leverage land value along with equity capital.

Rental equity investments typically have longer durations than loans, often 10 to 20 years or more, depending on project cash flow and exit strategy. However, because the funds are invested in the project itself, rather than granted or loaned, there is potential for partial repayment or long-term capital return through:

1. Annual cash flow distributions (e.g., a preferred return or share of net operating income);
2. Repayment at refinancing, if the project recapitalizes in future years;
3. Proceeds from sale, if the property is sold and the public investment is structured to receive a residual share.

HHFDC's portion of cash flow received from these investments would be revolved into the funding source subaccount, where it could be recycled into future projects. This makes the program revolving and financially sustainable over time, particularly as the portfolio of investments grows.

The program would be structured to:

1. Invest HHFDC funds as preferred equity or co-investment capital in eligible affordable or mixed-income housing developments.
2. Require long-term affordability covenants, governance rights, and exit protections.

3. Offer targeted returns, if appropriate, such as fixed preferred returns or residual cash flow participation.
4. Prioritize projects that:
    a. Do not qualify for LIHTC.
    b. Serve moderate-income (80–140% AMI) households.
    c. Involve public land or other leverage.
    d. Support strategic goals like homeownership or transit-oriented development.

Since HHFDC would retain an ownership interest in the project, this structure helps preserve long-term affordability through built-in control rights, resale restrictions, and affordability compliance tied to equity exit provisions. This program would allow the state to remain a steward of affordability for the life of the project, even in future refinances or sales.

There are a number of advantages of the rental equity investments concept:

1. *Increased Funding.* Equity investments can provide substantial funding for housing projects, which is crucial for the development of affordable housing units.
2. *Risk Sharing.* Investors share the financial risk of the project, which can make it easier for developers to undertake large-scale housing projects.
3. *Tax Benefits.* Programs like the Low-Income Housing Tax Credit (LIHTC) offer investors a dollar-for-dollar reduction in federal tax liability in exchange for providing financing to developers.
4. *Long-Term Commitment.* Equity investments often come with a long-term commitment, which can ensure the sustainability and maintenance of housing projects.

Despite its advantages, the equity investments concept also presents certain challenges:

1. *Complexity.* Equity investments can be complex to structure and manage, requiring significant legal and financial expertise.
2. *Profit Expectations.* Investors typically expect a return on their investment, which can sometimes conflict with the goal of keeping housing affordable.
3. *Market Dependence.* The success of equity investments can be heavily dependent on market conditions, which can introduce uncertainty and risk.
4. *Regulatory Challenges.* Navigating the regulatory environment for equity investments can be challenging, particularly in areas with stringent housing and development regulations.

For-Sale Equity Investments
Investing in For-Sale projects could help stalled projects move forward. Due to high construction costs and high interest rates, many affordable for-sale projects are not financially feasible. Investments would focus on projects that would not be built *but for* the State's investment in equity. By investing equity in these projects, HHFDC can spur production of units that might not otherwise be constructed.

HHFDC's initial investment will be in the form of a construction loan for the project. However, rather than requiring repayment of the loan after completion of the project, the loan will be converted into equity allocated to specific units in the project. Like the DEP program, the State's equity reduces the homebuyer's cost, and the State's equity investment would be repaid with shared appreciation upon resale of the unit. The State's equity would focus on "starter" units in projects to help residents enter the housing market.

There are a number of advantages of the for-sale equity investments concept:

1. *Increased Production.* Equity investments can enable stalled projects to move forward and increase the inventory of affordable homes.
2. *Promotes Homeownership.* Development of new for-sale projects expands homeownership options for local residents and helps to create a stable local workforce.
3. *Fiscally responsible.* The State's equity is repaid upon resale of the unit, together with shared appreciation in equity.

Despite its advantages, the for-sale equity investments concept also presents certain challenges:

1. *Complexity.* As an equity investor, the State will be more involved in the financial management of a project as a lender, which requires additional staff resources.
2. *Market Dependence.* The success of equity investments can be heavily dependent on market conditions, which can introduce uncertainty and risk.

Personnel and Government Capacity Needs

Barriers to housing production in Hawaii stem from systemic challenges, a part of which is the personnel and capacity limitations faced by state and county agencies. The permitting process is complex and requires approvals from multiple agencies, delaying developers who must satisfy various requirements before starting construction. Many agencies lack specialized staff to efficiently process applications, conduct reviews, and manage consultations. As a result, high volumes of applications lead to significant delays.

At the state level, the State Historic Preservation Division (SHPD) is responsible for managing the historic review process to protect Hawaii's historic identity. However, this process is hampered by persistent delays, which impede timely project approvals and further slow housing development. The difficulties within SHPD are primarily caused by both an expansive definition of 'historic property' and operational constraints.

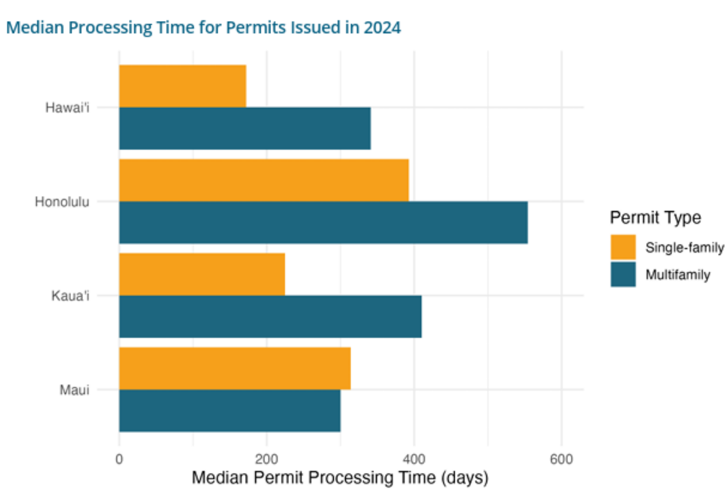
1. *Expansive Definition of Historic Property.* A major factor contributing to SHPD's heavy workload and frequent delays is the broad definition of 'historic property' in Hawaii Revised Statutes (HRS) Chapter 6E. Under this law, any building, structure, object, district, area, or site that is 50 years or older is subject to review, regardless of its actual historical significance or integrity. As a result, SHPD is required to review between 2,400 and 2,700 permits each year, allocating resources to many properties that may not hold real historic value, thus causing inefficiencies in the review process.
2. *Operational Constraints.* SHPD also faces significant operational constraints. The agency is chronically understaffed, with about 30 percent of positions vacant due to uncompetitive salaries and slow hiring processes. This persistent staffing shortage leads to delays and creates bottlenecks in permit approvals, a problem compounded by the large volume of applications.

The combination of broad review mandates and operational constraints has caused significant delays in SHPD's review process. SHPD noted in a 2023 [*Report to the Legislature*] that archaeological reviews were taking on average between six and 12 months to complete. Such extended timelines can add years to the overall agency approval process for housing projects.

Additionally, the Hawaii Department of Health's Disability and Communication Access Board (DCAB) faces similar challenges in managing the workload required. This includes needing more staff to handle reviews and ensure compliance with accessibility standards. Consequently, the DCAB review process can be time-consuming. For instance, when projects are submitted for review to confirm ADA compliance, it can take a considerable amount of time due to the limited number of staff available to examine all building plans. DCAB has specific guidelines and rules, such as those outlined in HAR 11-29, which address parking for persons with disabilities. Ensuring compliance with these rules can be challenging for developers and property managers. DCAB also addresses issues related to fair housing and discrimination, providing resources for individuals to understand their rights and seek help against disability-based discrimination.

At the county level, typical permitting times are about three times longer in Hawaii than the national average. The *2025 Hawaii Housing Factbook* (UHERO) quantified these delays. Using county-level data on all new housing unit permits, UHERO calculated the median number of days from initial filing to final approval for each permit issued annually. For single-family permits in 2024, median processing times ranged between 172 days in Hawaii County and 393 days in Honolulu County. For multifamily permits, processing times ranged between 300 days in Maui County and 554 days in Honolulu County.

However, UHERO cautions that these figures may obscure the full complexity of permitting delays. Some delays may be due to incomplete applications or slow responses from developers. In some cases, construction on multifamily projects starts before all permits are finalized, potentially overstating official wait times. Additionally, inconsistencies in county record-keeping and reliance on retrospective data make cross-county comparisons difficult. Despite these issues, data from 2024 shows no improvement in wait times, with both Honolulu and Maui experiencing their longest single-family permit processing times since at least 2012.



Source: UHERO, 2022

Improving the capacity of state and county permitting and regulatory agencies is essential to reducing development times. Agencies should consider the following strategies:

1. *Enhance Staffing.* Develop programs to recruit individuals with the necessary expertise and background. Offer competitive salaries and benefits to attract and retain talent. Provide regular training, workshops, certification courses, and industry conference opportunities to ensure that staff remain updated on best practices. Improve hiring processes so vacant positions can be filled more quickly and efficiently.
2. *Modernized Technology.* Invest in advanced software for permit tracking, document management, and workflow automation to speed up every step of the permitting process. Such technology can also enhance communication and coordination between departments.
3. *Continuous Improvement.* Foster a culture where staff are encouraged to suggest process improvements. Conduct regular reviews and audits of workflows to identify and eliminate inefficiencies.

By implementing these changes, agencies can create a more streamlined and responsive permitting process. This, in turn, will accelerate housing development and more effectively address Hawaii's acute housing crisis. If these capacity and personnel challenges are successfully met, Hawaii can establish a more efficient and supportive environment for the development of affordable housing, helping to meet the state's pressing needs.

How to Overcome Barriers to Housing Supply

In Hawaii, there are multiple barriers that hinder the production of affordable housing. These barriers were previously documented in the *Report to the 2025 Legislature: Pursuant to House Concurrent Resolution 131, adopted on April 22, 2024, URGING HHFDC TO DEVELOP A TEN-YEAR PLAN TO SATISFY HAWAII'S HOUSING DEMAND.* Barriers include burdensome regulations, lengthy permitting times, high construction costs, high financing costs, a scarcity of suitable lands for development, and insufficient infrastructure. These are highlighted below.

Consequently, Hawaii's housing supply is highly inelastic, indicating that price changes do not result in timely or efficient adjustments in supply. This situation leads to persistently low rates of housing production and consistently high prices.

Burdensome regulations

Hawaii's regulatory environment for housing development is among the most restrictive in the nation. The *Measuring the Burden of Housing Regulation in Hawaii* (UHERO) report referenced the Wharton Residential Land Use Regulatory Index, which showed all four of Hawaii's counties exhibit regulatory burdens significantly above the national average, with Hawaii County ranking in the top one percent of restrictiveness nationwide. In addition, Honolulu, Maui, and Kauai counties landed in the top 10 percent, placing Hawaii alongside California's most expensive areas. These delays and requirements not only increase costs and uncertainty for developers but also diminish the overall incentive to initiate new housing projects. Hawaii's land use entitlements and permitting system involves multiple State and county layers, which create delays and raise construction costs.

At the State level, Hawaii's State Land Use Law classifies all land into Urban, Agricultural, Conservation, and Rural districts. Established in 1961, it is administered by the State Land Use Commission (LUC), which reviews boundary amendment requests. With only 5% of state land classified as Urban, this law limits housing availability and duplicates county zoning regulations, adding bureaucracy. The process to reclassify land is complex, time-consuming, and prone to legal challenges, causing delays for housing projects.

As discussed previously, SHPD oversees Hawaii's historic review process to maintain the state's heritage. However, broad definitions of 'historic property' and operational limitations within SHPD cause delays in project approvals and development.

At the county level, zoning regulations determine the location and type of housing that can be built. These rules often limit housing availability and affordability by restricting building density, height, design, imposing parking requirements, and prohibiting certain housing types. Additionally, they create land use inflexibility, preventing the adaptation of underutilized agricultural, industrial, or commercial lands for residential purposes.

The Special Management Area (SMA) permit in Hawaii is a barrier to housing production. The SMA permit is part of Hawaii's Coastal Zone Management (CZM) program, which aims to protect coastal resources and manage development in coastal areas. Although intended to ensure environmentally sustainable development, it can hinder housing projects.

The approval process for SMA permits is lengthy and complex, requiring multiple reviews from various agencies, including the Department of Health and SHPD. This causes delays as developments must comply with environmental regulations and protect historical or cultural resources. The SMA permit process can be expensive. Environmental reviews and documentation add significant costs to housing projects, which are often passed on to homebuyers, making housing less affordable.

Lengthy permitting times
The permitting process, involving approvals from various State and county agencies, is often delayed due to understaffing, complex requirements, sequential reviews, public hearings, and potential legal challenges. It can take up to seven years, creating uncertainty for developers, increasing costs and risks, and deterring investment in affordable housing. See the above section for more details.

High construction costs
Hawaii has some of the highest construction costs in the country. Its geographic remoteness means all materials are imported, increasing expenses and delivery time. A shortage of local skilled labor during boom periods further drives up costs. Hawaii's stringent building codes and regulations aim to ensure structures withstand natural disasters, like hurricanes, which can add further to the overall expense.

High financing costs
High financing costs significantly impact the production of affordable housing in Hawaii. These costs can create substantial barriers for developers, making it challenging to initiate and complete affordable housing projects. Here are some key points to consider:

1. *Increased Project Costs.* High financing costs lead to increased overall project costs. This can make it difficult for developers to maintain affordability while covering the expenses associated with construction, land acquisition, and other development-related costs.
2. *Limited Access to Low-Interest Financing.* Programs like PABs provide low-interest financing to developers for affordable housing projects. However, the limited supply of PABs and high

demand for LIHTC reduce their effectiveness. This limitation forces developers to seek alternative, often more expensive, financing options.

3. *Impact on Feasibility.* The combination of high financing costs and other economic factors, such as inflation and rising construction material costs, can undercut the feasibility of new projects. Even with favorable credit terms, the overall financial burden can make it challenging to close transactions, particularly in high-need or cost-burdened areas.

Scarcity of developable lands
Hawaii's land use management system begins with the process established by the State Land Use Law in 1961, which classifies lands into one of four districts. This system artificially constrains the supply of land available for housing development, with a mere 5% of the state's land classified as urban. In addition, the islands' suitable lands become more constrained over time as more area is developed. With land supply constrained, land prices rise and limit opportunities for low-cost housing production.

Insufficient infrastructure
Public infrastructure, such as wastewater, water, drainage, electrical, and transportation systems, is essential for supporting residential development and ensuring quality of life for residents. However, the provision of infrastructure for housing is constrained by various systemic barriers, such as limited government funding and capacity, coordination and cost-sharing challenges, and regulatory requirements. These barriers limit the infrastructure capacity and quality, increase development costs and risks, and create uncertainty and delays for developers.

There are two initiatives aimed at addressing regulatory barriers affecting housing supply: Simplifying Permitting for Enhanced Economic Development (SPEED) task force, and the Pathways to Removing Obstacles (PRO) to Housing grant program. The results of both initiatives were not finalized in time to be included in this report.

SPEED Taskforce
On May 29, 2025, Governor Green signed House Bill 1406 into law as Act 133 (2025), establishing the State Permitting Efficiency and Expediting Deployment (SPEED) Task Force. SPEED aims to reduce regulatory barriers and improve project delivery timelines by identifying ways to facilitate, expedite, and coordinate development permit processes across state, county, federal, and private sectors, particularly for housing developments.

The SPEED Task Force held its first meeting on September 11, 2025, and will sunset on June 30, 2027. The short life span will ensure a focused, time-limited effort to deliver concrete recommendations. Staff hired by OPSD under Act 133 will support SPEED's work, in coordination with the PRO Housing team (see below).

The SPEED Task Force will analyze permitting challenges, promote interagency collaboration, and develop legislative proposals to simplify and accelerate development approvals. Recommendations may include standardizing procedures, eliminating redundancies, and leveraging technology to improve efficiency.

Based on its findings, the SPEED Task Force will propose legislative measures designed to simplify and accelerate the development permit process that, when enacted, would create a more predictable and less cumbersome regulatory environment for developers. These measures may include the introduction of standardized procedures, the reduction of redundant steps, and the implementation of technological solutions to streamline application reviews.

In summary, SPEED represents a strategic initiative that can help to address housing supply barriers through analysis, intergovernmental collaboration, legislative action, and resource allocation to reform the state's broader regulatory environment and permitting processes.

PRO Housing
On June 21, 2024, the State of Hawaii was awarded grant funding of $6.6 million from the PRO Housing grant. This grant aims to address the severe shortage of affordable housing in Hawaii by tackling various barriers to housing supply, including:

1. *Infrastructure Investment.* One of the main challenges to housing development in Hawaii is insufficient investment in critical infrastructure. The grant aims to tackle this by providing new financing mechanisms to accelerate the creation of essential infrastructure for the construction of affordable housing units and community development. The grant will also provide funding for two wastewater treatment plant improvement projects that will increase wastewater treatment capacity in urban areas planned for affordable housing development by the Counties of Hawaii and Kauai: Kailua-Kona in West Hawaii and Lihue Town on Kauai.
2. *Regulatory Reforms.* A large component of the grant action plan is to reduce barriers created by restrictive land use regulations and promote the development of new housing units through the crafting and implementation of improved laws and regulations to increase the production and preservation of affordable housing. This includes identifying permitting barriers for housing, pinpointing areas for improvement to streamline permitting, and changing policies through legislative action.
3. *Innovative Financing.* The grant will fund two projects to create new financing tools for infrastructure projects, including the establishment of a Community Facilities District or similar financing district for the Iwilei area and the exploration of the establishment of a statewide infrastructure bank to provide a one-stop financing solution for infrastructure projects in Hawaii. These tools will complement and enhance HHFDC's capacity to finance the delivery of infrastructure that supports affordable housing development.

In summary, the PRO Housing grant is designed to address the various barriers to housing supply in Hawaii. This will be achieved through infrastructure investment, regulatory reforms, and innovative financing methods. This comprehensive strategy aims to significantly boost the production and preservation of affordable housing in the state.

Alternative Construction Types
Alternative housing types, like modular housing and 3D-printed homes, are potential innovative solutions to reduce housing costs. The following summarizes cost-reducing benefits and challenges:

1. *Modular housing.* Modular housing involves constructing sections of a home in a factory setting, then transporting and assembling them into an integrated structure on-site. Their cost-reducing benefits include:

    a. *Increased Economies of Scale:* Factories can mass-produce home sections, reducing material and labor costs.

b. *Faster Construction Times:* Assembling pre-built modules shortens timelines, cutting labor and financing costs.

The challenges to the modular housing concept include:

a. *Restrictive Convenances:* Some communities prohibit modular homes due to aesthetic or density standards.
b. *Union Objections:* Unions may oppose modular construction as it reduces the need for on-site skilled labor like carpenters and electricians.

2. *3D-Printed Housing.* 3D printing uses large-scale "printers" to extrude concrete or other materials layer by layer to form the structure of a home. Their cost-reducing benefits include:

    a. *Lower Labor Costs:* Fewer workers are needed, as machines handle much of the construction work.
    b. *Faster Construction Times*: Homes can be "printed" in a fraction of the time of the traditional construction methods.
    c. *Reduced Waste:* The precision of 3D printing minimizes waste and uses less material than traditional construction methods.
    d. *Design Flexibility:* Complex shapes and customizations can be achieved without added cost, which is especially useful for affordable housing in constrained urban areas.

The challenges include to the 3D-Printed Housing concept include:

a. *Outdated Building Codes:* Many local building codes are designed for traditional, site-built homes and do not include the use of 3D-printed structures.
b. *Zoning Restrictions:* Zoning laws may not allow 3D-printed homes to be built because it is a new technology.
c. *Labor and Union Objections: S*ome unions and contractors may be hesitant to adopt new technologies that require retraining or retooling, especially if they perceive them as threats to traditional craftsmanship.

Conclusion

In conclusion, sustained investment, regulatory reform, and effective interagency collaboration are crucial for addressing Hawaii's housing needs. HHFDC reiterates its dedication to advancing housing opportunities for residents. The agency will persist in its efforts to implement strategies and programs aimed at alleviating the state's housing shortage.