Report to the 2011 Hawaii State Legislature:

Pursuant to S.C.R. No. 93, S.D. 1, H.D. 1 (2010)
Requesting the Hawaii Housing Finance and Development Corporation To Review The Feasibility of Developing Single Room Occupancy Dwellings in Transit Oriented Development Projects to Alleviate the Affordable Housing Shortage.

Prepared by:
Hawaii Housing Finance and Development Corporation
Department of Business, Economic Development & Tourism

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Introduction

Senate Concurrent Resolution (SCR) No. 93, S.D. 1, H.D. 1 requests the Hawaii Housing Finance and Development Corporation (HHFDC) to review the feasibility of developing Single Room Occupancy (SRO) dwellings in transit oriented development (TOD) projects and the impact on such projects, estimated costs, target beneficiaries, short-term and long-term effects, and sustainability of such developments. The resolution prompting this Report can be found by clicking on the following link: SCR 93

SRO buildings contain small living units each intended to house only one occupant. Under the City and County of Honolulu Housing Code, SRO dwellings must comply with all code requirements, including room dimension and sanitation requirements. To do so, an SRO dwelling must include (1) a bathroom facility with water closet, lavatory and either a bathtub or shower, whether shared among more than one unit or within each unit, (2) a living room area not less than 120 square feet in size, and (3) each individual unit must be at least 70 square feet in area. All rooms must meet all applicable height and room width requirements of the housing code as well.[1] These dwellings are targeted at very-low and low-income individuals.

Typical SRO dwellings have shared bathrooms on each floor of the building, and individual units may or may not be equipped with a kitchenette or may share common kitchen facilities. More recent SRO developments nationally have included baths shared by only a couple of units, or even private baths for each unit. A 2009 Urban Institute study found that although one-time development costs are lower in SRO dwellings with shared kitchen and bath facilities, tenants prefer, and are more likely to remain in their housing successfully if their units are complete with individual kitchen and bath facilities.[2]

Target Population Served

According to the U.S. Department of Housing and Urban Development (HUD), the typical SRO resident is a "low-income, middle-aged, unemployed or unemployable male who had formerly lived on the streets or in a shelter."[3] The male to female population ratio residing in SRO dwellings is 70/30 nationally, which is consistent with the population of single homeless individuals.

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[1] See Chapter 27, Revised Ordinances of Honolulu (Housing Code).
[2] "Permanent Supportive Housing in the District of Columbia – Taking Stock and Moving Forward", Martha Burt and Sam Hall, The Urban Institute, August 25, 2009.
[3] "Section 8 Moderate Rehabilitation for Single-Room Occupancy Dwellings", U.S. Department of Housing and Urban Development Office of Policy Development and Research, March 1990.

Community Acceptance of SRO Projects

Affordable housing projects often raise concerns among local residents and community organizations in the locality in which the project is located. SRO developments in particular face additional community concerns due to the typical tenant population of such projects – homeless individuals, individuals with mental illnesses, and very-low income single persons for whom this type of housing product is in demand.

Negative public perception of SRO dwellings tend to reinforce the "not-in-my-backyard" attitude towards such projects, especially when they are located in residential areas with neighboring homes located nearby. The City and County of Honolulu's River Street Residences supportive housing project is a recent illustration of public opposition to such projects. River Street Residences, intended to be located at the intersection of Vineyard Boulevard and River Street, outside of the City's expected Transit Oriented Development District, stalled due to lack of community support.

A small percentage of total units in River Street Residences was to have been dedicated to formerly homeless individuals with mental illnesses. The availability of federal funds to provide case management and supportive services for these individuals did not serve to mitigate the strength of public opposition to the project.

Early Community Outreach Critical for SRO Projects

In light of this precedent, it may be more prudent for prospective SRO developers to consider locating projects in areas without neighboring residences or schools, to reduce the potential for community opposition. However if a developer selects a site in an existing residential neighborhood for SRO development, the developer should undertake community outreach and input early on in the planning process to allay community concerns.

Working with the community to assure them that the planned project will be attractive, well-maintained, and has appropriate security, operational support and availability of services will help to foster community acceptance of such projects. Additionally, strong political leadership will be needed to support SRO developments through the public approval process, and to convey the benefits of this type of housing to the community.

Financing SRO Development

SRO developments are difficult to finance without substantial subsidies. They serve a very-low income population, so rental income from tenants is not sufficient to cover operating expenses, much less repayment of debt incurred during planning, development and construction phases.

Operating Costs Outstrip Rental Income

In its 1990 study, HUD found that the average monthly per-unit operating cost for an SRO was $298 per month. However, program residents were only able to pay $67 per month. An additional problem is that the City and County of Honolulu requires inclusion of a bathroom and kitchen in each dwelling unit to be eligible for Section 8 Housing Choice Vouchers, the most prevalent source of rental subsidy available.

Cost Savings Are Minimal

Construction financing is also needed to make projects economically feasible. Based on figures from comparable sized buildings in Honolulu over the last few years, construction costs for an SRO development in a mid-rise building could range from approximately $300 to $450 per square foot, depending on whether the SRO design is for a dormitory, or whether individual units will include kitchenettes.

Land acquisition costs, if applicable, would also have to be added on top of that per unit cost and would increase development costs significantly. At the time of this study, the tax-assessed values of lots in Urban Honolulu sufficient in size to develop into a mid-rise apartment type building range from $4,000,000 to $4,500,000.

Available Financing Sources

The existing funding sources for the development of any type of affordable rental housing (e.g. Low-Income Housing Tax Credit, Rental Housing Trust Fund, Community Development Block Grant (CDBG), HOME Investment Partnerships Program), can already be used for SRO development, whether it be new construction or acquisition/rehabilitation projects, assuming that the project proposals meet all program eligibility requirements including income requirements. If funded, the State Housing First Trust Fund could also be a potential source of financing for SRO projects that qualify.

For the development of SRO dwellings targeted at disabled or elderly persons in need of supportive housing, there are competitive grants available from the U.S. Department of Housing and Urban Development (HUD), including the Supportive Housing for the Elderly Program (Section 202) and the Supportive Housing for Persons With Disabilities Program (Section 811). The Section 202 total appropriation in Federal FY 2010 was $825,000,000, of which $20,000,000 was earmarked for grants to nonprofits for architectural and engineering work, site control, and planning activities. The Section 811 total appropriation in Federal FY 2010 was $300,000,000. For both programs, HUD makes competitive funding awards following issuances of national Notices of Funding Availabilities.

Additionally, eligible SRO developments may be eligible for project-based rental subsidies under the HUD Section 8 Moderate Rehabilitation Single Room Occupancy Program (Section 8 SRO Program). This program is intended to address the problem of homelessness by providing project-based rental subsidies for landlords of SRO developments that have undergone moderate rehabilitation, otherwise defined as at least $3,000, but no more than $19,000 per unit in rehabilitation work. Unlike the Housing First program, this program does not require that residents have a permanent disability to reside in the eligible project.

The rental subsidy under the Section 8 SRO Program is limited to a maximum of the HUD fair market rent guidelines for studio units in the county in which the project is located. For example, in 2010, the affordable rent for an individual at 50 percent of the area median income in a studio apartment located in the City and County of Honolulu is $870 per month. The rental subsidy offsets a portion of the operating expenses of an SRO development, making it more feasible to rent units to very-low and low income persons and to provide a safe and secure living environment for residents and the surrounding neighborhood.

HUD makes competitive funding awards for Section 8 SRO Program applicants. Funding for this program comes out of the same pool of funding for the other two Homeless Continuum of Care programs – the Supportive Housing Program and the Shelter Plus Care Program. A total of $1.68 billion has been made available by HUD for competitive grant awards in a Notice of Funding Availability issued in October 2010.

There is no specific allocation of funds among the three Continuum programs. Instead applications are weighted by the designated preference of the local Continuum of Care entity in the locality in which the applicant is based. Because the Shelter Plus Care Program is currently the only one of the three programs operating in Hawaii, it appears unlikely that a Section 8 SRO Program applicant would be awarded a grant.

Transit-Oriented Development – City and County of Honolulu

Transit-Oriented Development (TOD) refers to land uses surrounding a transit station intended to take advantage of being located near to transit. The City and County of Honolulu is in the process of developing its TOD neighborhood plans along the proposed transit corridor. The current transit route extends from East Kapolei to Ala Moana Center.

Need for Affordable Housing in TOD Districts

Next to housing, transportation is the second highest cost for most households. Affordable housing located near transit allows low-income persons and families to live an affordable lifestyle with access to schools, jobs, health care, and social services, among other things. In particular, seniors living near transit are better able to live independently and in less restrictive residential settings for as long as possible. Accordingly, promoting and preserving affordable housing in TOD districts is an important priority.

However, without careful planning, and political will, it is difficult to promote and preserve affordable housing opportunities close to transit stations. The challenge includes the following:

- TOD often creates a premium effect that increases land values in areas adjacent to transit stations.[4]
- Higher land values attract luxury market housing projects that further drive up competition for the land.
- Typically, affordable housing projects involve complex financing schemes involving many sources of funding from different kinds of financial institutions. According to a recent *Hawaii Business* magazine article, ". . . the average affordable-housing project in Hawaii is funded by at least seven financial instruments – industry insiders say some projects require as many as 14 – each of which comes with its own rules."[5]
- SROs face additional difficulties over and above other types of affordable housing due to the problems of community acceptance of these projects in the planning process.

Current Status of TOD Neighborhood Plans

As of the date of this report, the City and County of Honolulu's TOD planning process includes three draft neighborhood TOD plans for the localities of East Kapolei, Waipahu and Aiea-Pearl City. The three draft neighborhood plans to date appear to allow for SRO-type developments in the neighborhood TOD areas currently undergoing the planning process.

There may also be other opportunities for SRO developments to become part of the TOD plan as the TOD neighborhood planning process progresses to the industrial and urban infill areas of the preferred transit route, such as the areas near to Honolulu Airport, or in Kakaako, both areas where there is an availability of state-owned land and fewer existing residential neighborhoods and schools.

TOD Planning Lacks Focus on Affordable Housing

Another obstacle for SRO development in TOD areas is the lack, to date, of specific city or state policies to promote the development of this type of housing. The City and County of HDepartment of Planning and Permitting, which is taking the lead role in TOD planning, has stated that they are not planning dramatic changes to existing policy (which requires all rezoned residential development projects to deliver 30 percent of the total units to households at or below 140 percent of the area median income), although a final decision of affordable housing in TOD districts has yet to be adopted.

Policies could differ by community. As an example, the draft Waipahu TOD plan recommends a 20 percent requirement, with all these units for households at 80 percent of median and below. Developers of projects within the TOD districts could satisfy affordable housing requirements by building affordable housing product that does not target very-low income individuals, and generates more rental income. Or they may be allowed to provide fewer units if targeted to lower incomes, but these strategies have yet to be addressed.

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[4] "Capturing the Value of Transit," Center for Transit Oriented Development, September 2008.
[5] "The High Cost of Affordable Housing," Hawaii Business, October 2010.

City and County of Honolulu's Preferred Mass Transit Route.

Conclusion

SRO development within TOD districts is a potential means of addressing housing needs of very-low income individuals in need of basic housing with access to jobs, health care, and essential services. However, it is unlikely to play any major role for the following reasons:

- The modest amount of rental income generated by potential low-income residents of such projects make them difficult to finance and develop.
- The lack of available funding programs to subsidize SRO operational costs.
- The financing challenges are not offset by the minimal amount of up-front cost savings achieved by developing SRO units instead of full sized studio apartment units.
- The difficulty of obtaining community acceptance of SRO projects, except perhaps for very small-scaled projects under unique circumstances; e.g. lack of immediate residential neighbors makes the development process lengthy and difficult.
- The lack of strong political will, and therefore lack of significant public policy focus on promoting and financing SRO development in TOD districts over any other type of affordable housing product.
- The lack of strong non-profit sector champions for this type of housing, taking on the full gamut of responsibilities – from capital improvement financing to operating and maintenance costs.

Under current state and local government policies and building codes, developers do not have a good reason to opt for SROs to satisfy their affordable housing conditions rather than other types of affordable housing that are easier to develop, more acceptable to community groups, and that involve less risk. Unless additional incentives <u>specifically targeted towards SRO development</u> are made available, few developers will choose to build them. Therefore, development of affordable studio apartment units in TOD areas may be a more feasible alternative to address the housing and transportation needs of very-low income individuals.

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