Hawaii Interagency Council for Transit-Oriented Development

Minutes of Meeting No. 36

Tuesday, June 9, 2020
9:30 am
Hawaii Community Development Authority
Community Room, 1st Floor
547 Queen Street, Honolulu, Hawaii

Members/ Designees Present:	Mary Alice Evans, Office of Planning (OP), Co-Chair Denise Iseri-Matsubara, Hawaii Housing Finance & Development Corporation (HHFDC), Co-Chair Curt Otaguro, Department of Accounting and General Services (DAGS) Robyn Loudermilk, Department of Education (DOE) Darrell Ing, Department of Hawaiian Home Lands (DHHL) Heidi Hansen Smith, Department of Health (DOH) Malia Taum-Deenik, Department of Human Services (DHS) Ian Hirokawa, Department of Land and Natural Resources (DLNR) Wayne Takara, Department of Public Safety (PSD) David Rodriguez, Department of Transportation (DOT) Benjamin Park, Hawaii Public Housing Authority (HPHA) Scott Chan, Stadium Authority (SA) Carleton Ching, University of Hawaii (UH) Representative Nadine Nakamura, House of Representatives Harrison Rue, City & County of Honolulu (City) April Surprenant, County of Hawaii Jodi Higuchi Sayegusa, County of Kauai Betty Lou Larson, Catholic Charities, Housing Advocate Bill Brizee, AHL, Developer Representative Ryan Okahara, U.S. Housing & Urban Development, Honolulu Office (HUD) (Ex-officio)
Members/ Designees Excused:	Sara Lin, Office of the Governor Garett Kamemoto, Hawaii Community Development Authority (HCDA) Senator Lorraine Inouye, State Senate Pam Eaton, County of Maui Cyd Miyashiro, American Savings Bank, Business Community Representative
Other Designees/ Alternates Present:	Deepak Neupane, HHFDC David DePonte, DAGS
TOD Council Staff:	Rodney Funakoshi, OP Ruby Edwards, OP Carl Miura, OP
Guests:	Philip Garboden, UH-Manoa Department of Urban and Regional Planning (DURP) James Dannemiller, SMS Hawaii

Kevin Auger, HPHA
Nancy McPherson, DHHL
Lisa Watkins-Victorino, Office of Hawaiian Affairs (OHA)
Ryan Andrews, Stadium Authority
Franz Kraintz, City Department of Planning and Permitting (DPP)
Tim Houghton, City Department of Environmental Services (ENV)
Ben Trevino, Honolulu Authority for Rapid Transportation (HART)
Veronica Rocha, Essential Leap
Senator Stanley Chang, State Senate
Nathalie Razo, PBR Hawaii
Kiana Otsuka, Oahu Metropolitan Planning Organization (OMPO)
Tim Streitz, City Department of Planning and Permitting (DPP)
David Arakawa, Land Use Research Foundation (LURF)
Christopher Delaunay
Ian, Oceanit
HOEISF-Lobbyist

1. Call to Order

Denise Iseri-Matsubara, Co-chair, called the meeting to order at 9:32 a.m.

2. Introduction of Members

Members and guests introduced themselves.

3. Review and Approval of Minutes of May 12, 2020 Meeting

It was moved by Nadine Nakamura, seconded by Robyn Loudermilk and unanimously voted to approve the May 12, 2020 meeting minutes as circulated.

4. State Housing Planning Study
Presentation by Jim Dannemiller, President, SMS Hawaii

Jim Dannemiller explained that the Hawaii Housing Planning Study (HHPS) is a comprehensive housing study conducted every 3 to 5 years since 1992. It gathers data to support housing planning and initiatives, especially public and affordable housing, and is designed to provide a long-range data series. There are 11 - 13 components, including a housing demand survey, data on housing projects, and a housing inventory. In 2019, they added a fair market housing study and a low- to moderate-income study for several of the islands.

Hawaii's housing market is high priced, and the housing supply is inelastic. A change in demand does not necessarily bring about a change in supply. There are a lot of reasons for this, but the biggest is overregulation.

Dannemiller noted the following housing information and trends between 2014 – 2017 reported in the 2019 HHPS:

- Change in Hawaii's housing stock is relatively slow. This has been constant since the HHPS was initiated. Instead of total housing units, the focus should be on housing stock: the total occupied housing units plus the vacant and available units in the market.
- Housing stock was 90 percent of total housing units. Ten percent were unavailable to the housing market.
- Hawaii built 8,028 housing units, but only 4,444 were in the housing stock in 2017. The remaining units could not be used.

- Units are lost due to vacancy for seasonal use and other vacant categories. Units categorized as other vacant units had the highest growth rate. These are units that are withheld from the market due to factors such as the need for refurbishment or owner decisions about whether to sell or rent units.
- Homeownership was about 58 percent or up only a point since 2014.
- Housing prices and rents were up. The median price for a single-family home was up about 20 percent and rents were up around 11 percent.
- The wage level required to buy a median-priced house was $36.13 per hour in 2017, up from $34.22 in 2016.
- More people are moving out of the state. Twenty-four percent in of those surveyed in 2019 said they are likely to move out of the state, up from 22 percent in 2014. Twenty-two percent of these respondents mentioned housing as the cause.
- Sales to out-of-state buyers were up.
- More of the local housing stock is being used for short-term visitor rental units, approximately 52,047 statewide.

About 12.8 percent of housing demand was pent-up demand in 2017. The HHPS definition of "pent-up demand" or unmet demand is the number of households that want or need a new housing unit that is not available to them. Pent-up demand is largely unchanged over the years and is considered relatively high. Indicators of pent-up demand include:
- 13.8 percent of State households are in crowded households (2017 American Community Survey).
- 14.5 percent of homes were doubled-up (2019 HHPS).
- 13 percent are multigenerational households (HHPS p. 27).
- 22 percent or 99,000 are hidden homeless.
- 8 percent are subfamilies (2017 ACS).
- 64 percent of millennials in Hawaii are living at home with parents; 35 percent is the national average.

Dannemiller said that HHPS was probably underestimating needed units by basing need on population change and not accounting for pent-up demand. In 2017 and 2018, Hawaii's population declined, and it's uncertain whether the 2019 figures will decrease and if this is a start of a trend. DBEDT's projected residential housing demand decreased from 65,099 between 2015 – 2025 to 36,155 for 2020 to 2030.

In the 2019 HHPS study, several questions were specifically targeted towards TOD on Oahu, with the following results:
- When you move to your next home, do you intend to move closer to the workplace of someone in the household to reduce transportation costs and commute time?
  - 37.8 percent said yes; 36.1 responded no.
- Would you want to move closer to one of the rail stations when they are built?
  - 19.4 percent said yes; 59.3 percent answered no.
- (Of those who answered yes to interest in moving closer to rail stations) Are you interested in a multi-family, for-sale, unit (condo or townhouse) near a rail transit station?
  - 73 percent replied yes; 15 percent said no.

In the discussion period that followed, Stanley Chang objected to the notion that a reduction in population should be used to reduce estimates of the housing demand in Hawaii. He stated that population decline is occurring because housing costs are increasing. Instead, he said it would be more accurate to measure housing demand if Hawaii were to have the same median home price

($250,000) as the U.S. mainland. Chang remarked that findings that suggest less projected need could be misinterpreted to mean that the housing shortage is going away, and Hawaii no longer needs to do anything about it as the population declines.

April Surprenant asked if short-term vacation rentals were specifically accounted for in the numbers or does if they fall under the category of vacant for seasonal use. Dannemiller responded that the data is not definitive since no one is counting these units except for possibly the Hawaii Tourism Authority (HTA). The HHPS data was obtained from US Census data and is uncertain these are seasonal units. It is clear that units are being built and used for this market and that units in the housing stock are being used for visitor rentals.

In response to Bill Brizee, Dannemiller explained that out-of-state owners fall under the seasonal units based on the definition.

Betty Lou Larson expressed concerns about the methodology used in the study. With about 20 percent of the respondents saying they might be moving out of Hawaii due to the housing costs, there's a need to address this rather than accepting the decrease in demand as due to population decline. She asked that the next study address the pent-up demand that forces people out of the islands and what can be done about it.

Dannemiller observed that the projected number of units needed is not a small number, and Hawaii has never built in any one year even 20 percent of the projected 50,000 units needed. He also noted that people moving into Hawaii is a reality and needs to be dealt with. Most of the people moving out are younger individuals.

In response to a request for clarification from Harrison Rue, Dannemiller clarified that 22 percent of the 24 percent of the people who answered they'd be leaving the state were leaving due to housing costs, which translates to about 5 percent of all survey respondents saying that they are moving due to housing.

5. Relieving Housing Affordability Pressures in Hawaii
Presentation by Philip Garboden, HCRC Professor in Affordable Housing Economics, Policy and Planning, UH-Manoa

Philip Garboden provided background on his affordable housing research as well as current work he is doing with respect to responses to COVID-related impacts on housing affordability in Hawaii. Three phased strategies are needed to respond to COVID's impact on housing and long-term affordable housing.

- Avoid Displacement During the Pandemic (March 2020 - ???). Due to social distancing, people can't change housing while in some level of quarantine. Hawaii has done fairly well in this area with a combination of unemployment benefits, eviction moratoria, and grassroots food support—all of which has minimized displacement.
- Supporting Families During a Recession (August 2020 – 2022). In August, the supplemental federal unemployment benefits will run out. Analysts anticipate the recession is going to last a very long time. The legislature is working on this area right now.
- Building a Better Housing System (July 2020 – forever). Work needs to continue beyond just avoiding displacement and supporting families to actually improve the affordable housing system so that we don't just return to the current housing status quo.

Garboden discussed two challenges that needs to be addressed right now.

- Income Decline and Increasing Need. The State is looking at significant unemployment that it has never experienced before. The most optimistic forecast has the State returning to a baseline sometime in 2022. Hawaii is most vulnerable to COVID-related shutdowns because of the State's dependence on tourism, which means the recession could last longer than other areas of the country. Also, the impact is not going to be evenly distributed; this industry is expected to be hardest hit. Renters who work in tourism-dependent industries are already the most housing-burdened. About 10,000 households get their incomes from the accommodations and food service industry, and approximately 35,000 get part of their income from these sectors. This is about 20 percent of all renters. Among those renters who get part of their income from the accommodations and food service industry, almost half were already housing-burdened and over 20 percent were already paying half their income towards rent. Individuals working in the retail sector face a similar situation.

- Loss of Small Rental Stock. Most of the rental stock in Hawaii tends to be owned by a family hui and individuals who are renting out a second house. Small landlords are more vulnerable because they have limited access to capital and few cash reserves, inconsistent (and low-tech) management practices, poor (and sometimes illegal) screening techniques, and serve the lowest income tenants. All of this put together create a perfect storm. When the income of the lower-income half of the rental market disappears, small landlords are likely to suffer the consequences. Also, 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. Affordable housing is going to be the most at risk in the next couple of years and the hardest to replace without significant subsidy.

Garboden stated that COVID could provide some opportunities for housing. First, there is the potential to acquire and/or preserve properties at "a discount" for affordable housing due to slower increases in property values than in prior years. The opportunity cost of waiting might be higher in several years. He echoed Dannemiller's earlier remarks about the recent decline in the State's population, citing information from the University of Hawaii's Economic Research Organization (UHERO) that expects the State's population to continue to decline until at least 2022. If Hawaii's economy returns slower than the rest of the country, then the differential of opportunity between Hawaii and mainland job opportunities adjusted for the cost of living is going to make moving away much more appealing for modest income families. In addition, people who moved away for higher education are less likely to return. This would likely soften the housing market. Prices might rise less rapidly than previous, but they could go down depending on the severity of the downturn. Second, there is a potential to see a decline in the short-term vacation rental stock due to COVID-related restrictions on vacation rentals. If tourism is slow, then owners will look towards longer-term renters or sell the property. Population and short-term vacation rental declines could soften the housing market.

Garboden stressed that Hawaii needs to take the opportunity presented by COVID to think about how to increase and preserve the stock of affordable housing. Some of the policy options to consider include:

- Master Lease Programs. These are used in areas like San Francisco where it is difficult to find housing for subsidized tenants. In this case, a government agency or non-profit enters into a multi-year lease with a rental property owner, providing a steady stream of income in exchange for a below-market lease. The government agency or non-profit would sublease units to low-income residents and families needing housing. This makes renting less risky for homeowners or property owners.
- Property Acquisition and Preservation. This entails tracking subsidized housing with affordability terms expiring as well as "naturally occurring" affordable housing and negotiating a

preservation strategy with owners, such as offering sub-market loans in exchange for maintaining affordability, accepting housing vouchers, etc.

- Acquisition Under Austerity. Unfortunately, the window of deepest affordability may coincide with a need for deepest austerity. Bond financing may be needed to lock in affordability before markets recover.
- Infrastructure Investment to support Affordable Housing.
- Mixed-Use/Mixed-Income Development. Depending on the mix, modest income units can be funded with proceeds from luxury development. Higher-income residents are more likely to pay more for neighborhood-level amenities and facilities, which will benefit all development residents. One of the challenges with mixed-income projects is that there is very little evidence to date of meaningful contact between income groups.
- Rental Assistance Demonstration (RAD). This is a US Department of Housing and Urban Development (HUD) program that promotes redevelopment of existing public housing into mixed-income projects. It offers public housing agencies a way to leverage funding through other government programs and private investment to maintain, preserve, and upgrade public housing.
- Leasehold housing units. This would promote the use of publicly owned land for housing with restrictions to preserve affordability for a very long period.

In summarizing, Garboden observed that economic conditions due to COVID will be rough for residents for a while, and that affordable housing development is more important now than ever. There are opportunities in this crisis to create more affordable housing if Hawaii is more proactive. The State cannot wait until the COVID crisis is over to act on creating and preserving affordable housing and there is an enormous opportunity cost associated with waiting.

6. Status of TOD-Related CIP Items and Legislative Bills

Mary Alice Evans reported that the Legislature met for about a week in May, then recessed again, and will be reconvening later in June. She noted that in January the TOD Council approved recommendations to the State Legislature to fund three TOD-related CIP budget requests for Pohukaina Elementary School, the PSD Oahu Community Correctional Center (OCCC) Redevelopment, and HPHA's School Street Redevelopment project.

Robyn Loudermilk reported that the CIP request for Pohukaina Elementary School did not make it into the budget bill. In response to an inquiry, Loudermilk confirmed that the DOE did receive funding for the project from the Legislature in the past.

Wayne Takara expressed appreciation to the Council for its support; however, the PSD request was not funded. The project is still progressing and is in the second phase of the planning process. PSD will have more information for a budget request in the 2021 legislative session.

Ben Park said that HPHA was successful in securing its CIP request for $2.5 million in pre-development funding for the School Street Redevelopment Project. He thanked the Council for its support. The project is undertaking a community engagement process for their 201H application. HPHA hopes to obtain project entitlements this October.

Rodney Funakoshi said the Legislature will consider some other TOD-related bills in the June session including SB 3104 (Omnibus Housing) and SB 2940 (Stadium Redevelopment District transferring jurisdiction from the Hawaii Community Development Authority to the Stadium Authority). HB 2725 (Supplemental CIP Appropriations) was passed and was transmitted to the Governor. It included an appropriation of $1.5 million in TOD CIP Funds to the Office of Planning (OP). OP is planning to give priority to Neighbor Island TOD projects.

Dave Arakawa commented that testimony objecting to Land Use Commission (LUC) provisions in SB 3104 was submitted by housing developers, non-profit housing entities, unions, Sierra Club, Hawaii Appleseed, and OHA. He said he will send Funakoshi a copy of the testimony from the Senate Ways and Means hearing. He suggested that OP and HHFDC review the bill.

7. Affordable Housing Work Group Update

Nakamura shared that the Legislature is going to reconvene on June 22 and meet through July 10, 2020. They will be considering bills with no appropriations or fiscal impact. Any language has to be approved by all chairs because there will be no conference committees to resolve differences.

She reported that the Affordable Housing work group met a few times to put together a detailed list of potential affordable housing projects on State- and privately-owned lands along the Honolulu rail corridor. The work group established a 10-year affordable housing goal of 10,000 units around transit stations. The group developed criteria on how to prioritize infrastructure and funding projects. HHFDC and OP are working on identifying needed infrastructure and costs to determine direction, prioritization, and estimated funding requirements to support the provision of affordable housing along the corridor. The work group will need to collaborate with the City to make sure this effort is moving in the right direction and to determine proposals for funding to submit next session. Whatever the group puts together, it needs to have a big impact and really encourage public and private sector development of housing.

8. Infrastructure Investment Strategy Work Group Update.

Funakoshi explained that the TOD Council established the Infrastructure Investment Strategy Work Group during the last meeting. It would formulate a coordinated strategy to guide implementation decisions on how, when, and where to invest in infrastructure. The TOD Council group members include DAGS, HHFDC, HPHA, DLNR, DOT, UH, DOE, OP, and the City. Other agencies that may be asked to participate include the Departments of Budget and Finance (B&F), Taxation (TAX), and the Attorney General (ATG). Currently, the group has only nine TOD Council members. Nadine Nakamura from the House of Representatives was added to the work group. Nakamura and Denise Iseri-Matsubara from HHFDC will serve as co-chairs of the work group.

9. Next Steps - Future Agenda Topics

a. Tuesday, July 14, 2020 – There was agreement to cancel the July TOD Council meeting as proposed by the Co-chairs. Evans announced that the next meeting will be on August 11, 2020.

10. Announcements

- No announcements

11. Adjournment

There being no further business, the meeting was adjourned at 11:30 a.m.

Note: All meeting materials are posted at http://planning.hawaii.gov/lud/state-tod/hawaii-interagency-council-for-transit-oriented-development-meeting-materials/.