

Affordable housing development barriers assessment

Developers, government officials, City Council members, advocates, researchers, and others identified a series of barriers to housing production - both affordable and market-rate – in Honolulu.

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Overview

Housing development in Honolulu currently faces significant obstacles.

Housing development in Honolulu faces significant obstacles. Some are unavoidable, such as geographic features that limit the amount of land available for development. Others are within the power of Honolulu City and County to address. They stem from land use decisions, regulations, and lengthy permitting and other processes.

For example, some of the high costs of development are inevitable, such as shipping costs of construction materials; others are affected by local building codes, affordable housing requirements, and impact and other fees. “Not in My Backyard” sentiment, called NIMBYism, is also a factor.

There are additional barriers to specific types of housing, including ADUs and Ohana units.

Limited availability of flexible subsidies to help fill gaps in financing are a barrier to more affordable housing production, especially for people at the lowest incomes.

Barriers to housing production in Honolulu

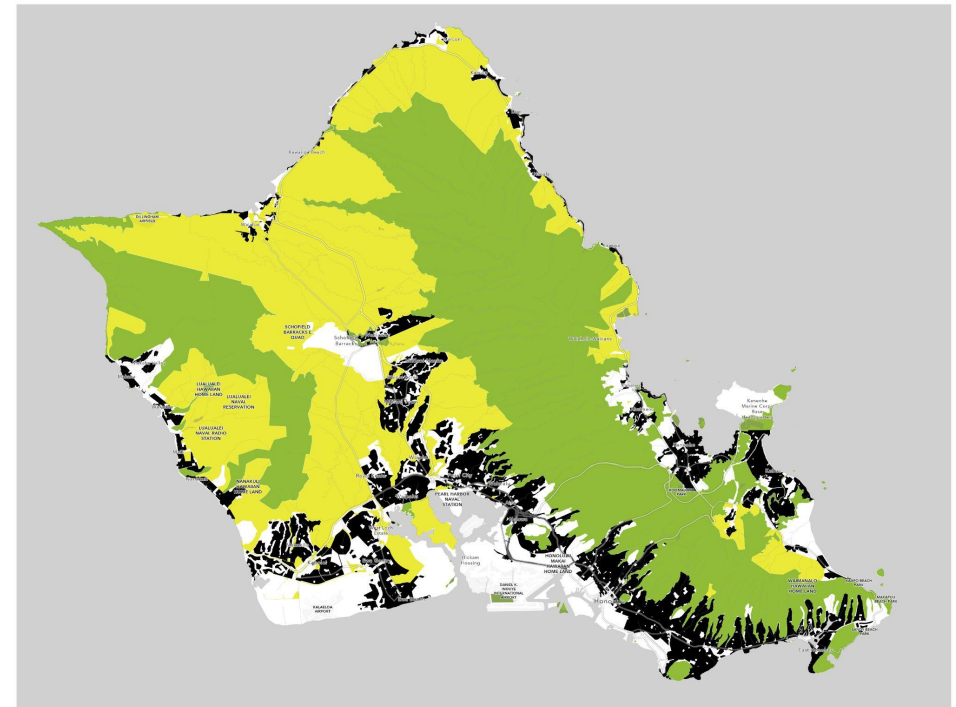
- **Limited land available for development**
- **Regulatory barriers**
 - Zoning and land use regulation
 - Building codes and requirements
- **Unpredictable and lengthy development approval processes**
- **High development costs**
 - Infrastructure
 - Construction labor and materials
 - City’s impact and other fees
 - City’s Affordable Housing Requirements
- **Limited City staff capacity**
- **Public opposition to new development**
- **Barriers to specific types of development**

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Limited Land Available for Development

Geographic constraints, state land use designations, and other factors limit the land available for development.

- **Barrier: Geography and land use designations.** Honolulu's unique geographic features and land use designations limit the availability of developable land. Land in Hawaii is all designated urban (5 percent), rural (less than 0.5%), agricultural (47%), or conservation (48%).
- **Barrier: Concentrated land ownership.** Much of the developable land in Honolulu is concentrated among a few landowners, so homes are sometimes built on land using long-term ground leases rather than owned land.
- **Barrier: Building process for Native Hawaiian lands.** Land under the control of the Department of Hawaiian Homelands cannot be developed without express consent from Native Hawaiians. This process is lengthy and unpredictable; some stakeholders reported that they avoid building on Hawaiian homelands.



■ All zones where housing is permitted*

■ Conservation lands

■ Agricultural conservation lands

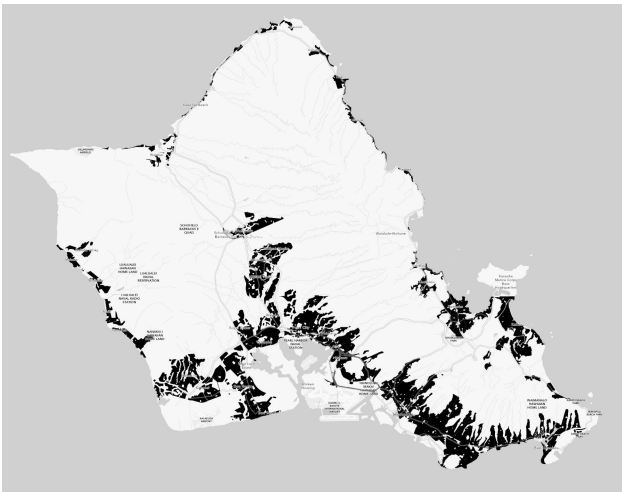
*note that some of the included areas, may include Country and Resort districts.

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Regulatory Barriers - Zoning and Land Use Regulations

The state and local land use entitlement processes can be lengthy and complex, often involving multiple layers of review and approvals from different government entities. There is limited land zoned for multifamily housing, and overly restrictive densities in some apartment districts.

- **Barrier: State and local land use entitlement processes.** Hawaii has both state and local zoning. As noted above, only 5 percent of O'ahu's land is within the Urban Growth Boundary/designated urban, where residential construction is allowed. Converting agricultural land to urban for projects of 15+ acres requires the permission of the state Land Use Commission, duplicating the county land use approval process.
- **Effect on supply and affordability.** The combination of state and local land use entitlement processes can delay projects and add costs.
- **Barrier: Limited multifamily zoning.** Multifamily zoning is heavily concentrated within a few ZIP codes (such as downtown Honolulu); in others there is little or no land zoned for multifamily.
- **Barrier: Height restrictions in lower-density apartment districts.** Height restrictions in lower-density apartment zones in Honolulu often make redevelopment financially infeasible. Stakeholders report that too few units can be built to cover development costs.
- **Effect on supply and affordability.** Stakeholders report that lower-density apartment districts contain aging walk-up apartment buildings and single-family housing rather than the higher density typically found in apartment districts.



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Regulatory Barriers - Building Codes and Requirements

Building codes and requirements for historical and environmental reviews add costs to construction. While many of these regulations provide important benefits, some do not provide as clear a benefit in return for the costs involved.

- **Barrier: Building codes and requirements.** Although essential for safety and health, stakeholders argue that some of Honolulu's building costs are unnecessary, such as those that require EV charging stations, even for affordable housing projects. These requirements significantly increase the cost of construction.
- **Barrier: Adaptive reuse (office-to-residential conversions).** Building codes currently inhibit converting office space (13 percent of which is currently unused) to residential. Requirements for access to direct light and ability to open windows limit the ability to repurpose interior offices into apartments.
- **Barrier: Historical review.** Any property over 50 years old is automatically subject to historic review. The backlog in the review process is a potential bottleneck for redevelopment of existing buildings, including for use as housing.
- **Barrier: Environmental review.** Given Honolulu's unique ecosystem and landscapes, environmental protections are stringent. Developers often need to conduct detailed environmental assessments and mitigation plans, which can be costly and time-consuming.

Affordable housing development barriers assessment**Barriers to Specific Types of Development - ADUs and Ohana Units**

There are barriers to the construction of ADUs and Ohana units, limiting the supply of an important source of low-cost housing.

- **Barriers.** ADUs and Ohana units are restricted in several ways:
 - The permitting process can be difficult for individual homeowners to navigate.
 - It can be challenging for homeowners to access financing.
 - Construction costs are high.
 - ADUs and Ohana units are limited to a maximum of 800 ft².
 - Some homeowners may be deterred from developing ADUs by concerns about being a landlord.
 - The owner occupancy requirement restricts the ability of investors to construct ADUs.
 - A maximum of one ADU is currently allowed per lot.
 - Local infrastructure may be insufficient to support added units.
- **Effect on supply and affordability.**
 - Barriers to ADUs and Ohana units restrict the supply of this low-cost housing.
 - Owner occupancy requirements may be an obstacle to mortgage financing.
 - Size restrictions limit the number of potential occupants; units could otherwise house larger families.

Progress to date

- **Bill 64**, which updates the Honolulu Land Use Ordinance, allows an ADU plus an ohana unit in addition to the principal unit on residential lots, provides that certain development standards are met, including ensuring that there is sufficient infrastructure.
- This bill may become ordinance as soon as the end of 2024 or early 2025.

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Process Barriers - Lengthy Approval and Permitting Processes

Lengthy and unpredictable approval and permitting processes add to the time and expense of developing housing

- **Barrier: Lengthy review processes.** A lack of City staff capacity, outdated software, and other factors have contributed.
- **Barrier: Inconsistent and unpredictable approval processes.** In some cases, state and county reviews are inconsistent. In other cases developers face a duplicative review process requiring multiple submissions to different agencies. After meeting all requirements, projects can be disapproved at the final stages.
- **Effect on supply and affordability.** Lengthy and unpredictable approval processes increase cost and risk for developers.

Progress to date

- **Technology:** DPP is adopting new technology including AI to speed the process, and is already seeing an impact.
- **Processes:** DPP has adopted ePlans and is streamlining other processes.



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High Costs of Housing Production - Infrastructure

Requirements that developers fund infrastructure significantly increase the costs of housing production. Limited tools are available to finance infrastructure.

- **Barrier: Cost of infrastructure.** Much of the land in Honolulu lacks infrastructure. The responsibility for developing infrastructure has shifted to developers, increasing the cost and complexity of projects.
- **Barrier: Lack of financing options.** Developers lack financing options to pay for infrastructure, such as Tax Increment Financing or a Community Facilities District.
- **Effects on supply and affordability:** Infrastructure maintenance, improvements, or new installation increases the cost of housing development. These costs can also discourage new development altogether.

TOD Infrastructure Finance and Delivery Strategy

State of Hawai'i | Office of Planning and Sustainable Development

Recommendations and Implementation Strategy

Phase 4 Report | December 2023

Prepared by:

HR&A Advisors, Inc.

PBR HAWAII

KPMG

Ashurst

Starn O'Toole Marcus & Fisher

R.M. Towill

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High Costs of Housing Production - Impact and Other Fees

Honolulu's costs of housing production are among the highest in the nation.

- **Barrier: High impact fees.** Most housing projects are subject to several impact and other fees from both the state and local government. The State School Facilities Authority and the Department of Transportation both impose impact fees; only senior housing is exempt. Affordable housing projects are not currently exempt from school and other impact fees.
- **Effects on supply and affordability.** One stakeholder estimated that DOE and DOT fees add from \$600 to \$1,000 in costs per unit, depending on location.
- **Barrier: Affordable Housing Requirements that haven't kept up with economic conditions.** Ordinance 18-10 (Bill 58 (2017), CD2), enacted in 2018, requires affordable units, built on or off site, with for-sale projects of 10 or more homes. The requirements have not kept pace with changes in economic conditions, particularly higher interest rates that reduce the sales prices affordable to moderate-income households. The costs of these homes are partially offset by fee waivers from the City and County of Honolulu and/or height and density bonuses but also add to the costs of market-rate units in the project.
- **Effects on supply and affordability.** When they interfere with the ability of developers to cost-effectively build housing, inclusionary housing requirements can limit new housing supply, reducing overall affordability. It is critical to ensure that the requirements are not overly onerous and that sufficient density is permitted to allow projects to pencil.

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High Costs of Housing Production - Construction Materials and Labor

High costs of construction labor, materials, and land make it difficult to build new housing affordable to middle-income households. To compensate for these costs, developers gravitate toward multifamily developments subsidized by LIHTC or residences targeted to high-income households.

- **Barrier: High construction costs.** Hawai'i has some of the country's highest costs of construction labor and materials.
 - Costs continue to rise: Honolulu's construction costs increased by 5.5% between January 2023 and 2024
 - The problem is exacerbated by a shortage of construction workers.
 - Federal construction projects at Pearl Harbor, continued rebuilding after Maui wildfires, and projects funded by the Infrastructure Investment and Jobs Act mean Honolulu has too few construction workers to meet the needs.
- **Effect on supply and affordability.**
 - High materials and labor costs have a direct impact, increasing the cost of all types of housing.

For residential construction, Honolulu has the second-highest costs in the nation behind New York, with the estimated cost to build a single-family home in Honolulu ranging from \$280 per square foot at the low end to \$535 per square foot at the high end.

- *Hawaii Business Magazine*

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Limited Flexible Funding Available to Support New Development

Financing to assist low-income housing is limited; even fewer sources are available for workforce housing.

- **Barrier: Need for additional sources of flexible funding.**
 - The Affordable Housing Fund is primarily used to fill financing gaps in LIHTC projects.
 - Few, if any, current funding sources are designed to support workforce housing or for-sale homes.
 - Availability of 4% Low Income Housing Tax Credits is limited by volume cap and because some of the state's allocations of Private Activity Bonds are used for other purposes
- **Barrier: Need for funding to close financing gaps.** Producing affordable housing that serves Honolulu's lowest-income residents requires assistance such as funding to close financing gaps, property tax rebates, and/or low-cost use of city-owned land.
- **Barrier: Need for pre-development funding.** Funding for pre-development work is virtually always scarce, and is essential for non-profit developers. Honolulu may need a source of funding specifically to help cover pre-development costs.

Progress to Date

- Deployed balances in the city's Affordable Housing Fund program to help address housing issues.
- Re-started the city's private activity bond program to provide an additional source of financing for affordable housing.
- Passed Ord 21-12, which gives cash grants for affordable units in Bill 7 (multifamily by right) projects

Affordable housing development barriers assessment**Limited Staff Capacity**

Lack of staff capacity in several departments limits the City's ability to facilitate housing development.

- **Barrier: Limited City staff capacity.** Vacancies in City staff position have had several impacts on housing production in Honolulu:
 - Lack of staff to process permit applications and review development proposals has contributed to longer timelines and costs to produce housing
 - There is limited staff capacity for asset management and to evaluate potential purchase opportunities
 - Until recently, Honolulu has not been able to issue bonds for housing due to limited staff capacity
 - The City has not used funds from the federal Housing Trust Fund, citing lack of staff capacity
- **Effect on supply and affordability.** Staff capacity below the level needed to support desired levels of housing production slows the development process and adds expense.

Progress to date

- DPP is actively recruiting and supporting needed legislation to fill vacancies and retain skilled staff.
- Honolulu is supporting legislation (HB 1758) to clarify that code compliance review of construction plans is lawful experience in engineering work for City employees. The change will facilitate engineers' efforts to qualify to sit for the exam to become supervisors.

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Public Input and Opposition

Public opposition to increased housing density and affordable housing shapes state and local policy and can prevent specific local projects from going forward.

- As in most places around the country, members of the public in Honolulu often express concerns about increasing housing density. These concerns include:
 - Increased traffic
 - Inadequate infrastructure
 - Overburdening schools and other services
 - Changing the character of neighborhoods
- Related to Honolulu's status as a tourist destination, many people also express concern that investors will buy up properties and increase housing costs for long-term residents.
- Two recent examples of opposition to new development include the proposed Manoa Banyan Court and Hale Makana O Maili:
 - Manoa Banyan Court was proposed to provide 288 units of senior housing on 11 acres of Manoa Chinese Cemetery land to help fund maintenance of the cemetery. Opposition from neighbors, arguing that it will destroy green space and is too large, has stalled the project.
 - Hale Makana O Maili on the Wai'anāe coast of O'ahu is a \$23 million affordable housing project with 51 rental units. Neighbors filed a lawsuit, arguing they were not informed of the project and there was insufficient local infrastructure. The effort was unsuccessful, but likely delayed the project and added to costs.

