Cover Story

What it means to climb Hawaii's housing market

Hawaii's housing ladder is hard to climb — from one's first rental as a young person to the upscale apartments of retired empty-nesters — and the lack of supply at all price points is just one of the factors prohibiting people from moving up — or entering — the ladder. Hawaii developers have ideas on how to change this, but they face obstacles in the form of financing and regulatory burdens.

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Repairing the rungs will require cooperation, creativity and action. Read their thoughts on what is needed to fix what is broken, and to give renters and home buyers the resources they need to put one step in front of the other.

Rental housing

For young locals and new arrivals, their first home is typically a rental, so rental properties form the first rung of the housing ladder.

In Hawaii's housing shortage, however, even the first rung is hard to come by. A lack of supply in the residential for-sale market keeps people trapped in the rental market, which in turn blocks new people from entering the rental market. And yet, according to developers, it is all but impossible to build new supplies of dedicated rental housing.

Christine Camp, president of Avalon Development Co., believes rental housing is accessible housing that is meant to be transient and flexible.

In healthier markets, rentals become available as people move out and into larger or pricier housing types. That's not occurring in Hawaii because people are becoming stuck on the first rung, prohibiting further movement and preventing others from taking the first step. If individuals are not able to move up the ladder, then there is a lack of supply available for entry level housing.

Camp, whose $165 million Hawaii Kai rental project recently opened, explains how there needs to be more development of rental housing.

“There are more for-sale units on the market, and there needs to be more developments made for rentals. If you really want affordable housing, allow a lot of rental housing to be built and subsidize it,” Camp said. “There needs to be more money for development on the rental side, and the process needs to be more expedient.”

Financing projects is the biggest issue, Camp says, and developing in Hawaii is unattractive because the return price is limited due to high land costs.

Camp says the only reason why her 269-unit Hawaii Kai project was feasible was because the landowner was willing to forgo the return on the land for a period of 20 to 30 years.

“Who wants to set aside all of this time to only make 4 percent of the profits? That’s why there hasn’t been development on the rental side — It’s not an attractive business,” Camp said.

Camp sees the rental housing rung of the ladder as the biggest factor in dampening movement. The cure is an abundance of rental housing, which would allow for natural market fluctuations and enabling buyer movement.

Affordable/workforce housing

The next rung up is affordable and workforce housing, where young professionals and blue-collar workers can get a break on the high cost of purchasing their first home. Here, too, there’s a shortage and growing challenges in building more.

Camp sees 801 South St. in Kakaako as a successful model which benefits individuals looking to enter the housing market and move up, and is also a direct example of how regulations are threatening this model.

801 South St. is a 635-unit residential tower in Kakaako developed by Downtown Capital that was intended for workforce housing, or households making 80 to 140 percent of the area median income.

“The project is a good example of the housing ladder at work,” Derek Lock of Downtown Capital said at a recent panel discussion hosted by BIA Hawaii. “Twenty-eight percent of our buyers were previously renters, and that equates to about 280 households who are renting in the older building stock of Honolulu. When you build a new building like 801 South St., 280 new buyers are going to move into that building and that frees up 280 rentals around town. If you build enough of this product, then that frees up the housing ladder.”

Individuals would sell their unit two years after moving in, then use the equity gained to move themselves further up the housing ladder.

“Some families who bought units were able to sell and move up, and people didn’t like seeing that,” Camp said. “But moving up in the ladder is necessary, and they shouldn’t be dampening the idea of owning a house.”

801 South St. opened in June 2015 as a privately-financed condominium project for Honolulu’s workforce, and all 635 units, priced between $253,200 to $501,300, sold out in a couple of weeks. Due to the popularity of the units, the project will open a second tower in January 2017.

However, a proposed rule change may reduce the ability of workforce housing to absorb renters and then further propel them up the ladder. The Hawaii Community Development Authority is proposing to lower the maximum income for buyers from 140 percent to 120 percent of the median income, increasing the supply of affordable housing but also restricting some individuals from buying into workforce housing projects.

“801 South was a project that worked to help individuals get on the housing ladder, but that is at risk now,” Camp said, who believes the people who qualify would not move out, and would be stuck on that rung.

Stanford Carr, president of Stanford Carr Development, has been working with the city and the state to utilize tax-exempt bond financing in the development of affordable rental units.

“What we have been building are subsidized rentals utilizing the 1986 Tax Reform Act, which utilizes tax credits and sells them to help underwrite the cost of the development.”

Carr said there still needs to be more collaboration between developers and the government to break down regulatory barriers and improve the capacity to process bond issuance.

For-sale homes and condominiums

This is the rung most discussed, the market-price home in Mililani or apartment in Kakaako. The shortage here is critical and, as with the previous rungs, when this supply is short homeowners and renters remain stuck behind it.

“This is the time where we have a housing crisis. It’s not just about affordable housing and it’s not just about homelessness. It’s about regular working people who cannot afford housing,” Camp said. “So we need to come up with more funding mechanisms. Stanford Carr has come up with ways to creatively finance developments but it is not enough if we are to meet 65,000 units over the next 10 years.”

Buyers looking to purchase a first house or condominium are met with increasing competition caused by low inventory, which drives up the price.

The median sales price for a single-family home on Oahu was $750,000 in November, a 4.8 percent jump from last year. The median sales price for condominiums was $395,000, a 14 percent increase from last year.

According to the Department of Business, Economic Development and Tourism, Hawaii needs approximately 65,000 new housing units by 2025. This projection is based on projected population growth, visitor growth, and vacancy rates, and breaks down to 25,847 units for Honolulu, 19,610 for Hawaii, 13,949 for Maui, and 5,287 for Kauai during the 2015-2025 period.

According to DBEDT, 9 billion square feet of land in Hawaii can be developed, but the state’s high construction costs and permit issues make building new residential projects challenging.

One of the solutions proposed by Carr is utilizing government-owned land for homes. Carr bid on a piece of land to create Halekauwila Place, a 204-unit rental project in Kakaako.

“Until 1996, the city collaborated with developers to create housing, and for some reason they got out of the business,” Carr said. “The government has a tremendous amount of underutilized property that private developers [could] build on.”

According to Carr, the state is looking into more lands that could be developed for homes.

Harry Saunders, president of Castle & Cooke Hawaii, said government should help with infrastructure costs because that is one of the biggest costs for developments.

Castle & Cooke set out to develop Koa Ridge, the 768-acre master planned community, after the success of its Mililani project, which was completed in 2008.

“We delivered 400 homes every year for 40 years with our project in Mililani, and we began our Koa Ridge project with the intention of continuing to deliver homes, but it was delayed by more than a decade,” Saunders said.

The delay caused the average price of a unit to more than double from its original price of approximately $300,000 to $700,000.

“The biggest argument we heard was ‘keep the country country,’ but that is also keeping the country homeless,” Saunders said.

When Mililani began in 1968, Saunders said the city and state were more supportive of residential development because it was part of an effort to prepare Hawaii for increases in population.

“As we went through statehood, the government did a lot to improve the city including building highways and sewage systems,” Saunders said. “Then they got into other services and left the infrastructure costs to the developers, which translates to buyers.”

Saunders said the government needs to take on infrastructure costs as capital improvement projects or classify it as a social good to lessen the cost and incentivize development.

“My supposition is that we are not building enough housing, period, and we need to make an active decision to build more homes,” Saunders said. “Every time a proposal is made, no matter how small, we need to calculate how that will affect the cost of housing.”

Koa Ridge is set to begin construction in 2017, and the first homes will be ready during the first quarter of 2019. Sales of the 3,500 homes, comprised of 65 percent attached housing and 35 percent single-family homes, will begin in 2018.

Luxury

The next step for homebuyers, specifically suburban homeowners, is to go back to apartment living, though in more comfortable surroundings than they could afford in their 20s.

“We need to provide homes for all levels for people to move up and free up supply,” said Todd Apo, vice president of community development for the Howard Hughes Corp., whose Ward Village master plan includes plans for an eventual 4,000 residential units in as many as 22 towers in Kakaako. “In providing new products and types of housing, you allow for continued movement for everyone else, so the luxury price point is an important part in the universe of homes.”

Howard Hughes recently opened its first Ward Village residential tower, the 174-unit Waiea, a $403 million development for buyers on the higher end of the income bracket, such as individuals later on in life in search of a smaller dwelling with nicer amenities.

Apo said the challenges of developing luxury units is the same as it is for the different price points, and the main challenge is simply the cost of construction in Hawaii. However, he said there are cost-cutting benefits to the master plan approach.

“Howard Hughes has had a lot of experience with master planned communities which helps with understanding the process and ways to work with suppliers to buy in bulk and cut costs,” Apo said. “The biggest money saver is with infrastructure, because it allows you to share the costs, and it is less expensive than with a single tower.”

The entitlement process is also quicker with a master planned community, according to Apo.

“We get a number of things taken care of early, and at the same time,” Apo said.

A key difference between luxury supply and market rate or affordable housing is the makeup of the buyers.

“Luxury buyers are challenging because they have the opportunity to be more selective and particular about the home they choose, whether it’s about the community, location or amenities,” Apo said. “They have more in mind for what they are looking for as opposed to someone just starting out, so it is hard to build to that desire.”

The key to understanding buyers is simply by listening to the community.

“By listening and talking to different groups, such as potential buyers, Realtors and economists, you can understand what people want and where the demand is,” Apo said. “For all price levels, we are trying to deliver the right products and the right homes in the right places. So far, demand has not been an issue.”

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