



# The Low-Income Housing Tax Credit Issue



**Preservation Pointers**  
*Knowing what makes a property unique, distinct is vital in affordable housing preservation.*  
Page 10



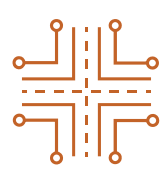
**SLRF Funds Needed as LIHTC Gap Financing**  
*National organizations request allowing State and Local Fiscal Recovery Funds for LIHTC financing.*  
Page 14



**Section 108 and LIHTC**  
*Learn how HUD's Section 108 program can help support LIHTC development.*  
Page 45



**State LIHTCs in 2022**  
*There are more than 20 state LIHTCs, with additional ones proposed.*  
Page 50



## FOCUS ON 🔍

# Focus On: Kihei, Hawaii

BRAD STANHOPE, SENIOR EDITOR, NOVOGRADAC

It's no day at the beach to build affordable housing in Kihei, Hawaii, but a friendly county government helps.

Kihei, the second-largest city on Maui, endured significant economic difficulties from the COVID-19 pandemic, multiplied by Hawaii's reliance on tourism. But affordable housing has a favorable reputation in the 50<sup>th</sup> state.

"Everybody loves affordable housing," said Kali Watson, head of Hawaiian Community Development Board (HCDB), a nonprofit developer that received a 4% low-income housing tax credit (LIHTC) allocation in 2021 to build Hale O Pi'ikea Phase 1, a 90-apartment affordable housing family property in Kihei. "The thing about Hawaii is the median-priced home is \$1 million. How many local people can afford that? That's a steep price to crack to get into housing."

The monthly real estate report from Locations Hawaii showed the median sales price for single-family homes in February was \$950,000 and the average price was \$1.2 million. The high prices come at the same time that the market is increasingly competitive, with the number of days a home stays on the market dropping quickly.

So, there is a need for rental housing for residents who earn 60% or less of the area median income. And Maui County, which makes up the Kahului-Waiuko-Lahaina metropolitan statistical area (MSA), is welcoming to those who develop affordable housing.

## Basics of Kihei

Kihei, which had a population of 22,811 in 2021, is on the south side of Maui and is the second-largest city on the island behind Kahului. While Maui is an island,

Maui County is made up of the islands of Maui, Lanai, Kahoolawe and Molokini, as well as part of Molokai.

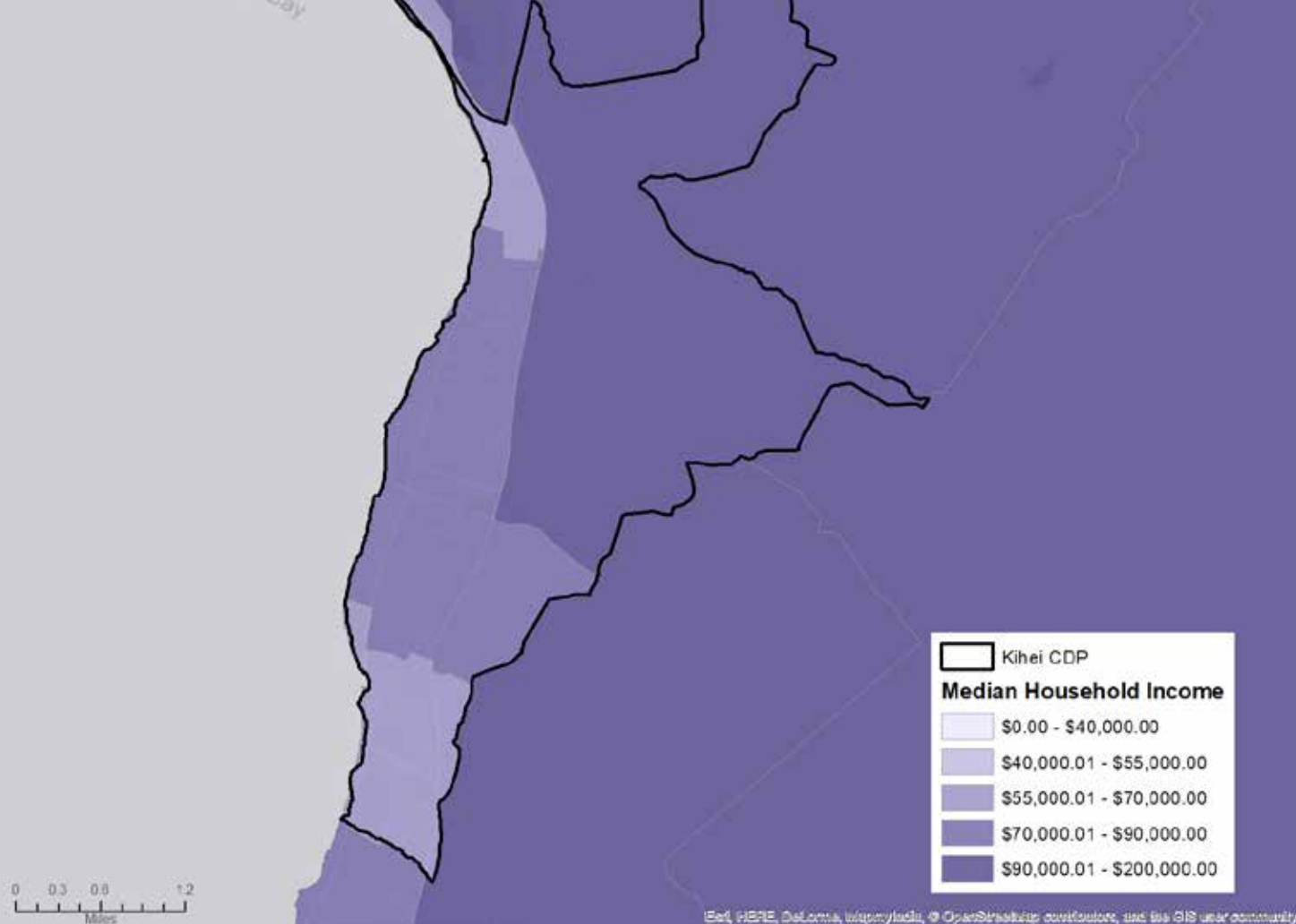
The MSA (and county) had a population of 166,696 in 2021 and is forecast to grow by an annual rate of 0.6% over the next five years, slightly slower than the national growth rate (which is 0.7% annually), but at twice the overall rate for Hawaii.

## Economics

The COVID-19 pandemic had a harsh effect on Maui, as the county saw the unemployment rate go from 2.4% to 18.1%. That increase was primarily due to a cratering of tourism, since about 20% of the jobs in the MSA are in the accommodation and food industries, which is more than three times the national percentage of jobs in those field.

That unemployment rate was back down to 4.8% in February 2022, suggesting that many of the jobs that went away during the pandemic returned. However, during a period when the national inflation rate is nearly 8%, Maui's median household income is forecast to rise only 1.3% annually, which is about half the national rate of income increase. One result: In a county where more than 40% of housing units are rentals and the median gross rent from 2015 to 2019 was \$1,642 per month, there's an affordable housing crunch that may get worse.

According to Out of Reach 2021, the annual report from the National Low Income Housing Coalition, the full-time hourly wage needed to afford a two-bedroom apartment at market rate in Maui in 2021 was \$34.08—a contributing factor to the fact that nearly



## Median Household Income in Kihei, Hawaii



half of Hawaii residents are cost-burdened, spending 30% or more of their income on housing.

### Hawaii Affordable Housing

Many issues in Kihei are related to statewide issues. In Hawaii, affordable housing developers go through the Hawaii Housing Finance and Development Corporation's process to ensure exemption from certain statutes and provisions related to planning, zoning and construction standards. That adds months to a development's timeline.

"Going through that process, including getting the financing, might take a minimum of three years," said Watson.

Watson said the situation depends greatly on which of Hawaii's five counties (four larger counties, plus Kalawao County, which has fewer than 100 residents

and is largely administered by Maui) is home to a development.

"You've got different administrations and county ordinances, so it's a whole different ballgame with a different cast of characters for each county," said Watson.

One exception is property administered by the Department of Hawaiian Home Lands, which was created when Hawaii gained statehood in 1959. Any of that property is already entitled for affordable housing.

### Financing Opportunities, Challenges

When it comes to financing sources for Hawaiian affordable housing, there are plenty of options.

"Our Hawaii deals are pretty flush with sources," said Zenzi Reeves, a senior vice president, asset

management for Berkadia. “Our partners rarely have to defer developer fees to offset development costs.”

There’s a lot of sources, but Hawaiian affordable housing hit hurdles in recent years when it comes to tax-exempt private-activity bonds (PABs), which are competitively awarded.

“That’s a challenge for us as developers,” Watson said. “There’s a huge amount of LIHTC applications and just not enough state and county bonding capacity. We should have won last year for both Phase 1 and 2 for the Kihei project, but we only got one because so much of the bond cap was taken by a public housing project on Oahu. We’ve gone back to [Hawaii Housing Finance & Development Corporation] for Phase 2 as well as Phase 3.”

Watson said Hawaii doesn’t necessarily have additional challenges when compared to mainland development.

“My partners do a lot of development on the mainland and there are very similar challenges,” said Watson. “There’s an impediment process.”

Reeves agreed, citing the experience of The Michaels Organization, their development partner.

“Their first property [in Hawaii] was a 555-unit public housing project renovated back in 2011, so Michaels gained enough experience and connections over time that helped to inform their decision-making process when they started to build again in 2016,” said Reeves. “They have found that challenges experienced with new construction were similar to challenges experienced on the mainland. They’re currently building a 155-unit high-rise and have experienced delays due to archeological items which require review and approval by the state. However, the general contractor and development team have an extensive history in building on the island and have been able to successfully navigate the current challenges.”

## Challenges in Kihei

Watson said Kihei is one of the more affordable-housing-friendly localities in a generally friendly state—something that was obvious when HCDB, along with its partner 3 Leaf Holdings Inc., collectively known as Ikenakea LLC, began working there.

“The council and mayor wanted more affordable housing, they’ve supported our Pi’ikea project and [market-rate developers] have been approaching us to do the affordable housing portions of their developments,” Watson said.

The desire for more affordable housing is high. According to a study by the Hawaii Housing Finance and Development Corp., the percentage of Maui residents who were “doubling up” by living with another family went from 8.7% in 2003 to 14.1% in 2019.

One outcome of that is a desire to build larger developments—both because of the big need and the benefits of the economy of scale.

“If I’m going to build, I’d rather crank out 200 to 300 units rather than 50,” Watson said. “That’s why I like projects like in Kihei, with 200-plus units.”

The current 90-apartment phase for that property is the first of a three-phase property. Phase 2 will be a 96-apartment development for the elderly and then there is a planned 36-apartment third phase.

Bigger is better in that case. But there’s a limit.

“We’ve upped our capacity to do larger numbers, but the challenge elsewhere is ceilings on funding sources,” Watson said.

A tight market for PABs, a long process to be clear of many zoning restrictions and inflation all make affordable housing a challenge in Kihei. But a friendly local government, a significant need and sufficient funding sources create a strong opportunity. ❖

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ISSN 2152-646X

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