REPORT TO THE LEGISLATURE
ON THE
CONCERNS AND FINDINGS RELATIVE TO
THE HIGH COST OF HOUSING IN HAWAII

Prepared by

The Council of Housing and Construction Industry
State of Hawaii

January 1978

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I. ACT 166

The Hawaii State Legislature formally enacted Act 166 at the close of the 1976 Legislative Session. The primary objective of Act 166 was the creation of the Council of Housing and Construction Industry. A proposed assembly of knowledgable citizens from both the public and private sector to be commissioned for the purpose of investigating the reasons for the high cost of housing in the State of Hawaii and arriving at findings and recommendations to the legislature to alleviate this severe problem was formed.

It has long been recognized that serious problems within the housing and construction industry prevail as a result of the increasing prices of dwellings due to the rising costs of land, labor, capital, materials, and the countless time-consuming (and therefore expensive) regulations and approval procedures enforced by government.

These major problems in Hawaii's housing situation necessitated the enactment of Act 166. Many people still pay much more for housing than they can readily afford, many are as yet unable to reach their goal of homeownership, while others are still inadequately housed. Several factors exist in the housing market which permit the price of houses to remain in a range higher than the preponderance of the populace can readily afford.

1. Land costs have risen as a result of the continuing scarcity of readily developable land, (especially in areas where the necessary supportive facilities such as sewer systems, water supply, proper access highways, power sources, schools, etc. already exist), as well as the increase in the cost of these improvements. This scarcity is due to such variables as location, topography, land ownership patterns, land tenure, competititive uses, and government regulations.
2. Development and construction costs have steadily increased over the past few years.
3. Finance rates in Hawaii are higher than on the mainland. There are fluctuations in the cost and availability of residential mortgages.
4. There is a tremendous increase in the amount of time required to process a project due to document preparation and review needed to obtain the necessary approvals, delays in processing procedures, uncertainty due to red tape and changing regulations, and design changes requested by governmental agencies coupled with an increase in the number of housing regulations established by the government.

Together with these problems is the natural quest of homeownership of the consumer. Although incomes have not increased in proportion with the prices of houses, most families still want single family residences: an individual dwelling of reasonable comfort on an arable plot of ground, complete with proper sociological amenities, and the adequate privacy treasured by everyone. It is very difficult to meet housing demands when most people want single family residences and at the same time, single family housing prices are increasing more than twice as fast as household incomes.

Hawaii's people, like those throughout the world, have a special pride in the ownership of a home. As homeownership helps to build good citizenship and character in a family, and greatly assists in lessening the sociological problems besetting our times such as crime, welfare, family unrest, juvenile delinquency and the like, the key to a strong, solidly founded community is the propagation and perpetuation of homeownership in Hawaii.

In March 1977, the Senate added further impetus to Act 166 by adopting Senate Resolution 6 which requested that the Council of Housing and Construction Industry examine codes and housing costs and to report its findings to the Senate 20 days prior to the opening of the 1978 legislative session.

A Bill for an Act Relating to the Establishment of the Council of Housing and Construction Industry.

Be It Enacted by the Legislature of the State of Hawaii:

SECTION 1. Purpose. The legislature of the State of Hawaii has unequivocally committed itself to the responsibility of seeing that the housing needs of the citizenry of this State are adequately met. In furtherance of this commitment, such important legislation included in the Hawaii Revised Statutes as: the Department of Budget and Finance-Veterans Loans, Chapter 364; the Hawaii Housing Authority-Low Income Housing, Chapter 356; State Housing Projects, Chapter 359; Teachers Housing, Chapter 359A; Housing Projects, Chapter 359G; Department of Labor and Industrial Relations-Factory Built Housing, Chapter 359L; Federal Housing Projects, Chapter 357; Government Aid for Housing Projects, Chapter 358; County Housing Projects, Section 46-15.1, were enacted for this singular purpose. The latest program for housing development was the enactment of Act 105, Session Laws of Hawaii 1970, whereby the Hawaii Housing Authority was given the responsibility to try and resolve the complex problems of providing housing for the lower and middle income groups at a reasonable price. This program has met with moderate success but the agency's efforts thus far have been in low cost housing and are unable to come forward with the type of program or innovations that will be necessary to keep step with the increasing demand by all economic groups for housing at a reasonable price. It is reported that even the government housing program was too expensive for the lower or middle income groups to qualify.

The future of the housing and construction industry as well as government sponsored housing programs are faced with four known constants for the future—increased cost of land, capital, labor, and materials. If in the economy today an average price of a new home averages $60,000, what then will be the price in five to ten years. The Act 105 objectives dealt with a program of having the government enter into the housing market and independently or in cooperation with private industry to provide lower cost homes. However, it was not given the task of seeking the research and analysis to find short and long range solutions for some of the known causes for the high cost of construction. The housing and construction industry operates within a market place with intense competition but all are subject to numerous governmental agencies that must give their prior approval before the first spade of dirt is dug. There is probably no industry that has to obtain so many different approvals of government authorities before it can proceed to do its work. The reason for the cost of housing then is not only the increased costs of land, capital, labor, and materials but also the innumerable expensive and time-consuming governmental agency's regulations which must be complied with. While these standards have no doubt created the finest homes in the world, there has to be a reappraisal of the standards, codes, and regulations now being imposed. The State of Hawaii must be vitally concerned with the serious consequences that the housing and construction industry is and will be faced with in meeting tomorrow's demands. The problems of the housing and construction industry and the governmental agencies that regulate the industry have to undergo a realistic reappraisal if the future generations are going to be able to buy homes that are reasonably priced. Otherwise homes may be priced out of the market place for all but a few consumers. To implement the above concerns a Council of Housing and Construction Industry is being established.

SECTION 2. Council; composition; appointment; governing body. There is established within the office of the governor for administrative purposes an advisory council for housing and construction industry composed of twenty-four members, twelve to be appointed by the governor subject to section 26-34 as follows:

(1) The governor's special assistant on housing; the director of planning and economic development; the director of health; the chairman of the land use commission; the chairman of the Hawaii housing authority; the director of the office of consumer protection; the President of the Senate or his designated representative; and the Speaker of the House of Representatives or his designated representative shall be ex-officio members of the council.

(2) The mayor of each county or his designated representative shall sit as ex-officio members of the council.

(3) Three other members from the community at large appointed by the governor.

(4) Nine members of the council to be appointed from the private sector appointed from the following organizations: home builders association of Hawaii; developers association of Hawaii; general contractors' association; building and trades council—AFL-CIO; mortgage bankers association; american institute of architects; consulting engineers council; board of realtors; and savings and loan league. Each organization shall submit a list of three persons from its ranks from which the governor shall select one person pursuant to section 26-34, representing each organization to serve as a member of the council. The persons nominated by the respective organizations shall be both knowedgeable and have at least five years of experience to qualify as a member.

The chairman on the council shall be selected by its members. Each member shall serve without pay but shall be reimbursed for travel and for necessary expenses incurred while attending meetings or in the discharge of his duties. The council shall be an advisory body to the housing and construction industry.

SECTION 3. **Duties of council.** The council shall:

(1) Survey the statewide needs for housing on a five, ten, and twenty year basis and analyze the cost of supporting services by government such as water, sewage, schools, streets, and other related services.

(2) Determine some of the immediate problems that need remedial legislation to aid in the development of housing and construction and to further the economy of this State.

(3) Analyze the state and county standards, rules, regulations, and codes, with a view to eliminating archaic, duplicative, or unreasonable requirements and recommend new standards, rules, regulations, and codes that will benefit both the industry and the consumer.

(4) Determine if an administrative processing agency can be created whereby only one agency in the State and each county can be contacted for any planned housing or other development.

(5) Investigate whether the state and county agencies involved in housing and construction can establish a single agency to coordinate all of the requirements for a housing or other development.
(6) Analyze whether innovative construction methods or substitution of materials can be utilized in the future.
(7) Analyze consumer attitudes as to whether changes in materials, design, or construction methods would be marketable and investigate whether smaller size lots, streets, and homes are required for the future.
(8) Provide input to land use policies being developed by the department of planning and economic development, as it relates to the effect to the cost of housing and construction and also provide input to state or county agencies research or development programs on housing and construction industry.
(9) Investigate whether a state department of housing and construction can be established and what its programs authorities and functions would be and how it can be coordinated with the counties' responsibilities.
(10) Establish a clearing house of information for the housing and construction industry that will benefit both government and industry in their activities.
(11) Review federal programs with the purpose of making certain that the State and county will obtain their fair share of federal funds for housing and construction and propose legislation to cure any defects in federal law that discriminates against the leasehold or other type of developments in this State.
(12) Investigate whether the traditional methods of financing the purchase of homes can be changed to aid in the purchase of homes and also analyze the sources and availability of long term (twenty-five or more years) mortgage money market, whether this source will still be available in the future and how the government can help in assuring that market.
(13) Such other matters of investigation as the council, in its discretion, believes worthwhile of their endeavors.
(14) Prepare an annual report and submit it to the governor and legislature on its activities.
(15) Recommend specific administrative and legislative programs and submit proposed legislation and rules to the governor which the council believes should be enacted by state and county legislative and administrative bodies.

SECTION 4. The departments of the state and county government shall make available to the council, at no cost, such data, facilities, records, and information as are necessary for it to perform its duties.

SECTION 5. The council may subject to resources available to it, enter into contracts with consultants for studies which it believes the state or county agencies are not equipped nor have the personnel to perform the work required.

SECTION 6. This Act shall take effect upon its approval.

(Approved June 1, 1976.)

(To be made one and twelve copies)

THE SENATE

.....NINTH......... LEGISLATURE, 19 .77

STATE OF HAWAII

S.R. NO. 6

SENATE RESOLUTION

REQUESTING THE COUNCIL OF HOUSING AND CONSTRUCTION INDUSTRY TO EXAMINE CODES AND HOUSING COSTS.

WHEREAS, housing prices in Hawaii remain among the highest in the United States, notwithstanding the fact that prices locally have leveled off after an extended period of sharp increases; and

WHEREAS, it is generally acknowledged that all but a fraction of Oahu's families can no longer afford to purchase new single-family homes, and the production costs for such housing, as well as for other types of units, continues to rise; and

WHEREAS, many factors can be shown to contribute to Hawaii's steep housing costs, including transportation of raw materials, oligopolistic control of land, speculative practices in the real estate market, and performance requirements due to the complex provisions of county building, zoning, fire, electrical, sanitary, and other codes which directly affect the price of delivered housing; and

WHEREAS, there is clearly a need for comprehensive, efficient, and rigorous code enforcement, however, there may be provisions in existing codes which, due to technological advance or Hawaii's special conditions, may be unnecessary and contributory to added housing costs; and

WHEREAS, it would be in the interest of all Hawaii's people to eliminate those code provisions which add costs but no needed protection; and

WHEREAS, through Act 166, SLH 1976, the legislature established the Council of Construction and Housing Industry among whose responsibilities is to examine the relationship between government regulation and the cost of housing in Hawaii; now, therefore

BE IT RESOLVED by the Senate of the Ninth Legislature of the State of Hawaii, Regular Session of 1977, that the Council of Housing and Construction Industry is requested to examine codes and housing costs in order to identify provisions which might be

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S.R. NO. 6

in applicable, perform such analysis as may indicate which codes might be modified or eliminated, and report its findings, and recommendations to the Senate twenty days prior to the opening of the 1978 Regular Session; and

BE IT FURTHER RESOLVED that a certified copy of this Resolution be transmitted to the Chairman of the Council of Housing and Construction Industry.

OFFERED BY: Patsy K. Young

1/25/77

II. THE COUNCIL OF HOUSING AND CONSTRUCTION INDUSTRY

For several years, it has been the considered opinion of many of the top officials of the housing industry that the only way for solutions to Hawaii's housing problem to surface and be recognized is to jointly share the experience, knowledge, and resources of the leaders of government, labor, and private enterprise.

While each sector is certainly able to conduct its separate affairs in an extremely adept manner, it has now become vital and expedient for these factions to combine their capable efforts, with maximum cooperation and communication to recognize and resolve the complex and interwoven problems of the housing and construction industry.

Act 166 created that delegation of unity known as the Council of Housing and Construction Industry.

The Council of Housing and Construction Industry is an advisory body comprised of 24 members. The composition of the Council consists of

(1) Twelve ex-officio members from government:

The Mayor of the County of Maui
The Mayor of the County of Honolulu
The Mayor of the County of Kauai
The Mayor of the County of Hawaii
The President of the Senate
The Speaker of the House of Representatives
The Governor's Special Assistant on Housing
The Director of Planning and Economic Development
The Director of Health

The Chairman of the Land Use Commission
The Chairman of the Hawaii Housing Authority
The Director of the Office of Consumer Protection

(2) Nine appointees of the Governor from private trade or labor associations:

Home Builders Association of Hawaii
Developers Association of Hawaii
General Contractors' Association
Building and Construction Trades Council--AFL-CIO
Mortgage Bankers Association
American Institute of Architects
Consulting Engineers Council
Board of Realtors
Savings and Loan League

(3) Three appointees from the community-at-large.

A roster of the Council membership appears on the following page.

COUNCIL OF HOUSING AND CONSTRUCTION INDUSTRY

Membership Roster

1. The Honorable Elmer F. Cravalho, Mayor, County of Maui
   Chairman, Council of Housing and Construction Industry
   Appointed, February 10, 1977, Ex-officio
   Represented by Edwin Okubo, Housing Coordinator, Department of Human Concerns
   Member, Finance Task Force

2. The Honorable Frank F. Fasi, Mayor, City and County of Honolulu
   Appointed, February 10, 1977, Ex-officio
   Represented by Howard Shima, Director, Building Department
   Member, Materials Task Force

3. The Honorable Eduardo E. Malapit, Mayor, County of Kauai
   Appointed, February 10, 1977, Ex-officio
   Represented by Manual Medeiros, Housing Administrator
   Member, Codes Task Force

4. The Honorable Herbert T. Matayoshi, Mayor, County of Hawaii
   Appointed, February 10, 1977, Ex-officio
   Represented by Megumi Kon, Deputy Managing Director
   Member, Codes Task Force

5. Senator John T. Ushijima, President of the Senate, State of Hawaii
   Appointed, February 10, 1977, Ex-officio
   Represented by Senator Patsy Young, Chairperson, Senate Housing Committee
   Member, Finance Task Force

6. Representative James H. Wakatsuki, Speaker of the House of Representatives, State of Hawaii
   Appointed, February 10, 1977, Ex-officio
   Represented by Representative Mitsuo Shito, Chairman, House Housing Committee
   Member, Materials Task Force

7. Mr. David C. Slipher, Governor's Special Assistant on Housing
   Appointed, February 10, 1977, Ex-officio
   Member, Materials Task Force

8. Mr. Hideto Kono, Director, Department of Planning and Economic Development
   Appointed, February 10, 1977, Ex-officio
   Represented by Frank Skrivanek, Deputy Director
   Member, Codes Task Force

9. Mr. George Yuen, Director, Department of Health
   Appointed, February 10, 1977, Ex-officio
   Represented by Tadao Beppu, Deputy Director
   Member, Codes Task Force

10. Mr. Stanley Sakahashi, Chairman, Land Use Commission
    Appointed, February 10, 1977, Ex-officio
    Represented by Shinichi Nakagawa, Commissioner
    Member, Codes Task Force

11. Mr. Martin Luna, Chairman, Hawaii Housing Authority
    Appointed, February 10, 1977, Ex-officio
    Member, Finance Task Force

12. Mr. Walter Yamashiro, Director, Office of Consumer Protection
    Appointed, February 10, 1977, Ex-officio
    Member, Materials Task Force

13. Mr. Wallace Ching, Executive Vice-President, Dynamic Industries, Corp.
    Vice-Chairman, Council of Housing & Construction Industry
    Appointed, February 10, 1977
    Term expires, December 31, 1980
    Representing the Home Builders Association of Hawaii
    Chairman, Codes Task Force

14. Mr. Chew Hoy Lee, Field Project Coordinator, Amfac Communities-Hawaii
    Appointed, February 10, 1977
    Term expires, December 31, 1978
    Representing the Development Association of Hawaii
    Chairman, Materials Task Force

15. Mr. Tamotsu Kitagawa, Vice-President, Hicks Construction
    Appointed, February 10, 1977
    Term expires, December 31, 1979
    Representing the General Contractors' Association
    Member, Materials Task Force

16. Mr. Stanley K. Ito, Assistant to the Financial Secretary
    Appointed, February 10, 1977
    Term expires, December 31, 1977
    Representing the Building and Construction Trades Council--AFL-CIO
    Member, Materials Task Force

17. Mr. John W. Anderson, Jr., Vice-President and Manager, Real Estate Loan Administration, Bank of Hawaii
Appointed, February 10, 1977
Term expires, December 31, 1979
Representing the Mortgage Bankers Association
Chairman, Finance Task Force

18. Mr. Arthur B. Hansen, President, Arthur B. Hansen, Inc., Architects/AIA
Appointed, February 10, 1977
Term expires, December 31, 1978
Representing the American Institute of Architects
Member, Codes Task Force

19. Mr. Larry K. Matsuo, President, Park Engineering, Inc.
Appointed, February 10, 1977
Term expires, December 31, 1979
Representing the Consulting Engineers Council
Member, Codes Task Force

20. Mr. William S. Chee, President, Locations, Inc.
Appointed, June 27, 1977
Term expires, December 31, 1977
Representing the Board of Realtors
Member, Codes Task Force
(Replacing James Trask, Jr., appointed February 10, 1977, resigned February 22, 1977)

21. Mr. James Hara, Vice-President, Business Development, Honolulu Federal Savings and Loan
Appointed, February 10, 1977
Term expires, December 31, 1980
Representing the Savings and Loan League
Member, Finance Task Force

22. Mr. Howard Rabacal, Owner-Manager, Trisales
Appointed, February 10, 1977
Term expires, December 31, 1979
Community-at-large member
Member, Materials Task Force

23. Mrs. Nancy T. Taylor, Housing Consultant, Kaiser Pacific
Appointed, February 10, 1977
Term expires, December 31, 1978
Community-at-large member
Member, Finance Task Force

24. Mr. Melvin Soong, Attorney, Finseth and Soong
Appointed, February 10, 1977
Term expires, December 31, 1980
Community-at-large member
Member, Codes Task Force
(Resigned October 19, 1977, position has not been filled to-date)

By the end of 1976, interim appointments to the Council had been made by the Governor from the list of recommendations submitted to him from the various segments of the community. The first organizational meeting was held on February 10, 1977 in the Governor's Conference Room at the State Capitol.

During the first few months subsequent to its inception, the Council was primarily concerned with organizational, procedural, and planning matters. The organizing committee of the Council designated the development of three task forces--(1) Housing Funds/Public and Private Financing/ Government Programs (HFF), (2) Building Codes/Processing/Land Development Procedures (CPL), and (3) Materials/Technology/ Employment/Labor (MTEL)--to facilitate and expedite the process of research and analysis. Once the task force committees were established, the Council, through its nominating committee, reviewed and acted upon nominations for chairman, vice-chairman, and task force leaders. During the March 8, 1977 full Council meeting, Mayor Elmer F. Cravalho of Maui was nominated chairman and Wallace Ching was nominated vice-chairman. Task force chairmen were nominated as follows:

(1) Housing Funds/Public and Private Financing/ Government Programs - John W. Anderson, Jr.

(2) Building Codes/Processing/Land Development Procedures - Wallace Ching; and

(3) Materials/Technology/Employment/Labor - Chew Hoy Lee

After all appointments were confirmed by the legislature at the close of the 1977 session, the Council met in July to officially ratify the nominations and begin its duties under Act 166.

A screening committee, comprised of the chairman, the Governor's special assistant on housing, and the three task force chairmen, was set up and given the authority and responsibility for the hiring of the Executive Director and Coordinator for the Council. The Executive Director selected by the Council began a 10-month contract on September 1, 1977 The provision of staff, fuel services, and a Council office facility was the responsibility of the Executive Director under his contract with the Council. The primary function of the coordinator is to aid the Council in carrying out its duties as set forth in Section 3 of Act 166. The scope of the Executive Director's services encompasses:

(1) examination of the various codes and zoning ordinances of the counties and their impact on housing;

(2) review of section 3 of Act 166 and preparation of recommendation of priorities; as set forth in section 3;

(3) preparation of a report to the legislature of the findings and recommendations of the Council;

(4) advise the Council on the current housing situation in the State, and

(5) provide coordination between the staff, task forces, Council, government, and the public.

The legislature appropriated $100,000 for the Council out of which the Governor released $60,000 in August 1977 for the Council to operate with.

The administrative staff of the Council of Housing and Construction Industry:

Calvin K.K. Chun, Executive Director

Molly M. Matsuoka, Administrative Assistant

The staff office of the Council is located at

745 Fort St. Mall, Ste. 1501

Honolulu, Hawaii 96813

Telephone number: 538-1971

III. GOALS AND OBJECTIVES OF THE COUNCIL OF HOUSING AND CONSTRUCTION INDUSTRY

Act 166 specifically spells out the duties of the Council of Housing and Construction Industry. Although the list of duties contains 15 different specific assignments dealing with the housing and construction community and their varied problems, in a nutshell, they all point to one main objective:

> DETERMINE EVERY CONCEIVABLE METHOD TO FACILITATE A SUBSTANTIAL DECREASE IN THE PRESENT HIGH COST OF DEVELOPING HOUSING FOR THE PEOPLE OF THE STATE OF HAWAII IN THE FUTURE.

What has prompted the thrust by the legislature and the Governor to pursue these solutions? What constitutes the basis of the present predicament? Is housing cost really too high or are income levels too low?

To better understand this situation, it is advisable to regress a moment.

A few years ago, Hawaii was engaged in a tremendous housing boom. Buyers stood in line for hours (and sometimes, days), just to register on a waiting list or draw a lottery ticket to give them the privilege to buy a new home.

The resale or second hand home market was equally torrid. Competition to purchase these used houses kept many a realtor busy around the clock and produced a few fortunes.

Eventually, the new house sales prices advanced 50% to 100%. The used home prices escalated even further. By 1973, the rapid inflationary rise began to take its toll. The used home market suddenly began to decline. A large surplus of new single family dwellings, multi-family townhouses, and high rise condominium units began to sit silently on the open market, unkempt, unoccupied, and unmoving.

What is this link between the used house market and new house sales?

In a time of rapid inflation, the housing market operates like a row of dominoes. The man who buys a $90,000 house is usually able to do so, not because of a big income or a healthy savings account, but because he has just sold for $65,000 a home that originally cost him $30,000. He has acquired a large chunk of cash equity. By the same token, the man who bought his $65,000 home did so because he got $50,000 for a small cottage for which he paid $25,000 ten years before. And so on down the line.

But who initially started the dominoes to fall? Who triggered the first push? That push comes from the first time buyer who enters the market without any equity. He usually emerges from the lower middle income level and just barely qualifies with proper down payment for that first used home, enabling the seller to "move up." Without that buyer, the market usually collapses.

This is the same buyer we commonly refer to as the gap group consumer. If he represents a large and significant portion of the entire buying public, then it becomes imperative that the buying capabilities of that consumer be protected and his market broadened.

The Council, therefore, as its first evaluation of the housing predicament in Hawaii, selected that segment of society which displays the greatest need for assistance and delivers the greatest impact on the domino theory of home buying in the State of Hawaii, the GAP GROUP.

The objective of the Council for 1977, then, has been TO DETERMINE MEANS TO PROVIDE AFFORDABLE HOUSING FOR THE GAP GROUP IN HAWAII.

IV. SCOPE OF COUNCIL INVESTIGATIVE PROGRAM, 1977

The Council of Housing and Construction Industry is divided into three working task forces:

(1) Materials/Technology/Employment/Labor, Chew Hoy Lee, Chairman;

(2) Building Codes/Processing/Land Development Procedures, Wallace Ching, Chairman;

(3) Housing Funds/Private and Public Financing/ Government Programs, John Anderson, Jr., Chairman.

The investigative programs of each task force were primarily established and implemented early in September after the acquisition of the Executive Director and staff.

A. Materials/Technology/Employment/Labor Task Force

The Materials (MTEL) task force began their program by considering the important elements of home building and the method to isolate each category for proper review. It was determined that in order to fully investigate methods of cutting cost in housing, the intricate methods employed in creating the total value of a house must first be understood by each member of this Council, since these members are specialists in possibly one aspect of the housing industry but not necessarily acclimated to the whole picture.

The decision was reached to prepare a sample house in a sample subdivision in order to actually observe the areas in present-day homebuilding where costs are significant and major reductions could be realized by adjustments thereto. Before any sample could be derived, it was important to first arrive at the answers to many questions:

(1) What segment of the total population should this sample provide for?

(2) What area(s) in the State should investigation initially be centered upon?

(3) What type, size, and quality of housing should be considered?

(4) What income range should this sample provide for?

(5) What will the value of the land in question be?

It was decided that the sample should respond to the needs of the so-called gap group, a segment of the community within the $14,000 to $28,000 income range. A typical home that would appeal in today's society to this group, especially in the Honolulu housing market, would very likely be a 3-bedroom, 2-bath, 1,000 sq. ft. home with minimum frills, on a minimum sized residential fee simple lot.

For the sample, an actual Honolulu homebuilder's model, complete with present day cost of construction, was used (with some modification) in order to comply with the agreed upon standards. Also, an actual subdivision completed in early 1977 in urban-fringe Honolulu was used as the basis for offsite cost determination. This subdivision was built on residential designated, R-6 zoned property with a minimum of 5,000 sq. ft. of lot area.

Once these parameters were established, a development cost sheet was prepared simulating the actual conditions and cost factors normally present in a tract development house. It is this development cost or "spread" sheet which serves as the indicator for extraordinary costs which can be lowered by proper modifications to a housing program.

Upon examination and review of each cost item on the "spread" sheet, the task force felt that (1) the effect of density and (2) the expense of financing were the two major factors affecting the variation in cost.

Subsequently, the task force undertook a study to see what effect the increase of density would have on the sales price. The sample "tract" was redesigned and lots were decreased in size by about one-third less land area requirement. The sample model home was analyzed on different sized lots with both single and two car garages to also determine effect. After several tests, the revised "spread" sheet indicated a decrease in sales price of 20%, the objective established by the task force.

It is interesting to note the standards and conditions employed in making the area reduction studies (see plates VII and VIII). It was felt that the conventional minimum length and width of lots now being abided by in all counties should be disregarded, and minimum front yard, side yard, and rear yard setbacks be recognized instead. For two-car garages, a minimum of five feet from front property line was used while one-car garages were located a minimum of 16 feet. The rationale for this was that county regulations require all dwellings to provide the minimum parking for two cars on the lot. The decrease in lot area (creating a corresponding increase in tract density) decreased many different cost factors on the development cost sheet, including:

(1) land cost;

(2) direct offsite allocation;

(3) architectural and engineering fees for offsite indirects;

(4) bond and permit costs;

(5) marketing costs;

(6) sales and warranty costs;

(7) allocated financing costs;

(8) allocated overhead costs;

(9) allocated taxes;

(10) allocated legal fees; and

(11) direct profit.

About the only cost factors that remain constant are the direct and indirect onsite costs which are affected on a per house basis.

Some conclusions arrived at by this exercise were:

(1) In areas where land cost is at a premium, such as the County of Honolulu, more compact sized lots may be necessary to bring costs down to an affordable level;

(2) Since the initial land purchase cost is high, any extraordinary duration of time experienced in processing and planning towards final house construction and subsequent sale will increase the financed charges and could be a substantial amount;

(3) Elimination of difficulties in the planning and processing stages will minimize the cost of professional services such as architectural, engineering, and legal fees;

(4) Although the cost of normal minimum construction practices and techniques constitutes a very significant figure, changes do not greatly affect the total sales price unless they are radically different in standards or materials; and

(5) Using the minimum set back applications, a developed house could provide the sought-after usable yard spaces that the gap group desires without having to observe the minimum frontage and lot depth requirements now being administered for residential zoned lots.

As an adjunct to the sample tract home created by the Materials task force, a brief analysis was made of the various types of "zero lot line" programs presently being employed or planned in the Honolulu housing area, including applications in single family subdivision, cluster developments, and condominium planned developments. No conclusion or definite findings have been made as yet and further studies are planned in this area by the task force chairman.

Upon completion of the sample tract home and accompanying cost data by the Materials task force, the information was transmitted to the other two task forces comprising the Council of Housing and Construction Industry for their study, evaluation, and input.

In particular, a request was made to the Finance task force to apply various mortgage loan programs to the sample package in order to determine the appropriate segment of the buying public that the model actually attempts to satisfy. For this analysis, annual income charts indicating the approximate gap group range in the Honolulu and Hawaii buyers' market were prepared and provided for the evaluation purposes of the Finance task force (see plates I and II).

With this input, a complete picture of the applicability to the provision of gap group housing can now be established.

Studies were also undertaken by the Materials task force to determine the effects of either narrowing parkway width requirements or eliminating sidewalks on one side of all secondary streets. However, no definite conclusions were reached and further studies into roadway and sidewalk construction procedures will continue.

Assignments have been made within the task force to look into the effects of shipping costs on imported materials, both foreign and domestic, and this data will be forthcoming.

Other areas of investigation include the use of preformed metal building components for structural studs, floor joists, door frames, etc., as replacements for present construction grade lumber. Experiments using these components in the industry, encouraged by the Carpenter's Union representative, are presently being carried out and it is planned that the Materials task force will monitor and analyze the findings for future report to the legislature.

B. <u>Codes/Processing/Land Development Procedures Task Force</u>

The Codes (CPL) task force initially evaluated various programs being undertaken in the State to alleviate some of the alleged "bottlenecks" in the processing of plans for approval of permits, subdivision, or zoning applications. Several parameters were established as a base for program determination.

(1) Prepare a processing flow chart of the different application procedures in the Honolulu area to determine areas of severe time lapse elements for the different phases of processing;

(2) Look into present codes which have a substantially blatant effect upon the cost of housing, such as

   (a) Park Dedication,

   (b) Fire Sprinkler Regulations;

   (c) Department of Health Regulations; and

   (d) Land Speculation Curbs, especially in the area of multiplicity of raw land ownership;

(3) Investigate the progress of the counties as to compliance with Act 74--establishment of a Central Coordinating Agency by December 30, 1977;

(4) Monitor the proposed changes being considered by the Department of Council Services with regard to the Comprehensive Zoning Code; and

(5) Invite the comments of land developers, builders, and professional consultants as to their experiences, frustrations, and desired changes in the plan review approval process.

A processing flow chart (see plate XII) was prepared showing the path of a submitted application along with the approximate present duration of time expended in checking at each stage (as determined by either ordinance, policy, or actual experiences) for the most commonly sought approvals such as:

(1) Land Use Commission boundary changes;

(2) County General Plan and/or Detailed Land Use Map change;

(3) Rezoning application;

(4) Planned unit or cluster development application;

(5) Subdivision application; and

(6) Building permit application.

Along with the flow chart, a list of the various agencies (county, state, and federal) from which review and approval may be required, was also prepared.

Based on examination of the flow charts, it appears quite evident that the inordinate checking time span in almost all cases occurs in the agency referral stage of the processing program. In several cases, research indicated that this time period could conceivably (or has been) be anywhere from 30 days to three years in duration.

In reviewing this problem the task force determined that several factors were responsible for this wide variation in checking time during the agency referral phase, such as:

(1) No time limitation imposed on the various agencies to encourage expeditious checking;

(2) Most agency checking handled in series order instead of concurrently;

(3) Lack of a coordinator to direct and expedite checking at the agency levels;

(4) No built-in incentive or pressure upon governmental agencies to expeditiously process application; and

(5) No available status control file to allow applicant to easily follow course of checking process path.

Discussions were held with the chairman of the Codes committee of the American Institute of Architects since they have been researching this same problem for several years. Their concensus approximated those of the Council and it was apparent that the necessity for a coordinator(s) (or ombudsman) was agreed upon, together with proper controls in length of checking period.

The task force also entered into a study of the present compliance with the legislature mandated Act 208, SLH 1977, "Park Dedication Law," which amended Section 46-6 HRS. It appears that all counties have a complying Park Dedication Ordinance in effect (see plate XV). However, in interviews with private industry executives and consultants, most expressed the desire to have the entire State park dedication program reviewed. Certain questions raised and brought to the task force included:

(1) What facilities should be included under the definition of "park"?;

(2) Should not other recreational facilities be included as part of a park area per capita ratio in determining adequacy?;

(3) Although the idea of a park dedication fund fee is not entirely disagreeable to private development, the contribution in Honolulu County, based on appraised land value, creates an overwhelming burden on the per unit cost of housing, when compared with other counties;

(4) What is being done to remodel existing park areas to meet the needs of the age groups being serviced in the immediate locale?;

(5) Why can't parks be designed in the future next to schools for maximum utilization? Why can't school grounds be used after hours for park purposes with proper supervision?; and

(6) How many existing park sites in the State presently are unusable due to lack of access or proper landscaping?

In conjunction with the Department of Planning and Economic Development, an inquiry was made of all counties as to their specific ordinances complying with Act 208 and an analysis of each was made by the task force.

Special discussions were held with Mr. Edward Tangen, past chairman of the Land Use Commission, and Mr. Gordon Furutani, Land Use Commission Executive Officer, of the same agency to probe into some of the processing problems, which developers face in obtaining approvals for boundary changes and special permits from the L.U.C. Although it was the general consensus of opinion that some changes should be made to the present rules and regulations of the Land Use Commission, adopted in 1975; and that more of the conditions now established by the L.U.C. be relaxed in favor of more county regulation, the total matter has been temporarily shelved until further research and more definitive findings can be made.

The Codes task force also held discussions with Carl Smith, the DLU Coordinator of the Central Coordinating Agency which is being established in the County of Honolulu as mandated by the legislature in 1977 by Act 74.

State Act 74, in essence, requires each county to designate a Central Coordinating Agency for land development projects by December 30, 1977. The DLU was designated for the CCA for the County of Honolulu by Ordinance No. 77-73.

The CCA is to establish and maintain a repository of all laws, rules and regulations, permit requirements and review criteria of all federal, state, and city (county) agencies having any control or regulatory powers over land development projects within the respective county.

In reviewing the DLU's (Honolulu) progress, it became apparent to the Council that once this repository is completed, further legislation (or county ordinances) will be necessary to utilize and implement the data. In conjunction with this, the Council felt that the need for an "ombudsman" at the county level working closely with the facilities established by the Central Coordinating Agency would provide a satisfactory means of expediting and controlling applications being transmitted through various agencies for review and approvals.

Contact was made with each county regarding the status of their compliance with Act 74 and it appears that each county will have created the CCA in conformance with the act. However, the other counties (excepting Honolulu) felt that the need for an ombudsman at this time was not necessary since the lesser amount of submittals do not presently create an inordinately lengthy agency checking process and coordination is adequately handled by their existing staff.

The Codes committee also expressed concern in the Federal Flood Insurance Act programs now being formulated in Hawaii and its effect on housing and construction along the shoreline and riverine areas. Coordination was made between the chairman of the task force and members of the F.F.I. committee, composed of members of the private and public sectors, to determine the full effects on Hawaii. The Act will be effective in December 1978 and all proposed governing maps, rules and regulations, and other data are being reviewed with the Corps of Engineers and the City and County of Honolulu. More data on this act will be available early in

January and the task force will monitor the information as work progresses.

The Codes task force is represented on the Comprehensive Zoning Code task force set up by the City Council of the City and County of Honolulu to review all elements of the CZC and recommend and initiate revisions thereto by Council member Larry Matsuo. That task force committee is presently made up of 52 persons selected from both private industry and the governmental agencies and is hoping to arrive at recommendations for City Council review by spring of 1978.

An area in which the Codes task force will immediately begin an investigatory program is on land speculation and the resulting ever-inflating cost of desirable land.

Several issues to be researched will be possible limitations on profits or period of ownership, or increases in taxes, to assist in curbing the price increases resulting from present speculative practices in continuous resale of underdeveloped land prior to actual construction being undertaken.

C. Housing Funds and Finance Task Force

The Housing Funds and Finance (HFF) task force explored various forms of interim and permanent financing, existing and proposed, which could assist potential home buyers in their ability to purchase a new or existing home. To a lesser degree, the task force prepared an inventory of public and private sector financing for rental properties. The major conclusion the task force arrived at insofar as the for sale properties are concerned is that the financial community, both public and private, can assist in two major areas: (1) the down payment and (2) the income qualification ratio.

These appear to be the two major problem areas to buyers desiring to purchase a house. Other terms of mortgage financing are fairly standard, such as the term of financing and the need for a credit worthy purchaser, and thus the task force did not feel these areas worthy of additional consideration at this time.

The task force further explored the favorable reduction in financing costs which could be derived through public sector tax exempt financing of development projects. Such financing has been utilized by the County of Maui and by the Hawaii Housing Authority. However, greater use of this mechanism could result in lower costs while providing the lender with a financially stronger borrower.

D. Preparation of Sample Subdivision and Gap Group Model

The Council, for orientation and investigatory purposes, entered into a sampling program utilizing an actual floor plan (modified) and a recently constructed single family subdivision.

The parameters established for this exercise were as follows:

(1) Gap Group - That percentage of the populace having a household income of between $14,000 and $26,000 per annum;

(2) House Size - 3 bedrooms, 2 baths with 1,000 sq. ft. of living area, single level;

(3) Land Location and Value - Oahu rural-suburban, value in fee simple approximately \$1.50/sq. ft.; and

(4) Processing Duration - Two years from time of purchase, through rezoning to R-6, to approval of subdivision and construction.

After identifying these parameters, the Council set forth to determine the present day sales price of the sample house, using actual private developer's pricing experiences and techniques. The prices are based on actual 1977 construction cost figures.

The creation of the development cost sheet is a very important step in initiating an investigation of housing costs and allied problems, since it segregates the various categories present in a "sales package" and allows for closer scrutiny of any extraordinary cost factors which may not be immediately blatant.

The makeup of the Council consists of many specialists in various phases of the homebuilding and construction industry. However, exposure to the overall spectrum of the housing development program is very limited. Therefore, the cost sheet also allows each Council member to become oriented with the various elements involved in the development of tract housing. It can also serve as a simplistic guide to familiarize both government and the general public with all these ramifications.

Plate I: Graph showing the percentage of households in the County of Honolulu as compared to annual income.

Plate II: Graph showing the percentage of households in the State of Hawaii (except Niihau) as compared to annual income.

Plate III: Assumptions used in creating Council sample house.

Plate IV: Floor plan of the Council sample house.

Plate V: Subdivision map of the Council sample subdivisions of 23 R-6 lots.

Plate VI: Development cost sheet of the Council sample tract house.

It will be noted from Plate VI that the cost of the the sample house approximated $75,000 under fairly ideal conditions. Under the assumptions, no undue amounts of time were expended for rezoning or approval of subdivision prior to construction. There are no cost allowances for material shortages, shipping or labor strikes, environmentalist protest stoppages, or a slowdown in the sales program--all factors which would contribute to the increase in price due to higher interest (financing) costs, professional fees, overhead and/or higher construction costs.

At this point, the Council reviewed the program and decided to make adjustments in land size in order to observe the effect of increased density on the overall sales price. It was agreed to project for an approximate 20% decrease in sales price.

Several different house plans of similar size were used to determine mininum size lots that could be used, disregarding present minimums of lot area, width, and length. The following plates depict the results of the exercise and the subsequent redesign of the sample subdivision to accomodate the results thereof.

Plate VII: Typical lot application 3,200 sq. ft. utilizing an 864 sq. ft. house with 3 bedrooms, 1 bath, and a 2 car carport.

Plate VIII: Typical lot application 3,195 sq. ft. utilizing 990 sq. ft. house with 3 bedroom, 2 baths, and a 1 car carport.

Plate IX: Redesign of sample subdivision using minimum lot size of 3,200 sq. ft., increasing number of lots to 36.

Plate X: Revised development cost sheet for sample house.

By increasing the density of the tract from 23 to 36 lots, the sales price of this sample house decreases by 20% to $60,000. The categories which show a direct proportionate decrease in cost include:

(1) land price;

(2) offsites (direct);

(3) professional fees and zoning costs;

(4) advertising costs;

(5) sales model costs;

(6) warranty;

(7) financing;

(8) overhead;

(9) taxes; and

(10) legal fees.

Since the sales price decreases, the sales fees and profit margins, both based on percentages of said figure, also decrease, though not in direct ratio to the lot increase.

The figures that are basically undisturbed, using this approach, are the costs for the construction of the house itself (both direct and indirect). However, were the difference of increase in lots even greater, these figures also might have been lessened, due to the impact of increased volume purchasing.

In researching the cost of onsite and offsite construction, it has been determined that the approximate percentage cost of labor in these two categories is usually about 27% to 30%.

In this case, these construction labor costs, including warranty and sales model construction, would be approximately $10,000 or one-sixth of the total sales price.

A further breakdown of the development cost sheet by percentages would be as follows:

Cost Breakdown Comparison By Percentage

	Cost Item	Original Sample House	Revised Sample House
(a)	Land Costs	11.1%	8.9%
(b)	Construction Labor	14.9	16.7
(c)	Construction Materials	35.3	37.8
(d)	Sales Costs	9.9	9.0
(e)	Financing	9.0	7.2
(f)	Professional Fees	2.5	2.6
(g)	Fees, Overhead, Taxes, Misc.	11.0	10.6
(h)	Profit	6.3%	7.2%
		100.0%	100.0%
	Sales Price	$74,950	$60,000

From observation of the development cost sheet and the percentage chart shown above, it is fairly obvious that the preponderance of cost which must be further analyzed and dissected, exists in the category of construction materials and labor costs, a total of 50% to 55% of the total sales price.

As a conclusion to the creation of the gap group sample house, the question must still be answered: Does this price range satisfy the needs of the so-called gap group as identified by the Council?

Plate XI: Buyer qualification and down payment requirements for $60,000 home purchase.

Plate XI shows the necessary buyer qualification annual household incomes and down payment requirements under six different financing methods; two through private or conventional loan programs, (1) First Federal and (2) FNMA; and four through governmental assisted programs, (1) FHA 245, (2) FHA 235, (3) FHA 203b, and (4) VA.

The interest rates on the income qualification ratios are based on prevailing policy.

Under the six different methods of qualification, the Council has deduced that the qualifying incomes from $14,268 to $24,000 falls within the originally assessed gap group range of $14,000 to $26,000.

The following conclusions can be made by the findings of the Council's gap group sample house exercise:

(1) The gap group (income range $14,000 to $26,000) represents 73,529 households in the State of Hawaii or 33.8% from the 47.5% level to the 81.3 percentile level;

(2) A 3-bedroom, 2-bath home of approximately 1,000 sq. ft. of living area in the $60,000 sales price range can meet the needs of this income group under certain specific financing conditions;

(3) In areas of high value property or high expense construction, density should be reasonably increased to offset these factors and defray allocated costs, while still providing individual open space use and adequate privacy for the home buyer;

(4) For housing in Hawaii to become affordable to the income groups in the $10,000 to $20,000 range, government assistance in financing, buyer qualification and subsidized down payment programs will become increasingly necessary;

(5) Government assistance in providing lesser valued developable land for mass housing purposes will be essential to meet the needs of the gap group in the future;

(6) A method of public and private assessment participation for the provision of supportive facilities must be developed in order to create the necessary social amenities necessary to meet the needs of the home buyer in suburban undeveloped housing tract areas;

(7) Corrective measures in application processing procedures of government must be inflicted in order to avoid unnecessary, costly delays in the period between land acquisition and actual construction;

(8) New techniques in building and/or less expensive materials must be analyzed to assist in lowering the overall building cost; and

(9) Labor must cooperate with government and private sector management to arrive at new methods of lowering manpower costs in construction, while protecting the individual income

producing capacity of the construction worker. Greater overall productivity will certainly mean additional employment for more of the construction labor force.

Plate I: TOTAL HOUSEHOLD -- HONOLULU COUNTY -- 172,046

1975 CENSUS

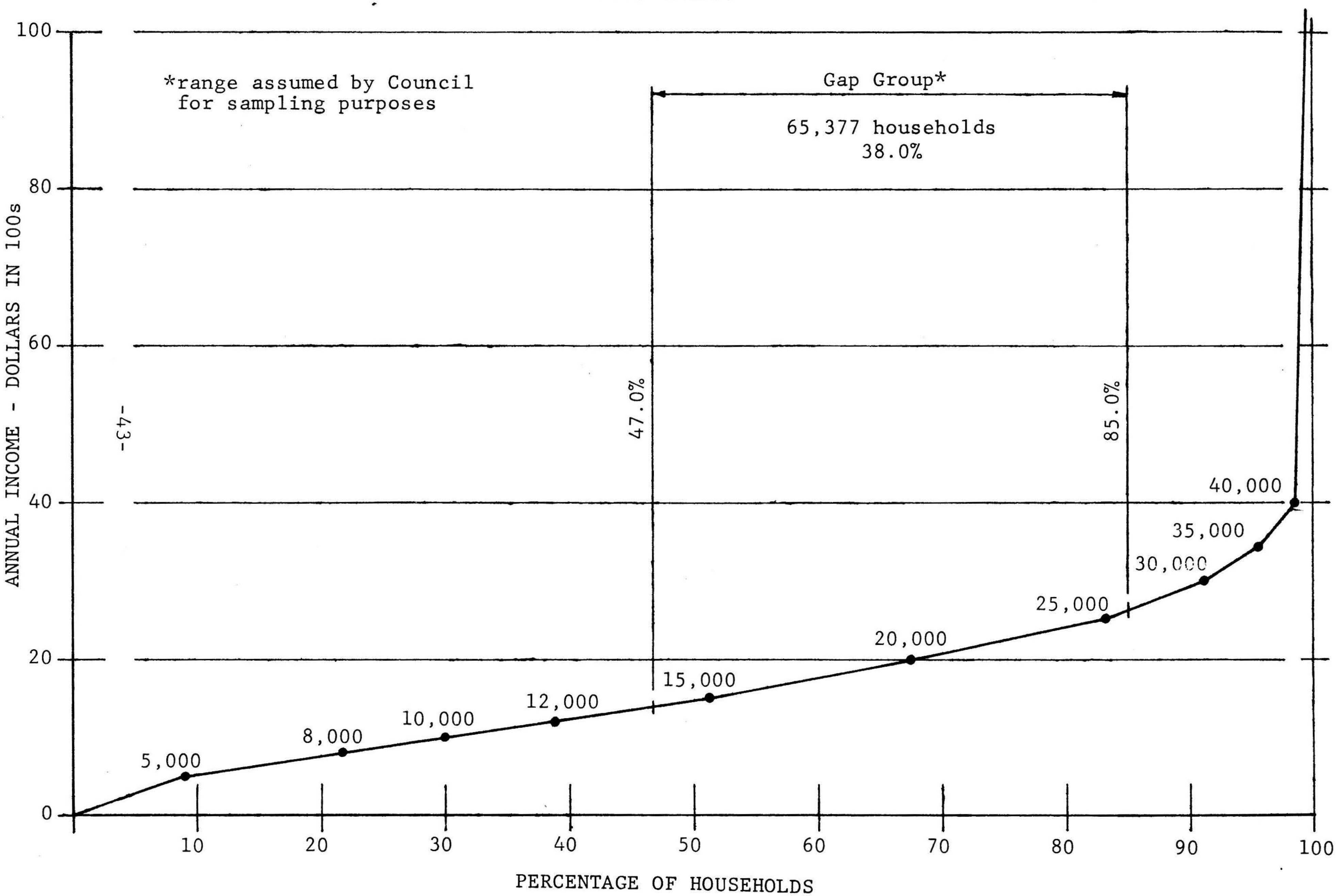

Plate II: TOTAL HOUSEHOLD -- STATE OF HAWAII -- 217,866
1975 CENSUS (EXCLUDES NIIHAU)

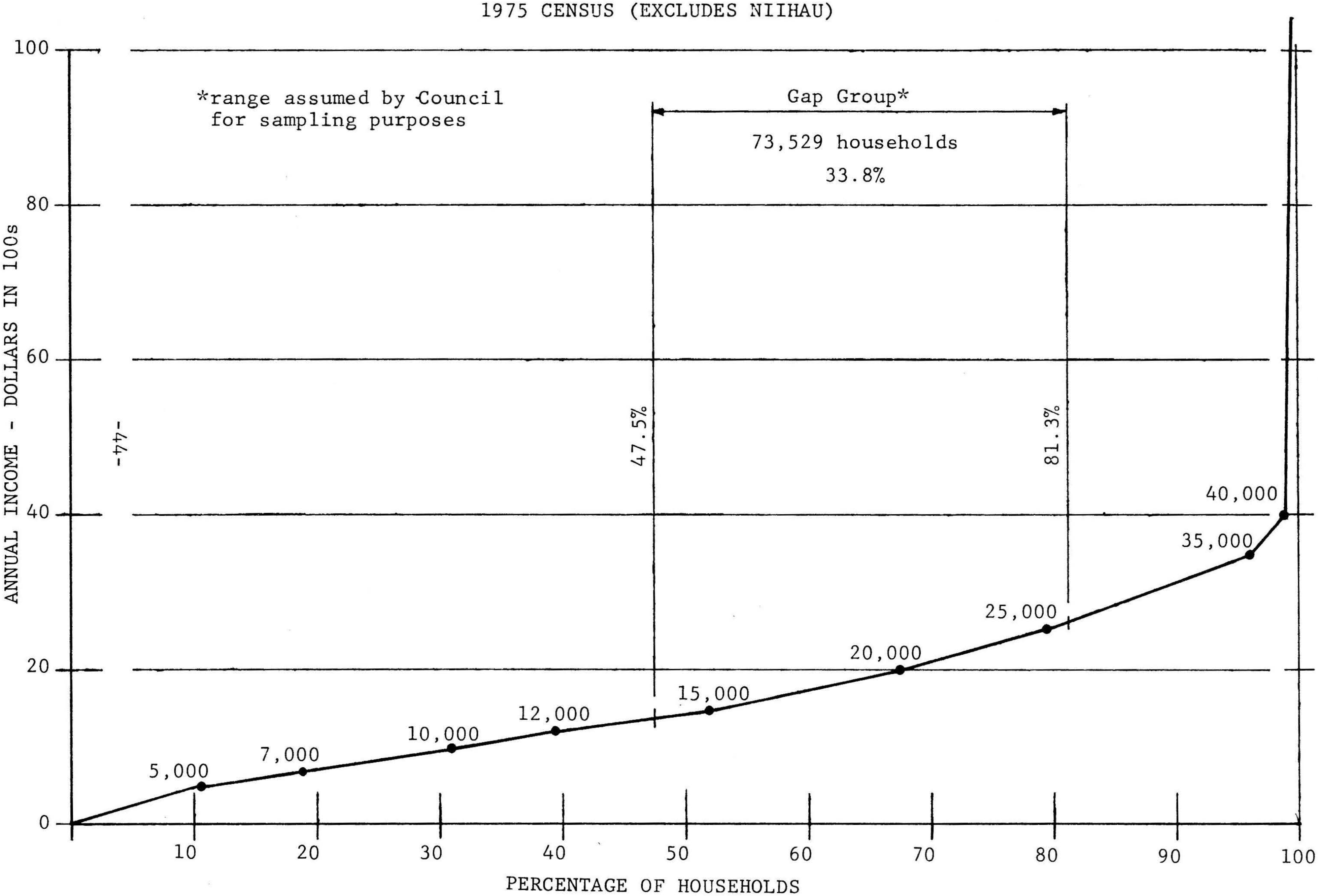

Plate III: SAMPLE HOUSE

Council of Housing and Construction Industry

Assumptions

1. Land purchased undeveloped, zoned AG-1 in rural location.

2. Rezoning to R-6 single family residential required.

3. Typical subdivision with 23 lots.

4. Sample house would be 1 of 2 types offered with reversing and 2 elevations of each.

5. All homes constructed in one construction phase.

6. House make-up:

   a. Single wall construction.

   b. Pitch and gravel roof.

   c. Post and beam foundation on level lot.

   d. Concrete driveway and sidewalk.

   e. 3 bedrooms, 2 baths, 990 sq. ft.

   f. Louvred windows.

   g. Built-in cabinetry, stove, formica counters, laundry tray, smoke detector, disposal.

   h. Oak hardwood floors.

   i. Washer, dryer, dishwasher, carpeting, refrigerator, not furnished.

   j. Underground utilities.

   k. One-car carport.

   l. Copper plumbing.

   m. Two model homes built and furnished for sales program.

   n. Advertising campaign includes newspapers and brochures only.

   o. No brokers courtesy (all sales handled by developer's realty).

Plate III continued

p. Warranty program administered by developer's crew (or sub-contractor).

7. Term of possession from land purchase to completion of project: 2 years.

8. Cost of zoning process includes attorney and consultant fees.

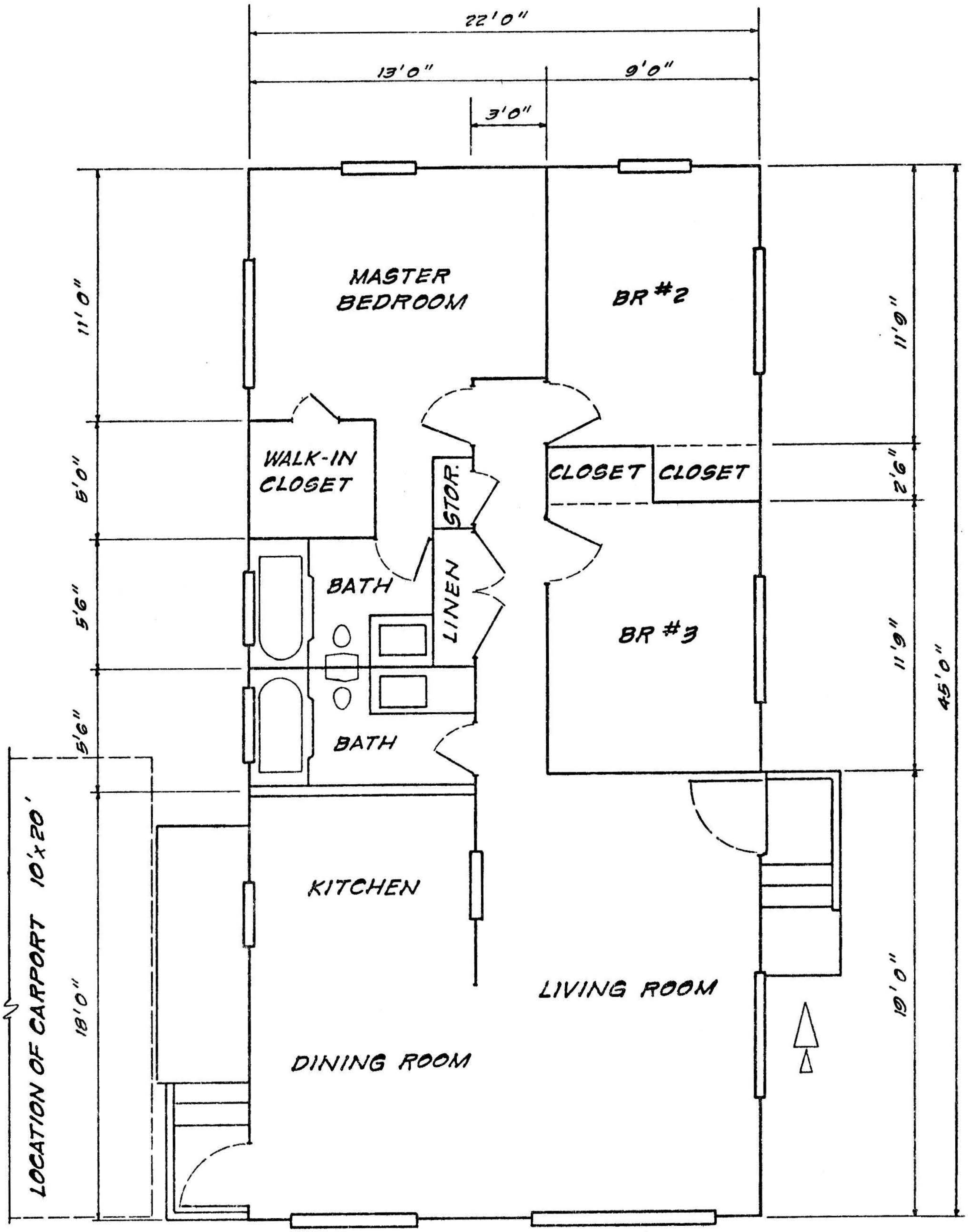

Plate IV *SAMPLE FLOOR PLAN*

FLOOR AREA = 990 SQ. FT.
3 BR. - 2 BATH - 1 CAR PORT

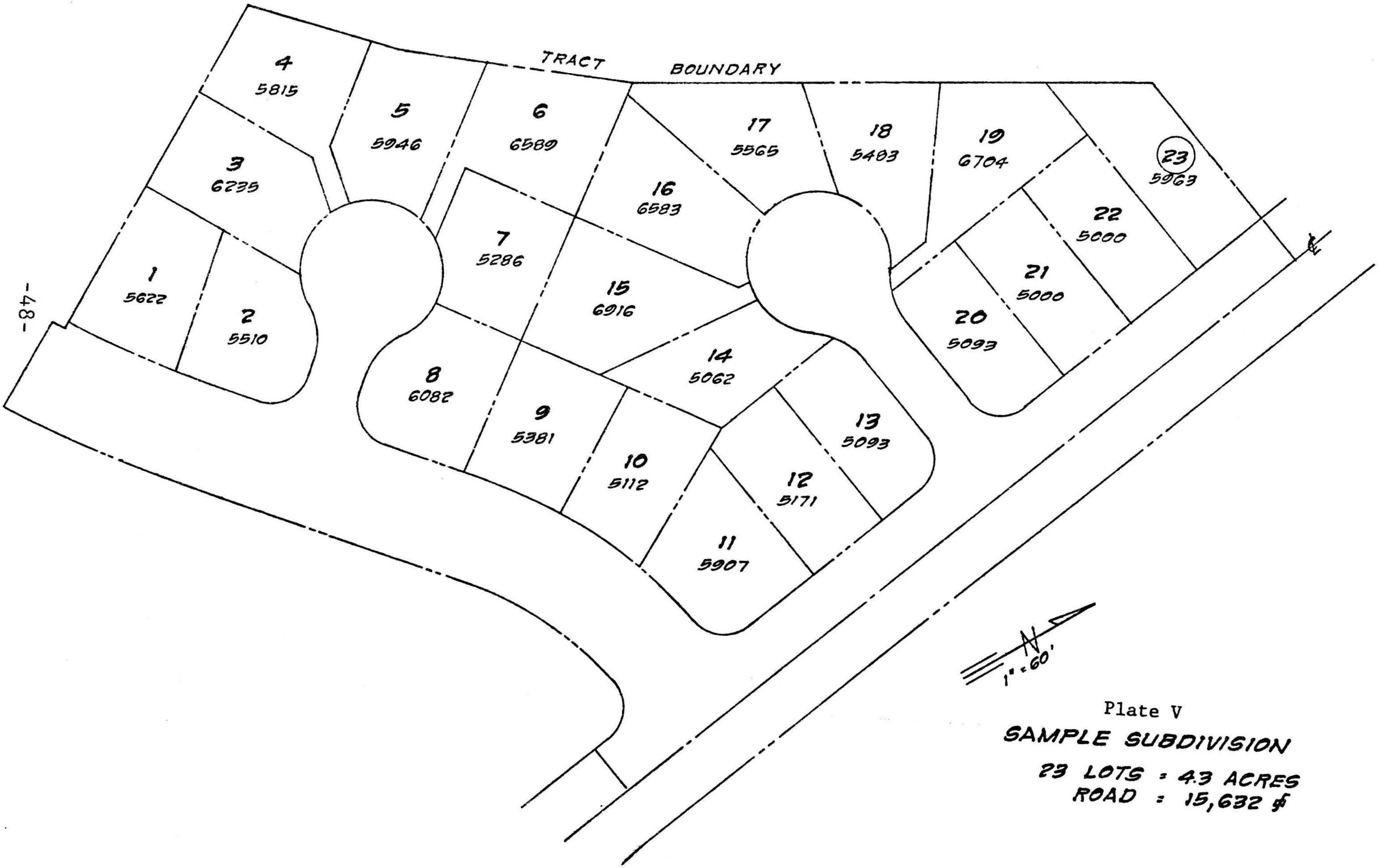

Plate V

SAMPLE SUBDIVISION

23 LOTS = 4.3 ACRES
ROAD = 15,632 ф

Plate VI DEVELOPMENT COST SHEET

Tract name Sample No. of lots 23 Area 4.3 acres
House type Sample Area 990 sq. ft. Bdrm. 3 Bath 2
Family room -- Den -- Kitchen 1 Dining room 1 Patio --
Utility room -- Garage -- Carport 1 car No. of models

I. Land . 5,000'		8,350
Escrow	350	
Sales	500	
Purchase land price	7,500	
II. Offsites (direct)		14,044
Earthwork, clearing	2,290	
Roadway (incl. sidewalk)	3,452	
Sewer	2,472	
Water	1,775	
Utilities	898	
Storm drain	2,418	
Landscaping	80	
Lighting	489	
Signs	170	
Contingencies		
III. Offsites (indirect).		3,870
Architecture, engineering (incl. soils)	1,000	
Fees, permits, bonds, zoning, etc.	1,080	
Park Dedication fees	440	
Utility fees	1,350	
IV. Onsite (direct).		23,260
Foundation	2,246	
Framing	4,581	
Roofing	2,065	
Interior	2,529	
Exterior	2,961	
Finish products	123	
Fixtures	1,016	
Electrical	1,427	
Plumbing	1,330	
Masonry	1,256	
Floor covering	1,726	
Garage (carport)	2,000	
V. Onsite (indirect)		1,200
Architecture, engineering	500	
Fees, permits, etc.	100	
Utilities	600	
VI. Marketing		2,000
Advertising	520	
Brochures	180	
Models	1,300	
VII. Sales		5,350
Fees	3,850	
Escrow	500	
Warranty	1,000	
VIII. Financing		6,700
IX. Overhead (G & A)		3,700
X. Taxes		1,346
XI. Legal fees		400
XII. Total cost		70,220
XIII. Profit		4,730
XIV. Sales price		74,950
XV. % margin		6.31%

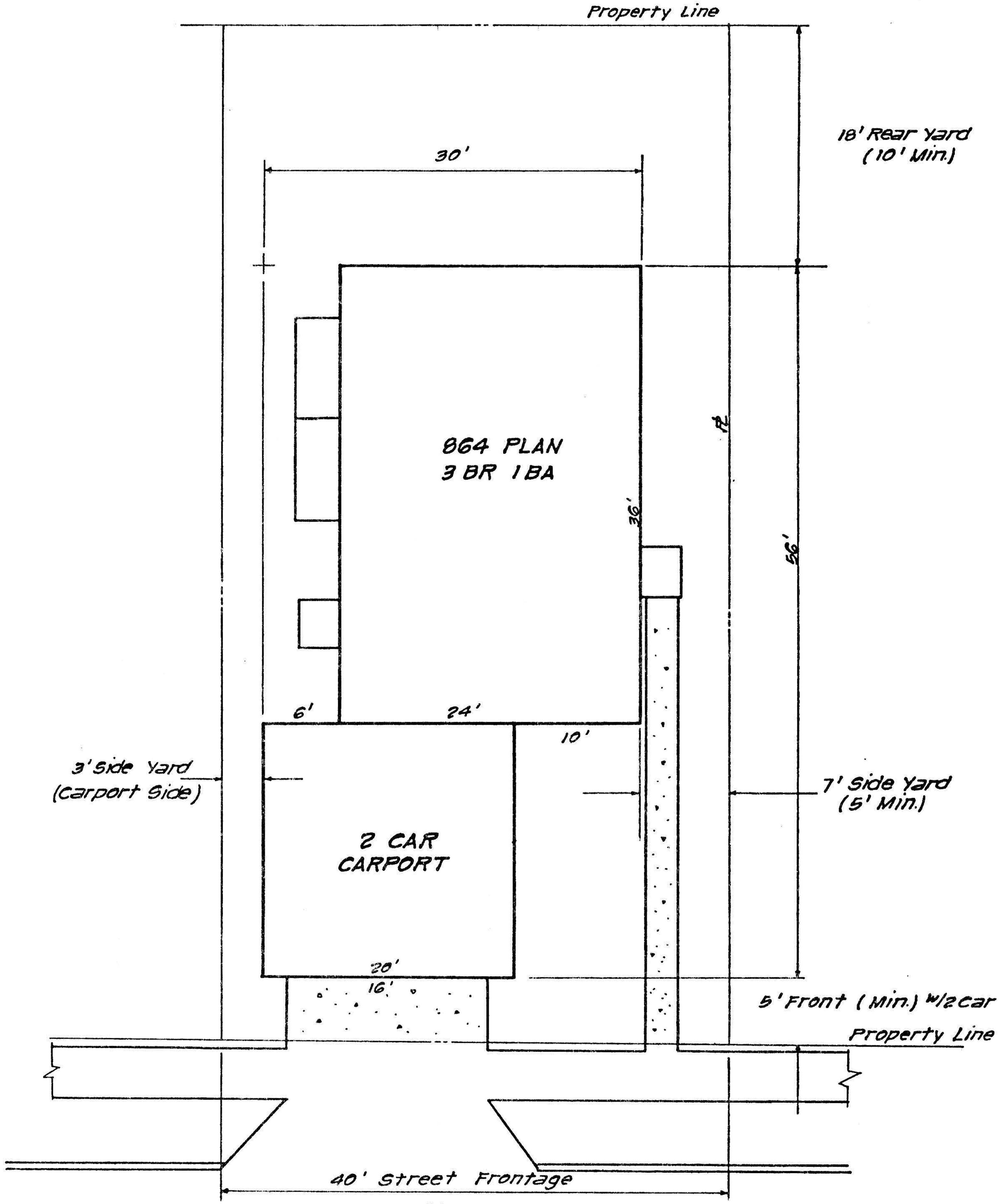

Plate VII

TYPICAL LOT APPLICATION 40' x 80' -- 3200 ☐'

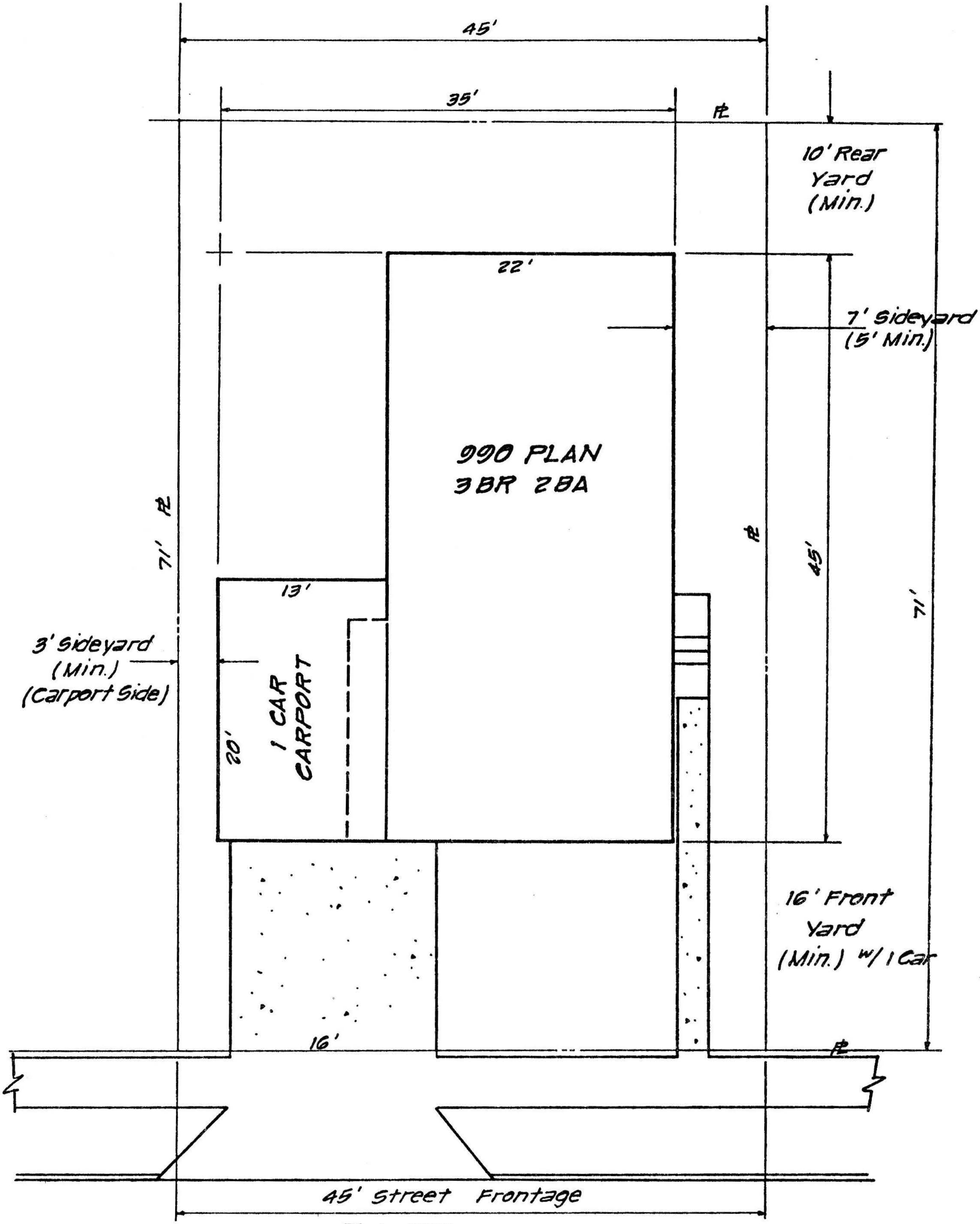

Plate VIII

TYPICAL LOT APPLICATION 45' x 71' LOT - 3195 SF

Plate IX REDESIGN OF SAMPLE SUBDIVISION

Plate X REVISED DEVELOPMENT COST SHEET

Tract name Sample No. of lots 36 Area 4.3 acres
House type Sample Area 990 sq. ft. Bdrm. 3 Bath 2
Family room -- Den -- Kitchen 1 Dining room 1 Patio --
Utility room -- Garage -- Carport 1 car No. of models

I. Land 3,200'		5,344
Escrow	224	
Sales	320	
Purchase land price	4,800	
II. Offsites (direct)		9,407
Earthwork, clearing	1,466	
Roadway (incl. sidewalk)	2,377	
Sewer	1,682	
Water	1,236	
Utilities	625	
Storm drain	1,548	
Landscaping	51	
Lighting	313	
Signs	109	
Contingencies		
III. Offsites (indirect)		3,280
Architecture, engineering (incl. soils)	800	
Fees, permits, bonds, zoning, etc.	690	
Park Dedication fees	440	
Utility fees	1,350	
IV. Onsite (direct)		23,260
Foundation	2,246	
Framing	4,581	
Roofing	2,065	
Interior	2,529	
Exterior	2,961	
Finish products	123	
Fixtures	1,016	
Electrical	1,427	
Plumbing	1,330	
Masonry	1,256	
Floor covering	1,726	
Garage (carport)	2,000	
V. Onsite (indirect)		1,200
Architecture, engineering	500	
Fees, permits, etc.	100	
Utilities	600	
VI. Marketing		1,332
Advertising	320	
Brochures	180	
Models	832	
VII. Sales		4,060
Fees	3,100	
Escrow	320	
Warranty	640	
VIII. Financing		4,290
IX. Overhead (G & A)		2,368
X. Taxes		862
XI. Legal fees		256
XII. Total cost		55,659
XIII. Profit		4,341
XIV. Sales price		60,000
XV. % margin		7.24%

Plate XI BUYER QUALIFICATION AND DOWN PAYMENT REQUIREMENTS FOR $60,000 HOME PURCHASE

Program	Sales Price	1st Mortgage	2nd Mortgage	Req'd Down Payment	P&I 1st	P&I 2nd	Mortgage Ins.	Taxes/ Ins.	Payment	Income Ratio	Monthly Qualifying Income	Yearly Qualifying Income
First Federal 6 1/2%	$60,000	$48,000	$12,000	$ -0-	$304	$70	$-0-	$60	$434	4.0	$1,736	$20,832
FNMA 9%	60,000	54,000	-0-	6,000	435	-0-	12	60	507	4.0	2,000	24,000
FHA 245 8 1/2%	60,000	56,250	-0-	3,750	358	-0-	24	60	442	3.25	1,436	17,232
FHA 235 8 1/2%	60,000	57,000	-0-	3,000	448	-0-	33	60	366*	3.25	1,189	14,268
FHA 203b 8 1/2%	60,000	55,850	-0-	4,150	430	-0-	23	60	513	3.25 3.50	1,667 1,796	21,552
VA 8 1/2%	60,000	60,000	-0-	-0-	462	-0-	-0-	60	522	3.25 3.50	1,697 1,827	20,364

*payment of $541 includes $175 subsidy

E. Processing Flow Chart

The Council, through the efforts of the Codes task force, prepared a processing flow chart for the various types of applications submitted in the City and County of Honolulu. Although the Council is commissioned with the task of studying the problems of housing statewide, much of the initial emphasis in progress was placed on Oahu's problems, since that is where the bulk of the high cost housing problem seems to emanate from.

Using data obtained from ordinances, agency policies, developer's experiences, and previous research compiled by CILO and the Development Association of Hawaii, the Council prepared simple time sequential charts which indicate minimum and maximum time durations of governmental processing phases.

Plate XII: Processing flow chart showing time sequences for State Land Use Commission, County General Plan and DLUM changes.

Plate XIII: Processing flow chart showing time sequences for Planned Unit or Cluster Development applications, subdivision applications, and Building Permit applications.

Plate XIV: Agency and organizational referrals - The various governmental agencies within the Federal government, State, and County of Honolulu which may require review and approval of a specific application submittal.

In examination of these charts, it becomes significantly apparent that most development applications bog down during the agency and organization referrals and hearings phase of the processing of said application. A major complaint of private development officials and/or their agents is that plans quite often lie dormant in some department for extraordinary amounts of time because no pressure or time limitation is placed there to expedite the checking review. Also, since most checking is done by a series routing slip method, this hand-to-hand approach may take an unusually inordinate amount of time. Further examination also indicates that the application processing phases subsequent to the completion of agency referrals normally follow a specified time schedule, since these agencies (such as the Planning Commission, City Council, and the Mayor) have a time limitation as established by ordinance or policy.

In all submittal cases, a provision for additional processing time is included to allow for the review and approval of an environmental impact statement if required.

Discussion with the officials of the Department of Land Utilization indicates that the pre-application discussions currently held with potential applicants prior to formal submittals will be eliminated from the process.

The advantages of the pre-application phase are that (1) the applicant receives the benefit of preliminary critique and may adjust his submittal accordingly; and (2) the county officials may schedule and prepare personnel for the impending application submittal. However, from the governmental standpoint, a greater number of pre-application conferences are scheduled, since the applicant does not have to follow through with the formal submittal. This creates a greater demand on County personnel and leads often to the practice of having the County officials "help to design the project" for the prospective applicant.

A possible solution to the problem of time lag during agency referrals would be time limitations, concurrent checking, and a governmental specialist assigned specifically to coordinate and expedite all applications.

Plate XII

PROCESSING FLOW CHART
CITY AND COUNTY OF HONOLULU

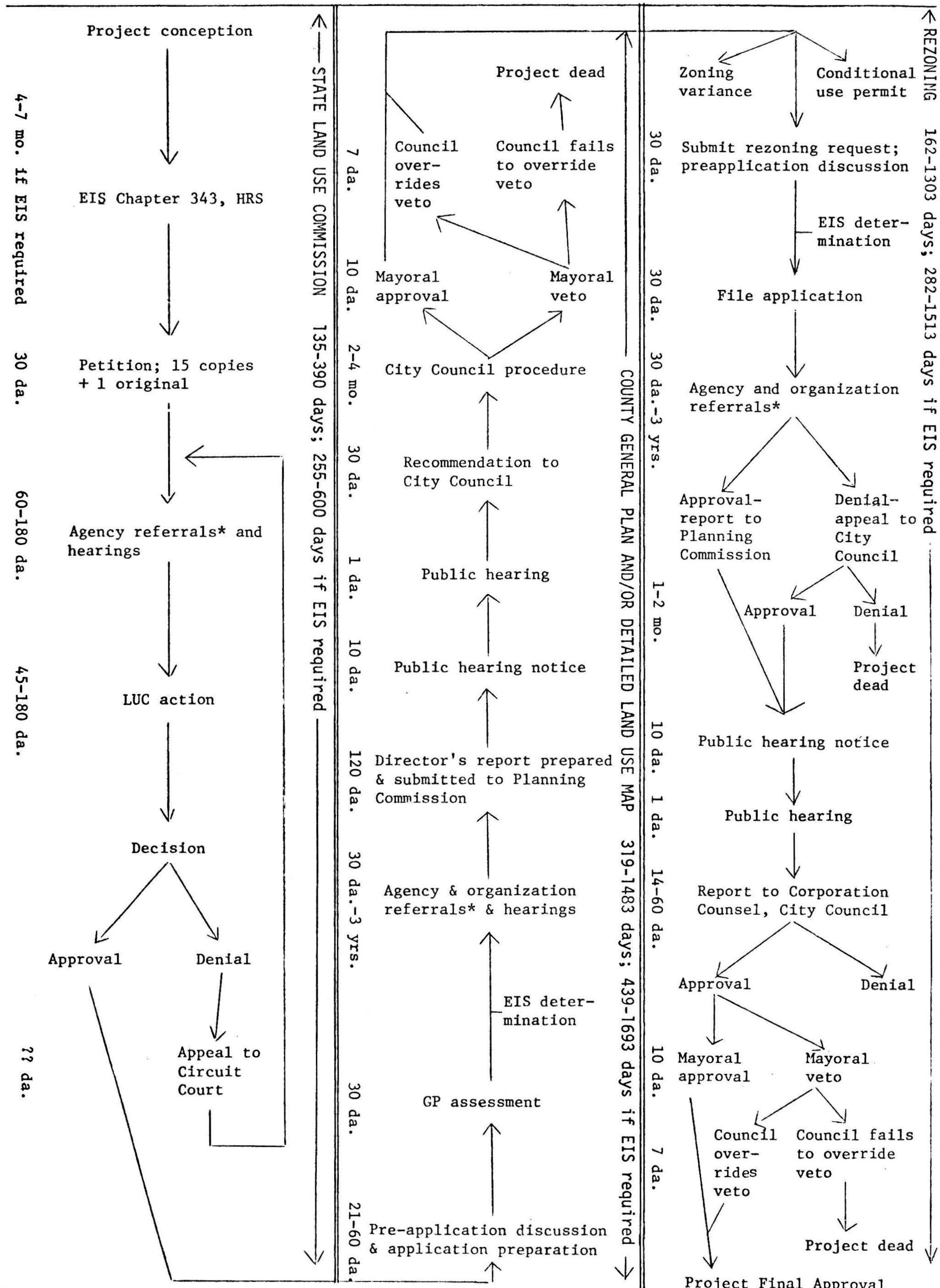

Plate XIII
PROCESSING FLOW CHART
CITY AND COUNTY OF HONOLULU

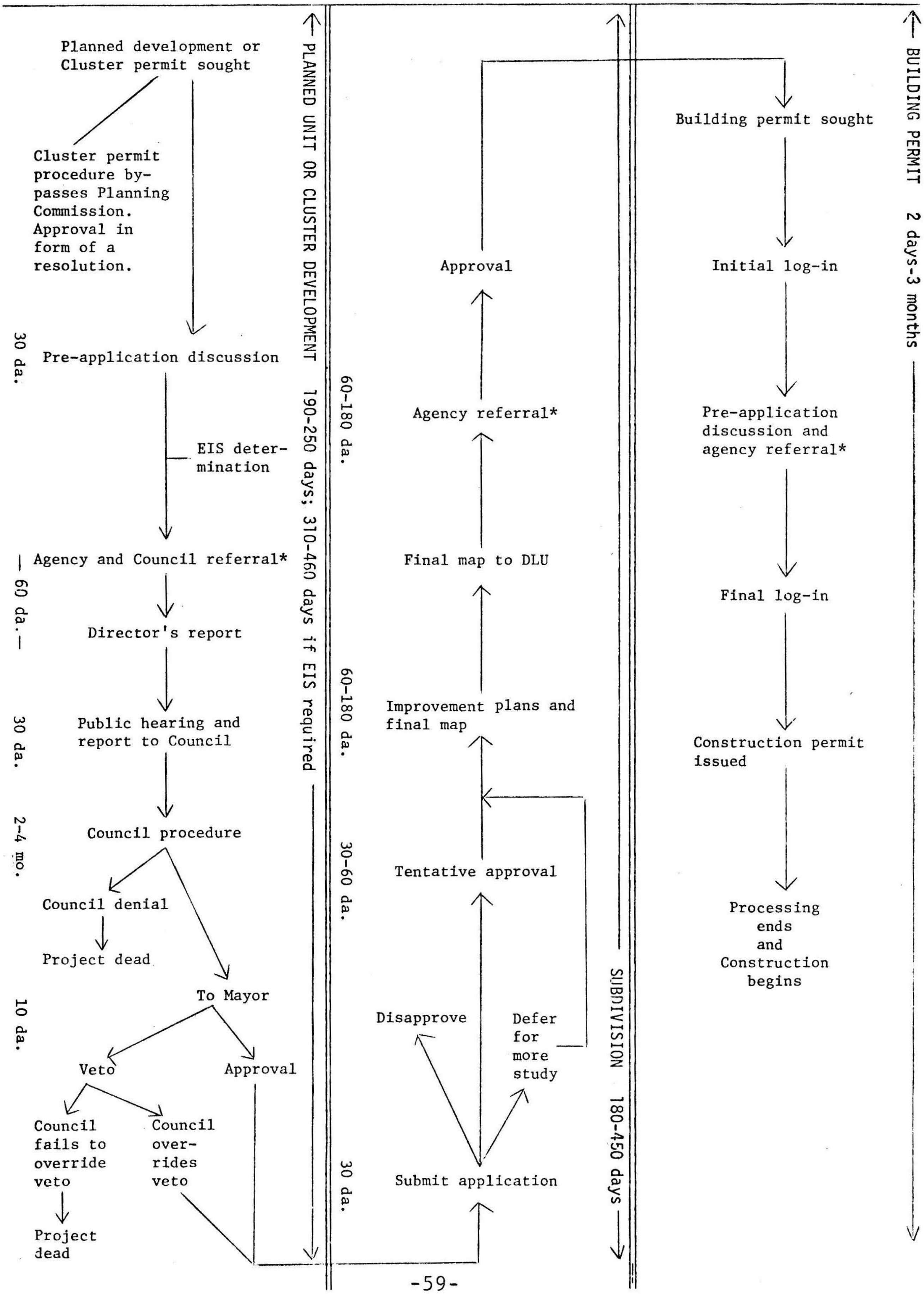

Plate XIV

*AGENCY AND ORGANIZATION REFERRALS

COUNTY AGENCIES

1. Police department
2. Department of Public Works
   a. Division of Engineers
   b. Division of Sewers
3. Department of Transportation Services
4. Fire department
5. Department of General Planning
6. Board of Water Supply
7. Office of Human Resources
8. Department of Housing and Community Development

STATE AGENCIES

1. State Land Use Commission
2. Department of Education
3. Department of Health
4. Office of Environmental Quality Control
5. Department of Land and Natural Resources
6. Department of Planning and Economic Development
7. Department of Transportation
8. Hawaii Register Program
9. Department of Social Services and Housing
10. Hawaii Housing Authority
11. Department of Hawaiian Homesteads
12. Department of Agriculture

FEDERAL AGENCIES

1. Corps of Engineers
2. Housing and Urban Development
3. Health, Education, and Welfare
4. Environmental Protection Agency

OTHERS

1. American Lung Association
2. Neighborhood Boards
3. Community Associations
4. Business groups
5. Labor organizations
6. Other interested persons or groups

V. SUMMARY OF FINDINGS

The Council of Housing and Construction Industry, in summarizing the programs investigated during the calendar year 1977, decided to concentrate on five important categories to provide findings to report to the Legislature. These categories are as follows:

1. PROJECT TIME LIMITATION PROCESS
2. PARK DEDICATION ORDINANCE REVIEW
3. INCREASED DENSITY REVIEW
4. JOINT EFFORT FUNDING FOR PRIVATE DEVELOPMENT
5. MORTGAGE PROGRAMS

A brief outline of each item listed is summarized here and discussed in greater detail in Section VI of this report.

A. Project Time Limitation Process

1. Time limitation process would encompass submittals for building permits; planned developments, cluster, and subdivision applications; condominiums.
2. Responsibility would be for project in excess of four dwelling units or $150,000 in construction value.
3. All agencies would have a time limitation for checking of 45 working days from time of transmittal by county staff to various agencies for comment.

4. All checking by agencies involved would be handled concurrently (simultaneously).
5. Failure of agency to respond by designated date would automatically indicate approval.
6. Extension of time limitations could be made only at the joint agreement of applicant and agency.
7. Process could be implemented in conjunction with Central Coordinating Agency as established by Act 74 in 1977.
8. Applicant would also have time limitations imposed after receipt of checking plans. Failure to comply would mean resubmittal of application.
9. Counties could delegate staff member to assist in expediting and monitoring of checking process through agency referral phases.
10. Duties of delegated staff member would be primarily to check adequacy and log-in of submittals; maintain routing chart and establish chronological deadlines for agency checking procedures; notify applicant of problems raised by agency during checking; expedite checking procedure as much as possible; efficiently determine final approval status of application.
11. A checking fee schedule would be established for all new plan submittals. All fees should be used to defray expenses for additional county staff requirements.

12. Counties should be responsible for implementing time limitation process and establishing most efficient technique and utility of staff to accomplish expeditious purpose.

B. <u>Park Dedication Ordinance Review</u>

1. Establish identical maximum value for cash contribution (when developers requirement is in lieu of land contribution) throughout the State. Value should be in range not to exceed $500 per lot.
2. Seek true definition of parks or recreational areas.
3. Determine actual necessity for "parks" or recreational areas.
4. Establish working ratios of open space or recreational areas to number of populace.
5. Establish working ratios in #3 for specific localized districts or centers of population.
6. Determine accessibility and provide means of accessibility to all usable reactional areas.
7. Redesign existing recreational areas to meet age group needs.
8. Undertake programs to develop presently unusable available park sites.
9. Study use of park/school combinations and school grounds as after-hour parks.
10. General Improvement District: requirements for new parks.

C. Increased Density Review

1. Allow home builders under certain conditions to utilize special smaller lots based on minimum area and offset minimums rather than minimum length and width of lots.

   Suggested minimums of area and offset:

Front set-back	5'	minimum to 2-car garage or carport
	16'	minimum to 1-car garage or carport
Side yard	3'	minimum to 1-story garage or carport
	5'	to house
Rear yard	10'	minimum to building structure
Lot area	3,200 sq. ft. minimum	

   Compliance with height envelopes.

   The introduction of zero-lot line property sharing should be made optional to the developer.

2. Consider use of vertical duplexes, broaden use classification on residential lots to two families per lot.

D. Joint Effort Funding for Private Development

1. The State and/or Counties could provide funds (obtained through private lending institution or revenue bonds) to developers for any phase of development financing.

2. State and/or Counties could create homeownership program for rental-credit towards down payments for qualified buyers without necessary cash down

payment. Under this program, a buy-back provision for certain reasonable periods of time would be in effect.

3. State and/or Counties could provide no-risk benefit to developers by provision in item (1) and guaranteed sales program. Developer would be guaranteed established limited profit.
4. State and/or Counties should investigate all available government-owned lands to provide developers with readily developable land.

E. Mortgage Programs

1. Support the State Down Payment Reserve Plan for subsidized down payments, provide funding of this plan under Act 105;
2. Support the State Down Payment Reserve Plan for financing of front-end interest reduction loans to lower income qualification requirements;
3. Recommend counties adapt program similar to down payment reserve plan in conjunction with Section 8 Housing Assistance Payments Program;
4. Recommend State and/or Counties establish programs similar to FHA 235 program; and
5. Recommend State and/or Counties establish programs similar to FHA 245 program.
6. Recommend that State and/or Counties continue to promote public sector interim construction financing

for "gap group" projects for both subdivision and multi-family developments.

VI. FINDINGS OF THE COUNCIL, 1977

A. Project Time Limitation Process

The project time limitation process evolved, as previously mentioned, after Council members reviewed the processing flow chart and the results of the discussions held with state and county agency officials, industry trade association officers and development-oriented leaders pertinent to their knowledge of and experience with the processing systems now in effect in the counties.

While almost all persons contacted felt that some form of better control was needed to expeditiously process the plans in a reasonable amount of time, there were several opinions rendered as to the choice of method.

Certain groups preferred an ombudsman or coordinator appointed in each agency who receives the submittal for comment and approvals and provides proper expediting of the application. Other persons showed a preference for a system which would allow an applicant to monitor the status of his own plans in conjunction with the new Central Coordinating Agency. Concern was shown with regard to the problems that an ombudsman, retained at the county level, would incur in coordinating with state or federal employees involved in the checking process of the same set of plans.

The Council agreed that one individual should receive, log-in, and maintain continual status control over submittals, and serve as the county contact with the applicant. However, it was felt that this procedure should be maintained only for projects over four dwelling units or $150,000 of construction value.

The essence of the county staff member's responsibility would be to assure all agencies' compliance with the established time limitation and concurrent checking procedures.

Since the Central Coordinating Agency in the various counties will have established the required repository by 1978, the staff member reasonably could serve as an administrator of the CCA and combine all his data on applications with the guide files being established.

It should be mandatory upon the applicant to also observe a time limitation after receipt of the comments and suggested corrections to his submittal; and an extension could be granted upon joint agreement between the applicant and the county coordinator. If no extension is granted, the applicant would have to resubmit a new application.

Considerable discussion was held over the necessity for the implementation of the ombudsman process in all counties. The three neighbor island counties seemingly do not have the processing tie-ups that exist on Oahu. However, several county representatives agreed that intra-governmental coordination and expedition (i.e., transmittal of data between county and State agencies) was not always concordant or affable. It appears that existing staff members and facilities adequately handle the processing of applications submitted in the neighbor island counties. Therefore, a possible condition to set for the time limitation and coordinator process could be to limit the implementation in counties with population over 100,000 people.

Some of the counties now follow a time checking sequence limitation which ranges from 30 to 45 days. Council felt that, in conjunction with simultaneous plan checking, a limit of 45 working days should be a sufficient period of time to handle the majority of submittals. Extraordinary cases could be extended upon joint agreement of the agency and the applicant. The failure of an agency to respond within the prescribed time limitation, and failure to request an extension from the applicant should constitute just grounds for implied approval. In certain situations, an agency could possible file a rejection of the submittal within the time limitation in order to avoid the "implied approval" consequence. It should be the responsibility of the ombudsman to exercise judgment as to the justification of the denial.

The issue concerning concurrent checking raised the question: "What happens when an agency's resultant checking depends on the conclusions of another agency's review?" In cases of this nature, it should be incumbent upon both agencies to coordinate their efforts or file for an extension with the county's coordinating staff member.

The load delegated to a coordinating staff member could be determined by the governing county department, dependent upon size, type, complexity, etc. However, in the County of Honolulu, the filing load could necessitate more than one staff member to handle the various applications programmed.

In order to assist the county(ies) in funding for additional staff position(s) and necessary additional facilities, a nominal checking fee on a per lot or dwelling unit basis could be charged to all new plan submittals. In other areas of jurisdiction checking fees are not uncommon and range from $50 to $150 per lot. Most development officials would accept the fee as minimal if they could be assured that their submittal would be reasonably expedited and could be given an approximate time schedule with which to arrange for further programs such as construction starts, labor hiring, additional financing, sub-contractor sequencing, and eventual sales-opening target dates.

The duties of the staff member would be to receive and log-in all applications and check each for compliance with the general check list for submittals (i.e., proper number of readable plans, all necessary data, back-up material and calculations, proper fees, necessary title reports and logical deadline schedule for the checking process. He would receive all feedback from the agencies and coordinate with the applicant (or his agent) to alleviate or amend any discrepancies or disputes. He would also monitor any required additional submittal of information, fees, etc., still forthcoming from the applicant and inform the applicant of such delinquencies or forthcoming requirements. Finally, he would assist development officials in following the scheduled process toward final approval. The county coordinator's function would not entail any design critique or technical input, and he would not have authority to comment on social, political, or marketing suitability.

Implementation of the time limitation process would provide positive form of control over a problem area now prevalent in the checking process of the county departments and would also serve as the subsequent step for utilizing the facilities established by Act 74 . . . "The Central Coordinating Agency."

B. Park Dedication Ordinance Review

In Section 46-6, HRS, the legislature mandated that all counties adopt a Park Dedication Ordinance. In 1977, the legislature amended that section by enactment of Act 208-SLH 77, essentially eliminating the requirement of developers to provide facilities together with land and also providing a credit for privately owned parks and playgrounds towards the Park Dedication requirement. This created a major step towards the ultimate cost of homeownership.

There can be no valid social argument that the preservation and creation of parks and playgrounds for the people of our community are not an essential element towards providing the proper quality of life and environment every citizen seeks in Hawaii. Well designed and oriented parks with proper facilities and amenities certainly rank as a leading deterrent to the dreaded sociological dilemmas which prevail in the crowded, congested ghetto-like atmosphere found so prevalent throughout the world.

Hawaii's attraction is the beautiful environment; lush, verdant open spaces; clean, sandy beaches and waters;

impressive natural mountain ranges; and azure-blue skies swept clean by the gentle trade winds.

However, these natural attributes are not always within close proximity to localized residential districts where the necessity for recreational amenities is at its maximum. Certainly, recreational areas should be properly located and spaced to sufficiently satisfy the needs of that populace within its service perimeter. But, the questions remain:

(1) "How much is adequate?"

(2) "Could there possibly be an overabundance of park sites or recreational areas?"

(3) "What is the proper ratio of area to people to adequately meet the recreational needs of each community?"

(4) "Is there an excess of playground sites available for the public, but unusable due to condition, lack of improvement, or inaccessability?"

(5) "Are there playgrounds available that are essentially unusable because they do not provide the proper facilities for the preponderant age group in the area?"

(6) "Why can't public school grounds, under proper supervision, be utilized during non-school hours for playground purposes?"

(7) "Has the DOE considered a policy of locating a school (or schools) adjacent to regional usable playground areas for maximum utility?"

(8) "In considering adequacy of parks for the citizenry, should we not instead evaluate all recreational areas and amenities?"

The Council deemed it necessary to consider these problems as to its affect on the high cost of housing in Hawaii. It seems certainly justified to have a developer or builder contribute toward the recreational necessities arising due to the additional population density he introduces and profits from. However, if this contribution, all of which is reflected in the final sales price, tends to seriously affect the ability of the gap group buyer to qualify for the product, then this is a variable which needs re-evaluation.

As stated many times previously in this report, the developments on neighbor islands do not seem to be unduly affected price wise by the developer's contribution, because land is still plentiful and the fair market values are reasonable. But on Oahu, where values can equal or exceed those found in major metropolitan areas in the United States, the burden of monetary contribution, based on fair market value, can be exceedingly heavy.

The comparitive methods of determining land and cash contributions are shown on Plate XV.

It can be easily determined that the cash contributions for the Counties of Maui and Hawaii are quite nominal and do

Plate XV PARK DEDICATION ORDINANCES IN THE STATE OF HAWAII

Section 46-6 HRS as Amended by Act 208-SLH 77

County	Ordinance No.	Date	Type of Development	Cash Contribution	Land Contribution
Oahu	4621	8/17/76	Residential	Fair market value	350 sq. ft./unit
	77-29	3/15/77	Others	Fair market value	10% of maximum floor area or 110 sq. ft./unit (whichever is less)
Hawaii	129	9/30/75	Residential	$150/lot	380 sq. ft./unit
	290	10/1/77	Multi-family	($50/lot pending)	229 sq. ft./unit
Maui	789 [Bill 18(74)]	5/20/74	Residential	Fair market value	245 sq. ft./unit
Kauai	304	5/20/77	Residential	Fair market value + 50% (improved value - FMV)	266 sq. ft./unit
			Multi-family		160 sq. ft./unit

not create any significant effect on the selling price of the house.

In the County of Kauai, the method used to determine the monetary contribution would produce a higher figure because it's based on fair market value plus one-half of the difference between the fair market and improved values. But the value is still not of significant input.

However, in Honolulu County, where values range anywhere from 2 to 10 times higher than comparable residential lots in the other counties, the contribution is significant relative to the total sales price.

An actual example of this emerges in a subdivision application for 10 potential units in the urban Honolulu area. At a fair market value of $9.30 per square foot, the developer is asked to contribute $32,500 or $3,250 per dwelling unit.

Another example of the extreme difference in monetary contributions requirement can be found in a proposed rental multi-family development on Waialae Avenue where the developer is requested to contribute $40,000 for a cost of $1,333 per unit or a fair market value of $12.18 per square foot.

The County of Hawaii, after re-evaluating their present park dedication program, is presently considering a new ordinance which would change the monetary contribution to $50 per lot and is further considering deferring the effective date for implementation of this ordinance until available park areas in the County fall below the ratio of 5 acres per 1,000 persons.

The Council feels that if the counties would re-assess the availability of park sites and consider a general recreational area improvement program, the continued requirement for additional park areas could be lessened or minimized.

If the cash contribution required in the County of Oahu became comparable in actual monetary value to that of the neighbor island counties' requirements, say a value not to exceed $500 per unit, funds towards park and playground improvements could still be acquired throughout the State and the effects on housing costs would be minimal.

C. Increased Density Review

About ten years ago, when Oahu's housing boom began its spectacular emergence, new tract-developed middle income range homes were made available to the public at a range of $30,000 to $65,000. Many of the buyers were families moving "up" into second or third homes basically due to

(1) Large percentage of cash equity in their previous home;

(2) The recognition of the salary contribution of working wives to the qualification ratios; and

(3) The ability of the buyer to sell his previous home to a first-time buyer, usually a family with sufficient down payment, but short on annual income qualification ability.

Subsequently, the market surged to new price ranges in the neighborhood of $65,000 to $90,000. Again, the scaling of the ladder took place with new first time buyers entering the picture at the lower rung. However, since income levels did not escalate at the same rate as housing prices, greater difficulty was shown by the middle range or gap group classification to move up. This deceleration in the on-rush to purchase the seond home created an over supply in the new home market. Thus, Honolulu's housing economic recession began.

The Council realized that in order for the gap group buyer to participate in the home purchasing program, a rollback of new tract housing sales prices was mandatory.

Although the cost of the actual construction of the physical product, the structure itself, represents 35% to 40% of the total sales price, much of this cost is fixed and only a revolutionary departure from labor practices, construction techniques, and material uses can significantly lower these figures. It became apparent that the greatest initial lowering of sales price would be effected by a decrease in all allocated costs, those costs directly affected by changes in density. It can certainly be pointed out that imprudent increases in density, without proper accompanying supportive infrastructure, facilities, and recreational amenities, will lead to municipal administrative difficulties and unwanted sociological problems. Ill-planned, over-congested housing developments can only produce claustrophobic frustrations in their inhabitants and the unfortunate results: increase in criminal, psychological, marital, and aesthetic problems.

It therefore becomes necessary to understand what the home buyer seeks in providing his family with a private haven. After researching the results of years of experimentation by builders in the Hawaii housing market, the Council can conclude that a gap group buyer--the average family of four with an income level of about $20,000--minimally wants enough space in a home to allow each individual some degree of freedom, a separation from neighbors, some semblance of contact with nature in the form of a yard, and the proper provision of social utilities such as sewer, water supply, light, power, and flood control, municipal services such as garbage disposal, postal service, police and fire protection, educational facilities, and sufficiently available recreational amenities to offer active or passive "leg-stretching" possibilities.

Therefore, the important elements to consider in seeking an increase in density then becomes

(1) Compliance with the standards of separation from other families presently practiced in the single family residential development programs;

(2) The necessity for proper supportive infrastructure;

(3) Provision of adequate materials and products used in the home construction;

(4) Ample on-site parking facility;

(5) Some individuality of design;

(6) Some ability to work with the earth;

(7) The ability to engage in homeownership without the spectre of financial pressure or bankruptcy; and

(8) The possibility of eventual land ownership.

A home of 1,000 sq. ft. of living area, while not considered massive, seems to provide the adequacy of space that a gap group buyer desires. Because of its present proven acceptance in the Hawaiian market, the Council of Housing and Construction Industry decided to use this parameter as the prototype for their study.

Many of the suburban areas on Oahu where large tracts of raw land still exists either are provided with or have planned for the proper supportive facilities to adequately satisfy the needs of an increased density. This possibility must be given due consideration in order to meet the demands of the future homeowners of Hawaii.

Other possibilities which must be considered on Oahu are the use of the "zero lot line" programs and two story vertical duplexes wherever applicable. Although zero lot line applications are quite novel in the State of Hawaii, many similar programs have been implemented throughout the United States for many years with considerable success. Vertical duplexes, the concept of two story structure housing separate dwellings on each floor seems to be an amenable solution for hillside properties, fairly abundant in Hawaii, where single family dwelling construction now takes place at considerably higher cost than the normal tract development homes. On Oahu, horizontal duplexes, a single structure housing two distinct dwellings separated by a division wall, are now allowable on R-6 lots with a minimum of 7,500 sq. ft. of lot space. Should not the option be made available to a builder of R-6 lots with 5,000 sq. ft. of space, for vertical duplexes as a very feasible alternative?

Both of these possibilities warrant considerable evaluation as methods to provide further housing at lower costs for the people of Hawaii.

D. Joint Effort Funding for Private Developments

In researching methods towards solutions for lowering the cost of developing housing in the State of Hawaii, it has become apparent that the normal trend of an investigatory body is to consider the same processes that have previously been looked into. Such things as increase of density, substitution of materials, streamlining checking procedures, eliminating governmental assessments, lowering labor requirements, etc. seem to immediately focus into view. But are these the only answers?

From the studies of the Council of Housing and Construction Industry, it has been previously determined that two elements which will greatly assist in lowering housing costs are:

(1) REASONABLENESS OF LAND COSTS, and

(2) REASONABLENESS OF FINANCING COSTS.

Certain key questions are raised and appropriate answers must be provided.

(1) How can a developer obtain minimum interest rates?

(2) Who is the largest landholder in Hawaii?

(3) Do the state and county governments utilize to a maximum degree whatever available lands they own?

(4) Can the counties, through their tax exempt capability and high bonding capacity, create a better lending market for homebuilders?

(5) Can the counties, through low interest financing and land availability, participate with private development in creating low-risk, limited profit programs?

These questions point to a possible solution to the provision of lower-cost housing for the gap group in Hawaii. The largest landholder in the State of Hawaii is the state government of Hawaii. Much of this land is readily accessible and usable for housing developments with minimum rezoning and support facilities necessary. The counties also have parcels of land which might be utilized in joint efforts with the private development community.

Because Government has the ability to borrow tax exempt loans from a lending institution, the interest rate usually can be about half of the normal prevailing rate to the borrowing public. This capability, and the ability to obtain funding through tax exempt revenue bonds allows Government the benefit of substantial capital for lending purposes, at considerably lower rates than prevailing.

The counties could then enter into joint effort programs with the larger lending institutions to

(1) Borrow funds at lower rates;

(2) Make lands available to developers at cost;

(3) Provide funding for land purchase, interim financing, construction loans, or permanent financing at considerably lower rates than the prevailing market;

(4) Provide a guarantee of sales (together with an established profit rate for the builder);

(5) Provide a rental-credit-towards-down-payment program for qualified buyers; and

(6) Provide for buy-back provision for a term of ownership of ten years or some such reasonable period, allowing the buyer only minimum speculative return over cost.

Discussion with the representatives of the Mortgage Builders Association of Hawaii have shown that a program of this nature is completely palatable and can be implemented successfully in Hawaii.

E. Mortgage Programs

The following are legislative proposals which the task force feels would be effective in improving the opportunity for buyers to qualify for financing in the purhcase of a new or existing house.

(1) Support the State Down Payment Reserve Plan, and in this regard, suggest early consideration of the funding of this section under Act 105. The program should be flexible enough to provide funding for incomes up to $26,000, but not too low to jeopardize the family's chances of becoming a <u>successful</u> homeowner (borrower). The Down Payment Program would be used in support of borrowers who qualify for the monthly payments for a loan, but have not been able to generate adequate savings to deposit for the down payment on a home. The State program would provide for liberal terms of repayment and would be favorably considered by the primary lending institutions.

As a prt of this program, we would again concur in the State's support of the Down Payment Program used to finance front-end interest reduction loans so as to lower the income required to qualify for a home loan from a conventional lender. The lender in this program would support a buyer who cannot qualify under conventional underwriting for monthly payments, but through the "buying down" of the interest rate was able to adjust the monthly payment to suit his income level. This is achieved through a borrowing of funds which were used to provide the lender with a discount or "points" from say an interest rate of 8 3/4% to 6 1/2% (see Exhibit I). This provides the lender with the same yield he would have received through a conventional rate and points as he receives under the reduced interest rate and increased point structure.

2. Recommend the counties consider the possibility of establishment of a similar program to the Down Payment Reserve Plan, perhaps in conjunction with the Section 8 Housing Assistance Payments Program, which could be used to broaden the number, as well as the type of families who would be preparing themselves for homeownership. This proposal parallels proposal #1 with the suggestion that each of the counties consider these programs on a need basis to augment State or Federal funds.

3. Recommend that consideration be given to establishing a program similar to the FHA 235 program on either the State or County level. Such a program could incorporate repayment provisions and could be geared toward the gap group family. This program would also provide a continued source of funds and to provide a source of funds where Federal requirements may exceed county building codes.

4. Consideration might also be given to the establishment of a State and/or County program similar to the FHA 245 program. The 245 program can be an effective financing tool for gap group families but is, of course, limited to units which qualify for FHA financing. State or County programs could provide a continuous source of funds and could be used in cases where Federal requirements exceed local building codes and further in support of projects which may not immediately satisfy Federal program specifications such as the presale requirements.

5. Recommend that State and/or County continue to promote public sector tax exempt interim construction financing for gap group projects for both subdivision and multi-family developments. In this respect, we find significant savings and therefore cost reduction in housing for this income group. This same source of tax exempt financing can also be used by the State to provide necessary support of federal housing programs whose source of permanent financing seems questionable at this time. Thus, while the need for this support of permanent loan funds for special assistance programs continues, traditional government sources such as GNMA are not longer available.

Exhibits

I. Front-end interest reduction loan program example.

II. FNMA requirements for sample tract home.

III. Explanation of conventional FHLMC (Freddie Mac) loan program.

IV. List of existing federal housing programs.

V. Memo from David C. Slipher in regard to "Proposed Issue and Sale of Tax Exempt Revenue Bonds to implement several housing programs available to Hawaii Housing Authority.

Exhibit I

FIRST FEDERAL
Savings and Loan Association of Hawaii
851 FORT STREET MALL • P.O. BOX 3346 • HONOLULU, HAWAII 96801 • PHONE 533-3851

October 31, 1977

Hawaii League of Savings Associations
Post Office Box 4145
Honolulu, Hawaii 96813

Attention: Ms. Molly Chur

Re: Financing for Model Project
Proposed by the Housing Council

Dear Molly:

I have reviewed the information you sent in regards to financing and it appears that the State has a workable plan in the second mortgage program as outlined under Section 359.G-16.

It appears that the second mortgage program, first for the down payment loan and the second part for the interest reduction of the first mortgage, appears to be a workable program.

The acceptance by the first mortgagee of the mortgage interest rate paid down would have to be considered by each individual lender and a determination made if the $5,400 paid in would be in line with their lending policies to buy down the rate from 8-3/4% to 6-1/2%. Since the qualifying income is $20,000 annually and below, it appears that the lenders would be flexible and mike some provision for assistance to these buyers in this income category. The collection of the second mortgage, I am sure, would also be a good provision and a control of the first and second mortgage would be in the hands of the mortgagee so that the status of both loans would be available to him at all times.

Al alternative approach may be through the use of our present financing on say a 95% loan insured by a private mortgage insurance and a possible more lenient approach to the qualifying standards could be used by lenders to qualify the applicants in a project of this type for a limited income of $20,000.00.

Sincerely,

G. R. CONRADT,
Senior Vice President

GRC:rsw

Exhibit I (Part 2)

MODEL --

Estimated Sales Price	$40,000.00	
	32,000.00	- 80% 1st mortgage
	8,000.00	
	2,500.00	- 6½% 2nd for down payment
	$ 5,400.00	- 13½% down payment in cash 20% Total Down Payment

Additional 2nd of $5,400.00 - 13½% 2nd by State to buy down interest rate on 1st mortgage.

80% 1st mortgage	- $32,000.00	- 6½% 30 yrs. -	$ 203.00
20% 2nd mortgage	- $ 8,000.00	- 6½% 40 yrs. -	47.00
		Prin. & Int.	$ 250.00
		Taxes	25.00
		Insurance	10.00
			$ 285.00
			x 4
$20,000.00 - max. annual income $1,666 - 1/12 $417.00 - 25% of Gross		Required Gross	$1,140.00

Total 1st and 2nd mortgages do not exceed Sales Price of $40,000.00

Exhibit II

ESTIMATED FNMA REQUIREMENTS FOR SAMPLE TRACT HOME AS PER COUNSEL OF HOUSE AND CONSTRUCTION INDUSTRY DEVELOPMENT COST SHEET

Sales Price and Appraised Value			$60,200.00
Required Down Payment (5%)			3,050.00
Maximum Loan Amount			$57,150.00

Closing Costs (Presumed Fee Simple Out of Flood Zone)

(a)	Recording Fees (Deed & Mtge., Reg. Syst.)	$ 14.00	
(b)	Title Insurance	219.00	
(c)	Attorney's Fees	41.60	
(d)	Notary Fees	4.00	
(e)	Property Insurance (est.)	120.00	
(f)	Tax Deposit (est.)	60.00	
(g)	Insurance Deposit	10.00	
(h)	Credit Report Fee	18.00	
(i)	Finance Fee	857.25	
(j)	Mortgage Insurance Premium		(1% 571.50)
(k)	Mortgage Insurance Deposit	12.00	
Total Closing Expenses		($1,935.35)	
Plus Down Payment		$3,050.00	
Total Cash Requirements for Closing		($4,985.35)	

Monthly Payment @ 9-1/4%, which is approximate present FNMA Rate (30 Years)

P & I	$ 470.34	
M. I.	11.91	
Taxes	40.75	
Hazard Insurance	10.00	
TOTAL	$ 533.00	
	x 4	
	$2,132.00	= Approximate Required Family Income

S.F. Flood Ins. maximum $50,000 - $10.42 per mo. or $125.00 per yr.

Exhibit III

Honolulu Federal Savings
and Loan Association

November 14, 1977

TO: JOHN ANDERSON
Chairman, Housing Funds and Finance Task Force

FROM: JAMES HARA

SUBJECT: FHLMC (Freddie Mac) PROGRAM

As to each conventional home mortgage purchased in whole or in part by FHLMC, seller represents and warrants that the qualifying requirements have been met.

1. Loan Limits and Loan-To-Value Ratio

Value is defined as the lower of: (a) the appraised value of the mortgaged property at the time of closing, or (b) the purchase price of the mortgaged property.

The original loan amount on mortgage loans in excess of ninety percent (90%) of value must not exceed $50,000.

No original mortgage loan amount may exceed ninety five percent (95%) of value.

The original loan amount on mortgage loans not exceeding ninety percent (90%) of value must not exceed $112,500.

Mortgage loans secured by 2, 3, or 4 family dwelling must not exceed the lesser of eighty percent (80%) of value or $75,000.

Refinance loans (not including construction/permanent loans) must not exceed the lesser of eighty percent (80%) of the appraised value at the time such loan was closed or $75,000.

2. Cash Down Payment

For mortgage loans with a loan-to-value ratio of more than ninety percent (90%), but not in excess of ninety five percent (95%), the difference between the purchase price and the mortgage loan must be paid from the borrower's liquid asset or cash equity.

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For mortgage loans with a loan-to-value ratio of more than eighty percent (80%), but not in excess of ninety percent (90%), the difference between the purchase price and the mortgage loan must be paid from the borrower's liquid assets or cash equity or its equivalent. The amount paid from borrower's liquid assets or cash equity must be a minimum of ten percent (10%). No secondary financing is permitted.

For mortgage loans with a loan-to-value ratio of eighty percent (80%) or less, no less than ten percent (10%) of the purchase price must be paid from borrower's liquid assets or cash equity. Secondary financing is permitted.

All amounts required by the Seller/Servicer for real estate taxes and hazard and mortgage insurance impounds/escrows must be paid from borrower's liquid assets or cash equity.

For refinance loans, borrower's equity must be at least twenty percent (20%) of the appraised value at the time of mortgage loan closing.

Cash equity or liquid assets are considered to be: (a) cash held toward purchase, (b) cash from borrower's checking or savings account, (c) cash on hand, (d) gift which does not have to be repaid, (e) proceeds of the loan fully secured by borrower's owned assets, (f) proceeds from the sale of borrower's owned assets, (g) current appraised value in dollars of the subject lot owned by the borrower on which the improvement was constructed, or (h) the net proceeds of the trade-in of the previous home of the borrower.

3. Mortgage Insurance

Mortgage insurance issued by a FHLMC approved mortgage insurer is required on all mortgage loans that have a loan-to-value ratio in excess of eighty percent (80%). Coverage is required on the amount in excess of seventy five percent (75%) of value and must remain in force until the mortgage loan is reduced to eighty percent (80%) of the original value, at which time the coverage may be cancelled. FHLMC will not accept any substitute for mortgage insurance.

Exhibit IV

Existing Federal Housing Programs

1. Farmers Home Administration, U. S. Department of Agriculture

   a. Farm Labor Housing Loans and Grants (Sects. 514 & 516). Provides project grants and guaranteed/insured loans for low-rent housing and related facilities for domestic farm laborers.

   b. Rural Housing Site Loans Sects. 523 & 524). Provides direct and guaranteed/insured loans to public or private non-profit organizations interested in providing sites for housing.

   c. Low to Moderate Income Housing Loans (Sect. 502). Provides direct and guaranteed/insured loans to low-moderate income families who are interested in purchasing a single family dwelling.

   d. Rural Rental Housing Loans (Sects. 515 and 521). Provides direct and guaranteed/insured loans to individuals, cooperatives, nonprofit organizations, State or local public agencies or corporations to design and construct rental and cooperative housing and related facilities suited for independent living for rural residents.

   e. Very Low-Income Housing Repair Loans and Grants (Sect. 504). Provides direct loans and project grants to very low-income rural homeowners to give them an opporunity to make essential minor repairs to their homes to make them safe and remove the health hazards to the family and community.

2. Federal Housing Administration, U. S. Department of Housing and Urban Development

   a. Housing for the Elderly and Handicapped (Sect. 202). Provides direct loans to private nonprofit corporations to develop rental or cooperative housing and related facilities for the elderly and the handicapped.

   b. Interest Reduction Payments-Rental and Cooperative Housing for Lower Income Families (Sect. 236). Provides direct payments for specified use, and guaranteed/insured loans to nonprofit cooperatives, builder-sellers, investor-sponsors, and limited-distribution sponsors to develop rental and cooperative housing for persons of low-moderate income by providing interest reduction payments in order to lower their housing cost.

c. Interest Reduction-Homes for Lower Income Families (Sect. 235i).
Provides guaranteed/insured loans and direct payments for specified use to make homeownership more readily available to lower income families by providing interest reduction payments on a monthly basis to lenders on behalf of the lower income families.

d. Mortgage Insurance - Homes (Sect. 203b).
Provides guaranteed/insured loans to help families undertake homeownership.

e. Mortgage Insurance - Homes in Outlying Areas (Sect. 203 i).
Provides guaranteed/insured loans to help families purchase homes in outlying areas.

f. Mortgage Insurance-Purchase by Homeowners of Fee Simple Title from Lessors (Sect. 240).
Provides guaranteed/insured loans to help homeowners obtain fee-simple title to the property which they hold under long-term leases and on which their homes are located.

g. Mortgage Insurance - Homes for Low and Moderate Income Families (Sect. 221d2).
Provides guaranteed/insured mortgage loans to families displaced by government action as well as other low-moderate income families.

h. Mortgage Insurance-Rental Housing for Low and Moderate Income Families, Market Interest Rate (Sect. 221d3).
Provides guaranteed/insured loans for rental or cooperative housing within the price range of the low-moderate income families.

i. Mortgage Insurance - Rental Housing for the Elderly (Sect. 231).
Provides guaranteed/insured loans and direct payments for specified use for rental housing for the elderly.

j. Nonprofit Housing Sponsor Loans-Planning Projects for Low and Moderate Income Families (Sect. 106b).
Provides direct loans to assist nonprofit sponsors of FHA insured low-moderate income housing, to develop housing projects for the elderly and handicapped.

k. Lower-Income Housing Assistance Program (Sect. 8).
Provides rent subsidies to aid lower-income families in obtaining suitable housing in existing, substantially rehabilitated or newly constructed rental projects.

3. Suggested changes to existing Federal Housing Programs

a. FHA Section 202 program should be made available to governmental agencies.

b. FHA Section 236 program should be made available to governmental agencies.

c. FHA Section 235i program should have higher income limits and lower downpayment requirement. The 40% limitation on the number of units in a project which can be financed under this program should be eliminated if the developer is a nonprofit corporation or a governmental agency.

d. FmHA Section 502 program should allow for higher selling price (Will probably result in having to increase income limits also).

e. FHA Section 203i program should have a higher insurable amount.

f. FHA Section 240 program should provide a higher insurable amount.

Exhibit V

FROM: David C. Slipher

SUBJECT: Proposed Issue and Sale of Tax Exempt Revenue Bonds to implement several federal housing programs available to Hawaii Housing Authority.

BACKGROUND:

Over thirty states through their housing finance agencies or housing authorities are now issuing or have issued tax exempt revenue bonds for the specific purpose of providing long term funding (30/40 yrs) for various housing/loan programs under HUD/FHA.

Because this approach to long term financing provides very significant savings in interest, points, mortgage insurance fees, etc., the Office of Management and Budget (Washington) is strongly indicating to HUD/FHA and to the housing industry that this is the "way to go" in contrast to possible further release of special assistance mortgage purchase funds (subsidized interest) to GNMA.

Early legislative action is essential to make possible the beginning of construction in 1978 of three, or more Section 8 rental assistance projects and active promotion through the local banks in 1978 of three "key" FHA insured loan programs for (1) "gap group" families home purchase (2) Fee simple lot purchase (3) home remodeling and rehabilitation.

FOR SECTION 8 PROJECTS:

Three projects now holding new construction Section 8 rental assistance contract authorizations for 30 or 40 years are from a processing viewpoint almost ready to go. With two others probable, there will be a requirement for 15 million dollars to permit construction to begin in 1978 with a certainty of long term "take out" (at the beneficial tax exempt rate). Supportive HUD rules, regulations etc. now exist and the East Coast financial community (including the bond rating agencies) is quite familiar with this program.

Exhibit V (Part 2)

FOR A LOANS TO LENDERS PROGRAM

To provide tax exempt funds for a "loans to lenders" program through local banks and mortgage lenders to "fund" three types of FHA insured loans an estimated beginning requirement will be 25 million dollars, as follows;

(a)	Section 235	-10 million	(200 loans)	- "gap group"
(b)	Section 240	-12 million	(400 loans)	- "land reform"
(c)	Section 203(k)	- 3 million	(150 loans)	- "rehabilitation"

EXPLANATION

(a) Interest subsidized down to 5%; Section 235 FHA insured loans for families in the 15 to $25,000 income - "gap group".

(b) Fee simple lot purchase; Section 240 FHA insured loans - present loan limit $10,000. Our Congressional delegation with HUD active support is seeking Congressional amendment for a $30,000 loan limit. Such loans are now authorized by our 516-34 and can be made with private mortgage insurance if funds are available.

(c) Second mortgage loans; Section 203(k) up to $20,000 for residence remodeling and rehabilitation.

HUD establishes a maximum interest rate for FHA insured loans (say 8¾%). The National Housing Act contemplate FHA insured loans at lower than maximum rates when tax exempt funds are available for making such loans. Such loans are now made in some jurisdictions at rates as low as 6-7%.

Management among the local banks and mortgage lenders has been "exposed" (with the assistance of the HUD area office) to this "loans to lenders" concept and possibility. The response was very positive and they confirmed that without such action by the State these key FHA programs would remain on "dead center" in Hawaii because there is no market for these loans under present circumstances and irrespective of the benefits to possible borrowers from tax exempt funding.

THUS - TWO ISSUES ARE DESIRED;

(1) 15 million for Section 8 - HUD/11(b) projects.
(2) 25 million for Section 235,240 and 203(k) loans through a "loans to lenders" program.

David C. Slipher

David C. Slipher

VII. SCOPE OF COUNCIL INVESTIGATIVE PROGRAM TO JUNE 30, 1978

The Council will attempt to investigate and evaluate the following programs for the remainder of its present fiscal term ending June 30, 1978.

A. Item 9, Section 3, Act 166: "Investigate whether a state department of housing and construction can be established and what its programs, authorities, and functions would be and how it can be coordinated with the counties responsibilities."

B. Land speculation curbs, the prevention of inflationary profits in raw land turnover prior to actual development.

C. Determine effect of labor on the cost of housing. What are the additional effects created by strikes and work stoppages?

D. Study use of metal studs and joists as replacement structural and partition components.

E. Zero lot line programs, vertical duplexes.

F. Factory built modular housing.

G. Energy conservation-solar energy.

H. New piping and drainage materials.

I. Effects of shipping costs and duty on imported materials and supplies.

J. Cultivation, production, and utilization of Hawaiian-derived materials.

K. Federal Flood Insurance Act - Effects upon housing costs in the State.

Acknowledgements

1. Mr. Edward Tangen, Past Chairman, Land Use Commission, State of Hawaii

2. Mr. Carl Smith, Chief of Project Compliance Branch, Land Use Controls Division, Department of Land Utilization, City and County of Honolulu

3. Mr. Robert Jones, Assistant Director, Land Use Controls, Department of Land Utilization, City and County of Honolulu

4. Mr. Bernard Kea, President, Community Planning, Inc., Honolulu, Hawaii

5. Mr. Robert Kay, President, K & M Construction, Honolulu, Hawaii

6. Miss Michelle Dick, Researcher, CILO, Honolulu, Hawaii

7. Mr. Thomas Gentry, President, Gentry Pacific, Honolulu, Hawaii

8. Mr. Kenneth Chong, Vice-president, Kacor Realty, Honolulu, Hawaii

9. Mr. Harvey Gerwig, Vice-president, Foremost Homes, Honolulu, Hawaii

10. Mr. Eugene Ferguson, Vice-president and General Manager, Mililani Town, Inc., Honolulu, Hawaii

11. Mr. Tosh Hosoda, Vice-president of Development, Herbert Horita Realty, Honolulu, Hawaii

12. Mr. Dennis J. Krum, President, L R & I, Inc., Honolulu, Hawaii

13. Mr. Daniel Miyasato, Civil Engineer, VTN Pacific, Honolulu, Hawaii

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