Affordable housing 'myths' probed

Analysis

Christina Uebelein
Special to Ka Leo

This is the second part of a three part series on the state's and city's plan to provide Oahu residents affordable housing. Part three will be published Monday.

Part one looked at the goal of affordable housing and the first myth: "Affordable houses should be indistinguishable from market-priced house."

Myth #2: "Affordable housing is within the financial reach of most of Hawaii's homebuyers."

The gross income limit for a family of four to qualify for one of the West Loch Fairways houses is $49,440 or 120 percent of median income.

The median income for a family of four is currently $41,200, or $3433.34 per month.

(The 120 percent figure means that the wage earner(s) in a family of four must earn 20 percent more than the median income; median means that half the wage earners in the state earn more than that amount and half earn less.)

The affordable housing formula also assumes a fixed, 30-year mortgage at a 10.5 percent interest rate, a 10 percent downpayment, housing expenses of not more than 33 percent of income, and a monthly payment into a customer trust fund of $125, in addition to the monthly mortgage payment and other living expenses.

In reality, the majority of people needing a decent place to live are not likely to qualify for a house costing more than $20,000.

Most of the community workforce rents. They have little credit, no downpayments saved, and just enough income to live on.

Even with a 10 percent downpayment and a 10.5 percent interest rate, the mortgage on a house costing $126,000 can be $1037.61 per month; with the expense of the so-called customer trust fund, monthly payments for the house alone would be $1162.61.

To qualify for an affordable unit this monthly payment cannot be more than 33 percent of a family's expenses. This means a family must make $3487.83 per month.

On the Neighbor Islands especially, a large percentage of homebuyers make less than 80 percent of the median income, so they don't qualify financially for affordable units aimed at 120 to 140 percent of median income.

"What we've been trying to indicate to the state is that on the outer islands, prices aimed at 120 to 140 percent of median income invariably approach market levels," said Peter Nakamura, Kauai County planning director.

"It's been our experience that the more crucial segment to address is 120 percent and below of median income," adds Richard West, regional vice president with the Bank of Hawaii in Hilo.

"I don't know what the right percentage is. I certainly empathize with government officials who have to wrestle with this problem. But Oahu has close to a million residents, and this island (Hawaii) has slightly over 100,000. How can you use the same arbitrary percentage in both cases?" West said.

With "affordable" considered to be 120 percent of the median income for a family of four, a large number of Hawaii residents still are priced out of the competition for market-value houses. A median-priced house on Oahu was reported to cost $355,000 in October.

Myth #3: "The State will continue to give priority to affordable housing in its fiscal decision-making."

The governor, the legislature, and the counties have reacted to the increase of public concern over housing by creating a variety of temporary solutions.

* state and county governments are working with private developers to facilitate housing projects on public lands. The state has expedited the land use approval process for government projects. More agricultural land has been reclassified in the last three years than in the past decade.

* several funding programs have been created including, a revolving fund of $125 million, which is used for smaller projects and also may be used for rental projects in the master planned communities; the "dwelling unit revolving fund" for interim construction assistance; the "homes revolving fund" for interim construction assistance in master planned communities; and the Hula Mae program which, as of July, 1990, had assisted 5,600 home buyers in getting below-market interest rates using more than $833 million in state backed bonds.

There are, however, a growing number in the business community who argue that it is inappropriate for government to compete with the private sector. Gerald M. Czarnecki, chairman and CEO of Honfed Bank, in an editorial in the November 12 issue of Voice of Business, wrote, "The state and local governments are well-intentioned in their attempts to solve a crisis that their predecessors created, but two wrongs do not make a right."

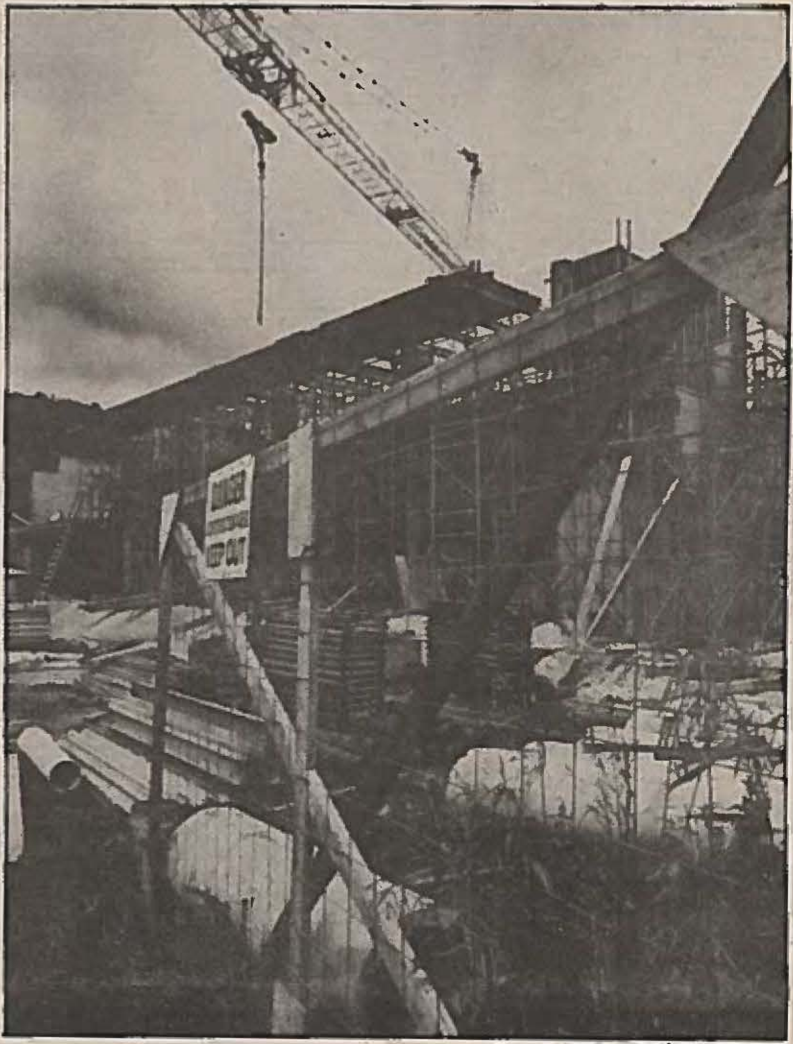

photo by Richard Walker/Ka Leo

Construction near the Manoa area

"Government should consider using the power of its tax revenues to provide infrastructure rather than exactions. Exactions force individual taxpayers to subsidize affordable housing and are unfair in the long run. If we are to participate in public-private partnerships, we should always be certain that we look first to the 'invisible hand' of free enterprise rather than the 'visible arm' of government."

Jim Wagoner, president of the Maui Chamber of Commerce, believes that using taxpayers' money to create housing results in too little housing.

Moreover, "It's treating the symptoms without looking at the causes," he said.

Wagoner and his colleagues on the government affairs committee at the Chamber feel that throwing millions in state funds at the housing problem obscures the fundamental causes of the situation.

Wagoner in testimony to the Maui City Council said: "Housing is our number one community concern. From all accounts, the situation appears to be heading south, month by month. In clear violation of the sanctity of home rule, our Legislature has appropriated $250 million of our precious tax dollars to providing housing to the populace."

This equates to approximately $25,000 of tax money in support of each unit that is to be built.

"In the long run, solving the housing problem will not be done by robbing the state treasury. It will be done by private developers," Wagoner said.

In reality, the expenditure of state tax dollars for affordable housing comes at the expense of other state programs.

Each tax dollar spent for an affordable housing unit is one less tax dollar spent on public schools, on the repair and maintenance of our aging highways and sewage treatment systems, on social programs for the elderly, etc.

Under present state policies, 40 percent of the buying public is directly subsidizing 60 percent of their fellow citizens by buying the market priced houses.

In fact, only so long as the economy remains strong can the state afford to compete in the private housing market.

When tax revenues begin to fall, the state's spending priorities will have to be restructured.

This is a major concern of developers as well since they make a comfortable profit on only 40 percent of the houses. "The theory behind the affordable projects is that the market profits pay for affordables," says one developer.

"But let's say the economy goes sour. You had (government) loans for the affordables, so you kept on building and sold them all. But you made no profit on them. All of a sudden, you can't sell the market units. What happens then?" says C. Brewer's David Blane, "What you'll have is no homes being built rather than someone building a project and losing money on it."

It seems unlikely that the state will be able to either justify this indirect and coercive subsidy by taxpayers in the face of a recession or cover the direct costs of the affordable housing program by general tax revenues.

Myth #4: "Developers can build the required affordable housing units without passing on the costs to homebuyers of market-priced units."

With the sole exception of H.F.D.C.'s Conant, who believes, "The person who's buying the market level unit is paying what the market can bear. The concept that there are surcharges on the market prices to allow for subsidies—that simply is not the case," every state official and developer involved in affordable housing acknowledges that the higher-priced market houses subsidize the affordable houses.

Not without government intervention in the form of low-interest financing or tax exemptions or direct subsidies can developers afford to build affordable units.

Yet, any intervention costs all taxpayers for the benefit of a few. Says Dan Davidson of the Land Use Research Foundation, an organization of major Hawaii landowners and developers, "The concern is that the policy helps a few people, but very possibly at the expense of the larger housing market." Not only are forty percent of the housebuying taxpayers subsidizing the other sixty percent, but that subsidy is driving up the price of the market-value houses.

Part three will explore more of what Christina Uebelein calls the myths associated with affordable housing.

Uebelein is an architecture student at the University of Hawaii.