# Real Estate Development Opportunities and Challenges in Hawai'i County

Prepared for:

County of Hawai'i,

Department of Research and Development

March 2020

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#### **EXECUTIVE SUMMARY**

Recognizing that real estate development in Hawai'i Island's towns and village centers is key to solving some of Hawai'i island's most pressing challenges, including affordable housing, transportation, infrastructure, historic preservation, economic development, and community resilience, the County of Hawai'i, Department of Research and Development (DRD) is interested in understanding why real estate development has been limited, and what can be done to encourage development, redevelopment, and renewal (collectively referred to as "(re)development"). DRD engaged a team of consultants to assist in conducting a (re)development feasibility assessment to understand (re)development barriers and challenges, identify and analyze (re)development opportunities and funding and financing sources, and provide recommendations to mitigate (re)development barriers and challenges.

To better understand what may be done to encourage (re)development in the future, it was first important to understand existing challenges and barriers to (re)development. A key information gathering and analysis component of this assignment involved the assemblage of local knowledge and perspectives that are critical in the framing of issues, concerns, and potential recommendations. Stakeholder engagement included four (4) stakeholder meetings with developers, landowners, planners, real estate agents, finance specialists, and other interested parties as well as individual and small group interviews. Input received from stakeholders served as a foundation for analyzing (re)development challenges, barriers, and recommendations. Issues raised by stakeholders were supplemented with and verified by research and analysis conducted by the consultant team.

Work was also undertaken to identify and assess (re)development opportunities in the County. (Re)development opportunities in towns and villages across the island were identified through a geographic information system (GIS) based suitability analysis. The analysis looked at areas for residential, commercial, and mixed-use greenfield and redevelopment (infill) opportunities. The suitability analysis was conducted at a parcel level, identifying and scoring parcels that met certain criteria deemed desirable for (re)development, and aggregated to the town/village level. A more detailed assessment of five (5) towns and villages in the County was conducted, looking at place-specific opportunities and challenges.

As a corollary to the suitability analysis, which identified opportunity sites across Hawai'i Island, considerations for developing sites into a marketable product were reviewed. A critical component of this is understanding the stages of (re)development funding and financing and the various sources available from both the public sector and private sector. Typical financing can be divided into four (4) categories: (1) financial feasibility (proforma scenarios/analysis), (2) predevelopment (permitting and infrastructure), (3) construction (bridge, interim financing), and (4) permanent (take-out) financing.

The (Re)development Feasibility Assessment synthesized information from the stakeholder outreach, suitability analysis, place-specific opportunity analysis, and funding and financing analysis and summarized barriers and challenges to (re)development. Recommendations are put forth to capitalize on opportunities and mitigate barriers identified. The discussion of barriers and challenges and accompanying recommendations is organized across five (5) issue areas and is summarized below.

#### **Funding and Financing**

With financing being a foundational element for successful (re)development, it is noted that limitations in government-sponsored financing programs and limiting factors within the marketplace pose challenges and barriers. Feedback from stakeholders confirmed that the two (2) most critical stages of financing and development is the financial feasibility and predevelopment financing stages. Additional financing tools and sources of equity at these stages would greatly increase the viability of and reduce the risks of developing projects throughout Hawai'i Island.

#### **Barriers and Challenges**

- There is a need for gap financing that exceeds what any one lender or incentive program can fill.
- There is high demand for a limited pool of incentives and financing subsidies for affordable housing.
- There are too few organizations and/or individuals with the depth and breadth of (re)development financing acumen necessary to increase the production of (re)development projects in the State of Hawai'i.
- There is a limited amount of specific community development financial acumen within the municipalities throughout the State of Hawai'i.
- Affordable housing projects in Hawai'i County face higher financing gaps than projects elsewhere in the State.
- There are some unresolved questions associated with the opportunity zones program while the deadline to maximize benefits looms.
- Hilo and Kona must compete for new Opportunity Zones investments with shovelready projects across the State and County.

#### Recommendations

 Look for additional capital stack opportunities as traditional sources are unable to fulfill entire need for (re)development.

- Leverage different financing mechanisms to support development and redevelopment, including Business/Community Improvement Districts, Tax Increment Financing, and Community Facilities District.
- To support development and redevelopment in communities, the County should explore innovative public, private partnerships since these partnerships remain the most underutilized but most needed community development tool available to developers and municipalities alike.
- Consider tax incentives for (re)development.
- Fund the Banyan Drive Redevelopment Agency.
- Given the limited amount of specific community development financial acumen within the municipalities throughout the State of Hawai'i, create a capacity building plan for County departments, local developers and community stakeholders.
- Develop an Opportunity Zone Strategy to identify specific economic development priorities and attract investment.
- Consider State and County incentives to encourage investment in Opportunity Zones.
- Build a detailed investor prospectus to attract investment in Opportunity Zone designated areas in Hilo and Kona.

#### Infrastructure

Given cost and timing implications, infrastructure adequacy was identified by stakeholders as a significant component in advancing successful project development.

#### **Barriers and Challenges**

#### General

There is low infrastructure capacity and high costs to develop new systems.

#### Water

- Water is not available in some areas on the island, and there is not enough source to expand systems.
- Department of Water Supply policies present challenges for developers seeking to build new or upgrade existing systems.

#### Wastewater

- Wastewater systems are insufficient and not available in many areas.
- There are limitations and regulations associated with Individual Wastewater Systems (IWS).

#### Traffic

- Some roadways in the County are inadequate and contribute to poor traffic flow.
- County roadway improvement requirements can be stringent and increase development costs.
- o Parking can be an impediment to (re)development.

#### Recommendations

- Encourage County Departments to develop a collaborative infrastructure plan with prioritization of projects based on desired growth areas as identified by the General Plan.
- Facilitate public-private partnerships in infrastructure investment in areas targeted for (re)development.
- Provide flexibility in infrastructure development concurrency requirements.

#### **Land Use Policies**

Land use policies exist at the State and County level and refer to policies that manage and regulate the use of land to achieve various goals, including environmental, sustainability, economic, and social goals. Stakeholders expressed concerns with land use policies that lack clarity or which create inconsistencies between layers of regulatory controls.

#### **Barriers and Challenges**

- The County's Community Development Plans process and requirements create impediments to (re)development.
- Zoning should be updated in some areas.

- Continue to engage with the community, including landowners and developers, during the update of the County's General Plan, which establishes the long-range policy framework for the County.
- Allow for more flexible zoning.
- Consider County-initiated State Land Use Commission District Boundary Amendments.
- Consider County-initiated rezoning in areas targeted for redevelopment.
- Create a County urban renewal process for addressing blighted properties.

#### **Entitlements and Permits**

Depending on the particular site conditions, regulatory requirements can exist at the Federal, State, and County levels. Entitlements and permits represent a significant component of the predevelopment process and can impact project feasibility and implementation timeframes and costs. Fully entitled properties with no special regulatory considerations will be able to proceed directly to construction permits. If a site requires other land use entitlement approvals or permits, additional time and cost must be factored into the project schedule and budget. In certain instances, land use approvals are sequential rather than concurrent, resulting in a lengthy entitlement process. Discretionary approvals introduce more risk to projects compared to ministerial/administrative approvals involving little or no judgement by the reviewing official/agency. Challenges expressed by stakeholders relate to processing durations, procedural complexities, regulatory redundancies, and conditions attached through discretionary processes.

#### **Barriers and Challenges**

#### General

- There is a lack of clear, consistent government processes with regards to entitlements.
- Multiple levels of land use control and review creates redundancy and a lengthier process.
- Conditions of approval associated with land use entitlements can be burdensome.

#### • State Entitlements and Permits

 The State historic review process is particularly lengthy, which delays permit review and issuance.

#### County Entitlements and Permits

 The building permit process is lengthy and can require multiple rounds of agency review.

- Provide clarification on entitlement and permitting processes.
- Explore opportunities to reduce redundancy and streamline entitlement processes.
- Explore opportunities to grant flexibility in conditions of land use approvals, where appropriate.
- Work with the State to streamline the historic review process.
- Review building permit processes to identify opportunities to streamline the process and gain efficiency.

- Encourage the use of the 201H, HRS process for expediting affordable housing development, especially in or adjacent to urbanized areas with adequate or expandable infrastructure.
- Explore the feasibility of establishing a County of Hawai'i exemption process for expediting affordable housing development.

#### **Market Conditions**

Market conditions speak to demographic character, economic feasibility parameters, market demand, and market response to overall economic conditions. While these issues are not easily addressed, stakeholders recognize that suitable market conditions is a necessary incentive for (re)development to occur.

#### **Barriers and Challenges**

- Household incomes in Hawai'i County are lower, resulting in lower purchasing power.
- Construction costs on Hawai'i Island are high.
- There is a mismatch between development costs and prices the market can support.
- The housing affordability crisis continues to grow as the gap between population growth and new housing development widens.
- Lengthy entitlement processes, combined with the cylical nature of the market, makes development planning difficult.
- Greenfield development in areas such as Puna is significantly cheaper than infill development in existing urban areas.

- Diversification in economic drivers in the County is needed. There is limited demand to support new development.
- Encourage more developers (nonprofit and for profit) to build affordable housing.
- Make vacant and underutilized government owned lands available for affordable housing or other (re)development, especially in or adjacent to urbanized areas with adequate or expandable infrastructure.

#### **Other Considerations**

While many of the issues identified can be grouped into general categories described above, other comments pertaining to various (re)development considerations were discussed and are presented below.

#### **Barriers and Challenges**

- The current process to lease State lands does not incentivize lessees to make substantial improvements on their properties.
- There is strong community sentiment expressed about development projects with a rise in opposition to development noted.
- Challenging site characteristics such as soil conditions and topography increase development costs.
- Natural disasters cause damage to communities and recovery efforts are long and costly.

- Encourage amendments to HRS 171 to allow for flexibility for State leases.
- Establish a community (re)development stakeholder group to act as a neutral convener.
- Encourage County collaboration in support of (re)development efforts.
- Provide Capacity Building Opportunities for Community Development Corporations.

## INTRODUCTION AND BACKGROUND

#### I. INTRODUCTION AND BACKGROUND

#### A. PROJECT PURPOSE

Recognizing that real estate development is key to solving some of Hawai'i island's most pressing challenges, including affordable housing, transportation, infrastructure, historic preservation, economic development, and community resilience, the County of Hawai'i, Department of Research and Development (DRD) is interested in understanding why real estate development has been limited in many of Hawai'i island's town and village centers, and what can be done to encourage development, redevelopment, and renewal, which will be collectively referred to as "(re)development" in this report.

Many public and private initiatives advance community development in Hawai'i County. Directly or indirectly, several County agencies play an important role in land use, community planning, affordable housing, transportation, water and wastewater management, parks and other public facilities, and economic development. Many nonprofit organizations also play a critical role in a number of related initiatives, including but not limited to affordable housing, historic preservation, and economic development. Agencies and organizations that operate statewide or nationally also play important roles, including U.S. Department of Agriculture Rural Development, the Hawai'i Housing Finance and Development Corporation, the Office of Hawaiian Affairs, the Department of Hawaiian Home Lands, the Homestead Housing Authority, the Hawai'i Community Reinvestment Corporation, the Council for Native Hawaiian Advancement, Hawai'i Island Community Development Corporation (HICDC), Hawaiian Community Assets, Rural Local Initiatives Support Corporation (LISC), and the Rural Community Assistance Corporation.

Despite all of this important work, bricks and mortar (re)development targeted to town/village centers is not the specific focus of any single public agency or private organization in Hawai'i County. Therefore, left to the for-profit, private market, (re)development on Hawai'i island has been limited.

DRD engaged a project team, including Munekiyo Hiraga, Focused Planning Solutions LLC (GIS mapping/analysis consultant), and Ezuka Law Offices LLC (financial feasibility consultant) to assist in conducting a (re)development feasibility assessment.

#### B. <u>STUDY OBJECTIVES</u>

The (Re)development Feasibility Assessment involved three (3) main objectives that are outlined in further detail below.

#### 1. <u>Understanding (Re)development Barriers and Challenges</u>

To better understand what may be done to encourage (re)development in the future, it was first important to understand existing challenges and barriers to (re)development. To meet this objective, focus group meetings with key stakeholders were held in Hilo, Kona, and Honolulu as well as with the Hawai'i Leeward Planning Conference (HLPC) to gain insight into the opportunities and challenges associated with (re)development. Following the stakeholder meetings, key stakeholders were engaged in one-on-one meetings to further discuss specific opportunity areas.

#### 2. Identifying and Analyzing (Re)development Opportunities

Concurrent with the previous objective, work was undertaken to identify and assess (re)development opportunities in the County. For this objective, two (2) tasks were undertaken. The first task involved the identification of (re)development opportunities in towns and villages across the island through a geographic information system (GIS) based suitability analysis. The analysis looked at areas for residential, commercial, and mixed-use greenfield and redevelopment opportunities. Towns and villages were ranked based on the number of sites that met the identified (re)development suitability criteria. The second task involved conducting a detailed assessment of the (re)development opportunities, challenges, and implementation considerations within five (5) towns and villages in the County.

An integral component to assessing (re)development opportunities is identifying possible funding and financing mechanisms and incentives available from both the private sector and public sector. The study includes an overview of various Federal, State, and local private and public financing sources that can support (re)development efforts in the County. Representative proforma analyses were also conducted for three (3) development product types to illustrate project financial feasibility considerations.

#### 3. Recommendations to Mitigate (Re)development Barriers and Challenges

The final objective entailed compiling the findings from the suitability analysis and key takeaways from the stakeholder engagement process and presenting recommendations on how to encourage (re)development and mitigate challenges identified.

It is noted that this study is not intended to recommend specific (re)development projects within towns and villages or on certain properties in the County. Rather, this study was undertaken to discuss challenges and opportunities in (re)development common throughout the County, and to act as a resource for

actions which may be undertaken that may assist in creating a more efficient and cohesive development process for all landowners and developers.

#### C. OUTREACH METHODOLOGY

A key information gathering and analysis component of this assignment relates to the assemblage of local knowledge and perspectives which are critical in the framing of issues, concerns, and potential recommendations. The stakeholder engagement process was, therefore, viewed as a significant element of the project's work program.

The stakeholder engagement component of the analysis involved reaching out to developers, landowners, planners, real estate agents, finance specialists, and other interested parties and inviting them to participate in a number of stakeholder meetings held in Hilo, Kona, and Honolulu. The Hilo and Kona meetings were held on April 22, 2019 and the Honolulu meeting, for stakeholders with interests on Hawai'i island who are based on O'ahu, was held on May 2, 2019. An additional stakeholder meeting for the membership of the HLPC, an organization that advocates for sound planning decisions for Hawai'i island, was held on May 24, 2019.

At each of these meetings, a presentation was made to provide the attendees with an overview of the project purpose, work plan, and schedule, as well as to share preliminary findings from the suitability analysis. The majority of the meetings were spent in breakout groups wherein the groups were asked to provide their input on where they see (re)development opportunities in the County, what they see the challenges to (re)development are, and what can be done to encourage (re)development activity. Signin sheets, and copies of the raw notes from the Hilo, Kona, Honolulu, and HLPC stakeholder meetings are provided in **Appendix "A"**, **Appendix "B"**, **Appendix "C"**, and **Appendix "D"**, respectively. The feedback from the group was recorded and compiled into a matrix of key takeaways which was then used to further the analysis. The stakeholder meeting key takeaways matrix is provided in **Appendix "E"**.

Following the stakeholder meetings, individual stakeholders were engaged to participate in smaller group, or one-on-one, stakeholder interviews to have a more in depth conversation about opportunities and challenges in the County. Stakeholders engaged in this process included individuals recommended to be consulted by participants in the stakeholder meetings, individuals who were not able to attend a stakeholder meeting, or those who participated in the meeting but wanted to have continued conversations about (re)development in the County. Summaries of the stakeholder interviews are provided in **Appendix "F"**.

#### D. REPORT ORGANIZATION

This report will present key findings from this study, beginning with a discussion of identifying and analyzing (re)development suitability (Chapter II) and (re)development considerations for developing an opportunity site into a marketable product (Chapter III). Following this discussion, the report is organized by issue area, with chapters on funding and financing (Chapter IV), infrastructure (Chapter V), land use policies (Chapter VI), entitlements and permits (Chapter VII), market conditions (Chapter VIII), and other considerations (Chapter IX). Within each Chapter, a summary of the (re)development barriers and challenges identified through the stakeholder outreach and research process and related recommendations are presented. The final conclusion chapter highlights next steps in advancing the research and recommendations made by this report. Supporting information is presented in the appendices to this report.

## IDENTIFYING AND ANALYZING (RE)DEVELOPMENT SUITABILITY



## II. IDENTIFYING AND ANALYZING (RE)DEVELOPMENT SUITABILITY

An analysis was undertaken to identify (re)development opportunities in the County of Hawai'i and conduct a detailed assessment of (re)development opportunities and barriers in towns and villages on the island. This chapter presents an overview of the methodology and findings of the geographic information system (GIS)-based Suitability Analysis conducted to identify (re)development opportunities in the County.

#### A. <u>SUITABILITY ANALYSIS OVERVIEW AND METHODOLOGY</u>

A spatial analysis was conducted using a GIS plug-in called CommunityViz to identify (re)development opportunities across the towns and villages in the County of Hawai'i. The analysis was conducted at the parcel level utilizing publicly available data as well as data developed by the County of Hawai'i Planning Department during the General Plan update process, which is currently ongoing. CommunityViz also allows for specific criteria to be weighted, if desired, and incorporated into the analysis.

#### **Suitability Analysis - Requirements**

For the purposes of the Suitability Analysis, the County defined the boundaries of communities to be considered as (re)development opportunity sites. In order to be considered an opportunity site, a parcel must meet the following requirements:

- Be located within geographic areas that the County defined during the General Plan update process where anticipated growth was to be encouraged and/or an Opportunity Zone During the General Plan update process, the County defined several areas within urbanized places where growth would be encouraged by the goals, objectives, and policies of the plan. Because these areas were already identified as places where the County would like growth to occur, they were included as requirements for this analysis. Opportunity Zones, are designated low-income and rural areas where new investments, under certain conditions, may be eligible for preferential tax treatment as part of the Federal Opportunity Zones program.
- Have existing zoning that permits residential, commercial, or mixed-use development Because land use entitlements present a significant obstacle to (re)development, parcels with existing zoning were identified as a requirement to be considered an opportunity site. While parcels without existing zoning may still be (re)development opportunities, they would face a lengthier pre-development period. Parcels with the following zoning designations were included in the analysis.

- CDH, Downtown Hilo District
- CG, General Commercial
- CN, Neighborhood Commercial
- CV, Village Commercial
- MCX, Industrial-Commercial Mixed
- MG, General Industrial
- ML, Limited Industrial
- PD, Project District
- RCX, Residential-Commercial Mixed-Use
- RD, Double-Family Residential
- RM, Multiple-Family Residential
- RS, Single-Family Residentia
- UNV, University District
- V, Resort-Hotel
- Have development "capacity" Estimating a property's development capacity was a practice initiated through the General Plan update process, and was adopted as part of this analysis. Residential or non-residential capacity is an estimate of the theoretical maximum development capacity of the land by looking at historical trends in development and/or using land use regulatory information. Quantifying historical trends required analyzing the number or size of existing built structures on the landscape and identifying general patterns of growth. Density standards were calculated using numerical values taken from land use development regulations, primarily the County of Hawai'i zoning code. Capacity was primarily thought of in terms of densities - how many residential or nonresidential structures fit into an acre of land. Once a density value was established, the value was multiplied by the area of the parcel to calculate the gross capacity. Gross capacity is the maximum development potential of a property as vacant. This treats a property as an undeveloped area to estimate the potential from the Net capacity is generated by comparing what has already been developed (existing improvements) with this theoretical maximum and calculates the difference between the two (Placeways, 2015). In this analysis, capacities were looked at in terms of a property's gross and net capacity. Specifically, properties more than 50 percent developed had a lower redevelopment capacity, where as properties less than 50 percent developed had a higher redevelopment capacity.

#### **Suitability Analysis – Criteria**

Parcels that met the three (3) requirements identified above were categorized into one (1) of the following (re)development capacity types:

- Non-residential redevelopment (site with existing improvements)
- Residential redevelopment (site with existing improvements)
- Infill for non-residential development (vacant site)

#### Infill for residential development (vacant site)

The parcels meeting the three (3) requirements identified above were assigned a suitability score based on criteria that were identified to rank parcels based on desirable characteristics for (re)development. The criteria utilized in the analysis are presented in **Table 1**. Additional information on the parameters of each criteria is presented in **Appendix "G"**. The CommunityViz tool which was utilized for the analysis allowed for criteria to be weighted so more important or relevant criteria would be assigned a greater share of the overall ranking compared to other criteria. Several iterations of the Suitability Analysis were conducted as criteria and weighting were reviewed and adjusted. Early iterations of the Suitability Analysis weighed all criteria equally. However, based on feedback from the stakeholder outreach process, which identified infrastructure as a significant impediment to (re)development, the final iteration of the Suitability Analysis, the results of which are presented herein, gave the infrastructure criteria a higher weight, with all other criteria being equal.

**Table 1.** Suitability Analysis Criteria

Built Characteristics	Low floor area ratio (FAR) or density* Low improvement to land value ratio* Aging structure* Size of parcel			
Neighborhood Characteristics	High residential density High Floor Area Ratio (FAR) Recent permit activity			
Infrastructure Access	In water service area In wastewater service area Near transit Dense road network			
Facilities Access	Near schools Near police Near fire Near medical			
Hazard avoidance	Outside of Lava Hazard Zones 1 and 2 Majority of land outside flood zone Majority of land outside tsunami evacuation area Majority of land outside sea level rise (SLR) exposure area			
* Denotes criteria specific to redevelopment sites with existing improvements				

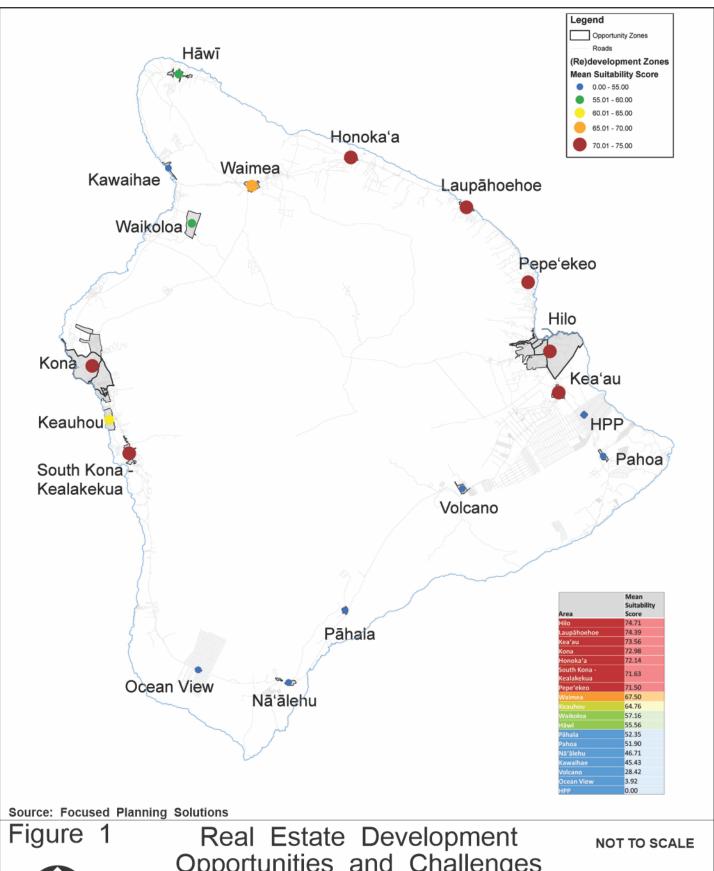
The results of the parcel-level analysis described above was then aggregated to the town and village level to present a comparative analysis of locations across the County that have more parcels meeting the identified (re)development criteria.

It is noted that the Suitability Analysis is a model utilized to rank parcels based on publicly available data. As is the case with all models, the Suitability Analysis is an approximation only and cannot incorporate all details and nuances of individual sites. The Suitability Analysis serves as a tool to conduct a County-wide assessment of (re)development

opportunities based upon identified criteria. The Suitability Analysis was built at a panel level to highlight potential opportunity properties for which further analysis of real on-the-ground conditions could be conducted.

#### B. SUITABILITY ANALYSIS RESULTS

The 18 towns and villages that underwent the analysis were assigned suitability scores based on the aggregated scores of the individual parcels within them. **Table 2** below lists each of the towns and villages included in the analysis and their aggregated suitability scores, from high to low. The aggregated suitability score represents the mean score of individual parcels within the town or village. The range of individual parcel scores within each town and village is also presented. The towns and villages were categorized into five (5) tiers, based on the Suitability Score. The colors in **Figure 1** correspond with the tiers and colors shown in **Table 2**. It is noted that the results presented below are based on the particular criteria weighting described earlier (infrastructure criteria given a higher weighting, with all other criteria equal). Use of different criteria and/or weighting would produce different results.





Real Estate Development
Opportunities and Challenges
in Hawai'i County
Overall Suitability Analysis Map

Prepared for: County of Hawai'i, Department of Research and Development



Table 2. Suitability Analysis Results

Town/Village	Suitability Score	Number of Parcels Meeting Suitability Analysis Requirements	Range of Parcel Scores
Hilo	74.71	1,204	19.47 to 99.42
Laupāhoehoe	74.39	45	54.08 to 84.96
Kea'au	73.56	33	51.80 to 83.12
Kona	72.98	594	18.17 to 100.00
Honoka'a	72.14	119	55.05 to 89.76
South Kona – Kealakekua	71.63	140	39.46 to 88.17
Pepe'ekeo	71.50	15	52.97 to 84.78
Waimea	67.50	109	37.30 to 80.45
Keauhou	64.76	79	23.87 to 87.33
Waikoloa	57.16	79	39.68 to 74.26
Hāwī	55.56	97	39.37 to 70.71
Pāhala	52.35	21	43.54 to 60.81
Pāhoa	51.90	89	30.72 to 62.16
Nā'ālehu	46.71	53	22.12 to 60.17
Kawaihae	45.43	69	23.16 to 63.06
Volcano	28.42	252	0 to 30.31
Ocean View	3.92	2	3.49 to 4.34
Hawaiian Paradise Park (HPP)	0.00	0	0

Towns and villages with higher scores, such as Hilo, Laupāhoehoe, Kea'au, Kona, Honoka'a, South Kona, and Pepe'ekeo, which scored in the top tier, mean that they had individual parcels meeting more of the identified criteria. Those that were lower scoring, such as Pāhala, Pāhoa, Nā'ālehu, Kawaihae, Volcano, Ocean View, and HPP, which were in the lowest tier, had lower scoring parcels.

Typically, the higher scoring areas were those that also had adequate water and wastewater systems in place to support (re)development.

In addition, it is noted that stakeholders who participated in the stakeholder meetings and interviews were also asked to provide their opinion on where the (re)development opportunities were in Hawai'i County. Top responses included locations in and around Kona and Hilo as well as in Kea'au, Waikoloa, and Waimea. Refer to **Appendix "E"**.

Maps presenting the results of the Suitability Analysis for each town and village are provided in **Appendix "H"**. Parcels which met the three (3) Suitability Analysis requirements (located in a geographically-defined area where growth is to be encouraged or Opportunity Zone; has existing residential, commercial, or mixed-use zoning; and has

development "capacity") were assigned a color based on the associated suitability score. Parcels illustrated in gray on the maps are those that did not meet the aforementioned requirements and were not assigned a score. It is noted that the analysis was used as a tool to identify sites which possess desirable (re)development characteristics. However, as the Suitability Analysis is a model, further analysis of the real, on-the-ground conditions is required. The results of the analysis are not intended to construe the County's recommendation of (re)development of particular privately owned properties, rather, the results were intended to aid in the identification and understanding of (re)development opportunities through a spatial lens.

It is noted that the Suitability Analysis model and raw data have been provided to the County of Hawai'i as a deliverable for this work effort. The model and raw data provides the ability to see the suitability score for individual parcels and understand specific criteria affecting the scores. Furthermore, the Suitability Analysis model is a dynamic tool that would allow the County to adjust criteria and weights and re-run the analysis under different conditions, if desired. The model and raw data can also be used for other County planning-related initiatives such as the Kīlauea eruption recovery efforts.

#### C. PLACE-SPECIFIC (RE)DEVELOPMENT OPPORTUNITY ANALYSIS

The County of Hawai'i staff and the consultant team collaborated to identify five (5) towns and villages for more detailed analysis of place-specific (re)development opportunities and barriers. The findings of the Suitability Analysis described above were just one (1) of the factors considered in selecting the five (5) places for further analysis. The following criteria were utilized in selecting the five (5) locations:

- Suitability Analysis Findings of the Suitability Analysis were reviewed.
- Opportunity Zones Hilo and Kona were included due to their designation as
  Opportunity Zones and the unique (re)development opportunities which this
  Federal program presents.
- Geographic Diversity Consideration was given to include towns and villages across the island rather than simply selecting those with the highest suitability scores.
- **Size of town/village** Consideration was given to include a balance of urban towns and rural villages.
- Infrastructure While infrastructure availability is a key consideration for (re)development and was weighted more heavily in the Suitability Analysis, one (1) location without wastewater infrastructure was selected for the place-specific analysis to understand the particular challenges which these places may face from a (re)development perspective. This decision was made in recognition of the fact

that there are numerous towns and villages across the island that do not have wastewater service.

• Landownership – Several of Hawai'i island's towns and villages are characterized by a prominent landowner with significant landholdings in the particular place. Places such as Kea'au, where W.H. Shipman Limited owns a signicant amount of real estate, and Waimea, where Parker Ranch has large land holdings, were excluded because they represent unique situations and in recognition that the landowners may have existing developed visions for these areas.

Based on the above criteria, Hilo, Kona, South Kona, Honoka'a and Waikoloa were selected for more detailed place-based analysis.

A discussion of place-specific considerations for these five (5) towns and villages selected by the County of Hawai'i and the consultant team for more detailed assessment is presented in **Appendix "I"**. This includes discussion of areas identified by the suitability analysis as hotspots for potential (re)development activity within the towns and villages.

## (RE)DEVELOPMENT CONSIDERATIONS



#### III. (RE)DEVELOPMENT CONSIDERATIONS

The (re)development suitability analysis presented in Chapter II identified opportunity sites across Hawai'i Island's towns and villages. These included both vacant sites and sites with existing improvements that are candidates for rehabilitation and/or (re)development. From a land-use context, the sites present opportunities for residential, commercial, or mixed-use development. This chapter presents a discussion of considerations for developing opportunity sites into a marketable product. Subsequent chapters of this report will discuss barriers and recommendations related to issues that can affect various stages in the (re)development process. For example, infrastructure issues can inform site selection decisions and influence project design and feasibility. Anticipated entitlement and permit requirements can play a role in site selection, project design, and community outreach strategies.

#### A. GENERAL (RE)DEVELOPMENT CONSIDERATIONS

While each site has unique issues from a (re)development perspective, there are general considerations for project implementation that are applicable in most cases.

#### 1. <u>Site Selection and Due Diligence</u>

Whether a developer is selecting a development site or a landowner has an existing site to be developed, the site evaluation process is an important step in determining project feasibility. Below are some major site evaluation and due diligence considerations:

- Location
- Property size and shape
- Site conditions (topography, existing structures, sensitive environmental conditions, natural hazards, hydrology, soils, etc.)
- Accessibility
- Infrastructure (water, wastewater, drainage, electricity, telephone, cable television)
- Land use and regulatory constraints (Federal, State, and County permit requirements)
- Legal constraints (easements, deed restrictions, covenants)

#### 2. Market Analysis

The market analysis will assess supply and demand conditions for a particular real estate product in a given market area. Demand factors include projected population and employment growth and socioeconomic characteristics while supply factors include existing inventory, vacancy rates, and planned and proposed developments.

#### 3. Engineering and Feasibility Studies

Preliminary engineering analysis is an integral part of project feasibility assessment. A civil engineer evaluates site conditions and infrastructure and drainage requirements. Geotechnical studies may be performed to assess soil composition and rock content to inform development feasibility and structural requirements. Topographic surveys identify site slopes and contours, elevations, boundary lines, existing structures, etc. Archaeological surveys are performed to determine whether a project contains above ground or subsurface historic cultural sites, artifacts, or resources. The presence and location of such resources can influence a project's design.

#### 4. Project Design Development

#### a. Site and Project Design

Site planning must incorporate various considerations including, topography, soil conditions, natural vegetation, drainage, view corridors, open space, surrounding land uses, easements, parking, access, infrastructure, product type, unit mix, density, sustainability, etc. Land use constraints and building code requirements are also among the primary determinants for site design. As such, a design team with a working knowledge of all applicable State and County regulations and adopted building and related codes is important.

#### b. Infrastructure Planning and Design

Preliminary engineering and drainage studies will identify onsite and offsite infrastructure requirements. Offsite infrastructure improvements can be a costly project development component. In addition to water, wastewater, and drainage improvements, offsite roadway improvements must be considered. A traffic engineer will assess existing and future roadway conditions, project-related trip generation, and mitigation measures.

#### 5. Community Engagement

Stakeholders have noted a rise in "NIMBY" sentiment and opposition to (re)development projects. As such, community engagement is a critical element of the development process. Early and regular outreach and engagement with neighbors, community members, and stakeholders provides an opportunity to understand community concerns and obtain input for the project. Building relationships and engaging with community stakeholders can be critical to project success.

#### 6. Entitlements and Permits

There are regulatory requirements at the Federal, State, and County levels that must be considered. The specific regulatory requirements applicable to a particular site will depend on site characteristics, ownership, and funding sources. A description of major land use entitlements and permits is provided in **Appendix** "J". Fully entitled properties with no special regulatory considerations will be able to proceed directly to construction permits. If a site requires other land use entitlement approvals or permits, additional time and cost must be factored into the project schedule and budget. In certain instances, land use approvals are sequential rather than concurrent, resulting in a lengthy entitlement process. Discretionary approvals introduce more risk to projects compared to ministerial/administrative approvals involving little or no judgement by the reviewing official/agency. Sites with little or no regulatory requirements beyond construction permits present the developers with less risk and reduce predevelopment time and costs.

#### B. REDEVELOPMENT AND REHABILITATION CONSIDERATIONS

Projects that involve redevelopment and/or rehabilitation of existing structures have additional factors for consideration, as discussed below.

#### 1. Grandfathered Status

Structures built prior to the adoption of current codes and regulations are existing, non-conforming structures. The Hawai'i County Code (HCC) stipulates that for existing, non-conforming structures, repairs or renovations within a twelve (12) month period that exceed 50 percent of the replacement value of the structure results in a requirement for the structure to be brought into conformance with current code requirements. The cost associated with upgrading structures to current zoning and building code standards can be significant and can deter property owners or developers from substantially improving structures.

#### 2. Site Constraints

Existing non-conforming properties may not have typical site conditions found under current law. For example, existing non-conforming sites may not meet minimum lot size requirements. Smaller sites can present challenges in site design and development. A common non-conformity is a lack of sufficient parking. Buildings developed prior to the adoption of modern parking codes may have little or no parking, which presents challenges for developers looking to redevelop the site.

#### 3. <u>Historic Preservation Review</u>

Pursuant to Chapter 6E, HRS, structures that are 50 years or older are considered a historic property. Historic properties that meet significance criteria and retain historic integrity may be eligible for, or listed to, the Hawai'i or National Register of Historic Places. Although nationally, the 50-year age mark is only a guideline, in Hawai'i, it is a legal trigger under Chapter 6E HRS for permitting agencies to require State Historic Preservation Division (SHPD) review which can be a lengthy process that can introduce project delays.

#### 4. Hazardous Materials

Hazardous materials can be a detriment to development and can become a significant source of litigation and liability. For previously improved sites, common contaminants are lead based paints and asbestos. A hazardous materials assessment should be conducted and abatement by a trained professional undertaken, if necessary.

#### C. RESIDENTIAL (RE)DEVELOPMENT CONSIDERATIONS

#### 1. Product Type, Mix, and Tenure

The market analysis will inform decisions on product type, mix, and tenure. Zoning and land use regulations also influence product type and densities.

#### 2. Affordable Housing Requirements

Section 11-4, HCC is the County's inclusionary housing ordinance that establishes affordable housing requirements for the developments. Residential, resort/hotel, and industrial projects of a certain size require compliance with the County's affordable housing requirements by earning affordable housing credits. Credits may be earned by the development of affordable housing units for sale or for rent to income-qualified households. Alternatively, affordable housing credits can be transferred from an entity with excess credits and used for projects within a 15-

mile radius from the project that the credits originated from. Residential developments of five (5) or more units or lots require affordable housing credits equal to 20 percent of the total number of units or lots.

#### 3. <u>Exemptions for Projects Providing Affordable Housing</u>

Projects in which 50 percent or more of the units are affordable can qualify for exemptions through Chapter 201H-38, Hawai'i Revised Statutes (HRS), which promotes the delivery of affordable housing by allowing the exemption from "...all statutes, ordinances, charter provisions, and rules of any governmental agency relating to planning, zoning, construction standards for subdivisions, development, and improvement of land and the construction of units thereon".

In addition, Hawai'i Administrative Rules (HAR), Chapter 11.200.1, which administers HRS, Chapter 343 regarding the preparation of EA and Environmental Impact Statements (EIS), includes a list of residential projects that can be considered exempt from environmental review requirements. Included in this list are: single-family residences less than 3,500 square feet; four-plex multi-family developments of up to two (2) structures; and new affordable housing projects that meet certain established criteria.

#### D. COMMERCIAL (RE)DEVELOPMENT CONSIDERATIONS

#### 1. Shifting Retail and Industrial Trends

Changes in consumer behavior is affecting the real estate market. The shift towards e-commerce has resulted in some traditional retailers to close and others are incorporating multi-channel retailing which provides customers a choice of ways to buy products.

#### 2. Visibility and Access

High visibility and site access are particularly important for commercial developments. Visibility is a key criteria tenants seek in selecting a location. Businesses are concerned about how their potential customers will find them. Furthermore, easy street access makes businesses more accessible to potential customers.

#### E. <u>MIXED USE (RE)DEVELOPMENT CONSIDERATIONS</u>

#### 1. Location

Finding the right location is particularly important for mixed-use developments. Mixed-use developments are most commonly found in higher density urban and

suburban areas. The size and scale of the project should be consistent with the existing density and character of an area.

#### 2. <u>Tenant Mix and Design Factors</u>

Achieving an appropriate tenant mix is important and must include consideration of synergies between different tenants and potential nuisances that may arise for other tenants. Depending on the specific mix of uses included in a project, development design should consider the interplay between anticipated users. While there may be many synergies in a mixed-use development with retail and office uses, there may be challenges in mixing retail and residential uses. For example, residents will be concerned about hours of operation, noise, deliveries, security, etc.

#### 3. Parking Management

While one of the benefits of mixed-use developments is that it can help to reduce the dependence on automobiles, thought must be given to the parking needs of the various uses, when each use will demand parking, and plan for the correct number of parking spaces for the overall development.

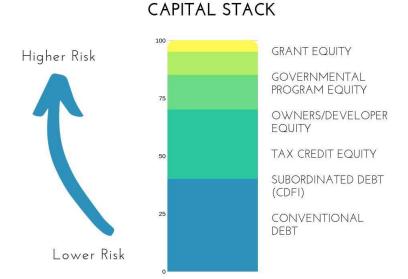
## (RE)DEVELOPMENT FUNDING AND FINANCING



### IV. (RE)DEVELOPMENT FUNDING AND FINANCING

#### A. CAPITAL STACK

"Capital stack" project funding sources are divided by public, private, and philanthropic sources, layered based on risk and recourse to funder, to sum total project costs for any one (1) project. Each project will require very different capital stacks due to the unique nature of sources and uses of capital for acquisition, pre-development, construction and permanent financing variables. Understanding the capital stack is one of the most important aspects of due diligence an investor, lender and/or developer must complete prior to making any investment/loan/grant.



#### **Diverse Capital Stack**

- Each capital source has seniority over all capital sources located above it in the capital stack.
- Each capital source is subordinate to all capital sources located below it in the capital stack.
- Typically, only the senior and junior debt positions are able to secure recorded liens against the underlying asset.
- Upon sale or refinance, the bottom position gets paid first until fully repaid and so on.
- To the extent there are insufficient funds to fully repay all capital then losses are incurred from the top down.
- This means risk increases as you move higher in the capital stack.
- This also means returns should increase as you move higher in the capital stack.

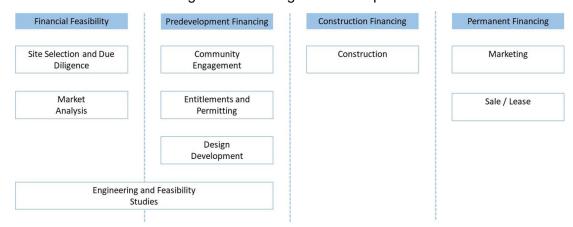
Once the baseline of financing sources are identified for specific projects, a draft financial feasibility analysis can be prepared, outlining leveraging opportunities using tools outlined in this assessment such as New Markets Tax Credits, Opportunity Funds etc. Naturally, community development projects with significant financing gaps take more time and more resources than conventional financing projects.

It is recommended the County work with local resources such financial institutions, for-profit and nonprofit developers, CDCs, community representatives and community development practitioners to ensure (re)development efforts are inclusive and leverage as many resources as possible. A description of (re)development funding and financing sources available is presented in **Appendix "K"**.

#### B. STAGES OF (RE)DEVELOPMENT FINANCING

There are general stages of financing and development that are applicable to most sites and product types from a project implementation standpoint as shown below.

### Stages of Financing and Development



Financing for (re)development projects require particular patience and innovation, balancing short- and long-term financing structures tied to specific assets and future cash flows. While you can delineate sequential steps in the financing process, the blending of debt and equity conditions requires developers to revisit its proforma and assumptions many times throughout the life of all financing instruments. Financing requires the developer to determine the amount and type of capital required (with contingencies) to fund the initial acquisition, the interim holding costs, the completion of the required tasks, and eventual disposition of the development. The developer then determines the most efficient path to raise the required debt and equity from a variety of sources.

Typical financing, for purposes of this assessment, will be divided into four (4) categories: financial feasibility (proforma scenarios/analysis), pre-development (permitting and infrastructure), construction (bridge, interim financing), and permanent (take-out) financing.

### 1. Financial Feasibility

Developers will conduct plot and project specific financial feasibility analysis that requires a variety of variables due to the availability and restrictions of various debt and equity sources. If a project requires low-income housing tax credits, or other forms of tax credits, competition and timing plays into the scenarios that may also increase the holding costs of any asset/project.

Some of the factors included in financial feasibility include the amounts and timing of expected capital expenditures, holding costs, operating expenses, sales and/or rent projections, financial management and reporting, future capital flows, capital formation and accumulation, and appropriate capital structure given the amount of debt that can be supported by the assets/scenarios. To fill the gaps, a variety of equity sources will be required for most (re)development projects. Equity sources are the most flexible source of project finance and typically used to prove (or disprove) project viability.

### 2. <u>Pre-development</u>

Pre-development financing typically utilizes its equity sources first, and leverages the equity to fill the gap with flexible debt since project proof is not imminent. Pre-development activities include early stage investments in planning, design, and environmental and structural assessments for projects that are proceeding to construction. Proceeds are used to pay due diligence expenses, deposits, infrastructure and other pre-development costs.

### 3. Construction

To simplify for purposes of this assessment, acquisition financing is included in this category and is used to pay the purchase price and closing costs for acquisition, as may be applicable to (re)development projects. This financing is secured when construction and permanent financing is in place and/or preliminarily committed. Construction loans are provided for hard and soft building and improvement costs, including new construction, substantial or moderate renovations, and leasehold improvement loans are structured with timing covenants to help financial institutions manage the risks associated with the asset which is under construction.

### 4. <u>Permanent</u>

Permanent (or take-out) financing is typically longer-term financing or refinancing of acquisition, construction and renovation (re)development projects. Real estate project financing focuses on cash flows to cover operating expenses and to fund the financing repayment requirements (debt-service). Typically, the financing is made up of debt and equity matched to the lifespan of the asset. Mini-permanent, mezzanine and bridge financing are tools that are utilized in (re)development projects (to fund intermediate financing needs) but are not delineated in this assessment for simplification purposes.

Feedback from stakeholders confirmed that the two (2) most critical stages of financing and development is the financial feasibility and predevelopment financing stages. Additional financing tools and sources of equity at these stages would greatly increase the viability of and reduce the risks of developing projects throughout Hawai'i Island.

# C. MODEL PROFORMA ANALYSES TAKEAWAYS

A prototypical proforma analysis was prepared for three (3) types of development projects – affordable residential, commercial, and mixed-use. These prototypical proformas are presented in **Appendix "L"** and will be discussed later in this chapter. The Excel models for these proformas have also been provided to the County of Hawai'i as a deliverable for this work effort. The purpose of the proforma analysis was to demonstrate high-level financing considerations for the three (3) types of projects. However, it is noted that the

analysis conducted is not site-specific and is hypothetical in nature. As each project is unique in numerous ways, assumptions and variables particular to each individual development will influence the financial feasibility of each deal.

Key takeaways are noted relative to creating a "marketable (financially feasible) product" such as the availability of grants, governmental loan guarantees, interest-rate and tax-credit subsides, and blended-rate loans leveraging community development initiatives, as described in **Appendix "K"**. Blending existing community development tools with new sources of capital and equity, as recommended in Section E below, will enable developers to reduce the risk associated with affordable residential, commercial, and mixed-used developments.

### 1. Affordable Residential Development

Financing the construction and/or rehabilitation of low-income affordable rental housing requires significant enhancements, that without, affordable rental housing projects do not generate sufficient profit to warrant the investment. Sources and uses of income in the sample residential proforma presented in **Appendix "L"** are summary in nature and relate to the <u>asset</u> portion of the residential financing equation (land acquisition, infrastructure, construction). The residential (re)development capital stack requires a high reliance on low-income housing tax credits, grants and other equity sources to make projects financially viable. Opportunity Zone investments in Hilo or Kona would further support affordable housing projects, as well as any new County of Hawai'i initiatives. County incentives could include creating infrastructure financial districts, local general fund grants, local bond financing, use of public land, government code development agreements, density bonuses and incentives, infrastructure loan programs, and permitting process improvements.

Another critical element of the residential financing equation is <u>cash flow or net operating income</u>, which determines the financial sustainability of the asset (the affordable housing project). The projected cash flow will determine the asset's ability to sustain permanent debt-service and maintenance for the lifecycle of the asset. The sample residential proforma template does not attempt to outline the variables of cash flow, as site specific details are necessary to adequately determine financial feasibility.

### 2. <u>Commercial Development</u>

Financing the (re)development of commercial projects has the potential to have great impact within the County, including property value appreciation (increase in tax revenue), as well as serving as a viable catalyst to stimulate economic growth and job creation for the community at large.

Sources and uses of income in the sample commercial proforma template presented in **Appendix** "L" are related to the <u>asset</u> portion of the financing equation. The commercial capital stack presented has a heavy reliance on conventional debt, yet is further enhanced by a full range of debt and equity sources to make commercial projects viable. In Hilo and Kona, Opportunity Zone investment can produce a new source of equity to blend with more "traditional" equity sources such as historical tax credits, new markets tax credits, grants and others. Again, County incentives could further increase the financial viability of commercial projects by creating infrastructure financial districts, local general fund grants, local bond financing, use of public land, government code development agreements, density bonuses and incentives, infrastructure loan programs, and permitting process improvements.

Another critical element of the commercial financing equation is <u>cash flow or net</u> <u>operating income</u>, which determines the financial sustainability of the asset (the commercial project). The projected cash flow will determine the asset's ability to sustain permanent debt-service and maintenance for the lifecycle of the asset. The sample proforma template does not attempt to outline the variables of cash flow, as site specific details are necessary to adequately determine financial feasibility.

### 3. Mixed-Use Development

Financing the construction and/or rehabilitation of mixed-use projects requires complex and significant enhancements, that without, mixed use projects may not generate sufficient profit to warrant the investment. Sources and uses of income in the sample proforma template in **Appendix "L"** are related to the <u>asset</u> portion of the financing equation. Exploring mixed-use debt, equity and public/private financial tools is a unique exercise with many moving and evolving elements. Tax incentives, such as historic, low-income, and new markets tax credits, will likely be needed to close financing gaps. Leveraging existing and/or new programs, such as CDBG, Section 108, tax-exempt bond financing, tax increment financing, ground leases concessions, tax abatement and payment in lieu of taxes, are all common considerations to making projects viable.

The capital stack will likely include conventional and subordinated debt, yet further enhanced by a full range of debt and equity sources to make mixed-use projects viable as mentioned above. In Hilo and Kona, Opportunity Zone investment can produce a new source of equity to blend with more "traditional" equity sources such as historical tax credits, new markets tax credits, grants and others.

Another critical element of the mixed-use financing equation is <u>cash flow or net</u> <u>operating income</u>, which determines the financial sustainability of the asset (the mixed-use project). The projected cash flow will determine the asset's ability to

sustain permanent debt-service, and maintenance for the lifecycle of the asset. The sample proforma template does not attempt to outline the variables of cash flow, as site specific details are necessary to adequately determine financial feasibility.

### D. BARRIERS AND CHALLENGES

With financing being a foundational element for successful (re)development, it is noted that limitations in government-sponsored financing programs and limiting factors within the marketplace pose challenges and barriers.

# There is a need for gap financing that exceeds what any one lender or incentive program can fill.

Most community development projects require multiple sources of debt and equity in the capital stacks to make projects feasible. Conventional financing is a foundation to any capital stack, yet the total project financing is typically constrained by the unique elements and limitations around cash flow, infrastructure, risk and lien position. Each (re)development project will require very different capital stacks due to the unique nature of sources and uses of capital for acquisition, pre-development, construction and permanent financing variables.

# There is high demand for a limited pool of incentives and financing subsidies for affordable housing.

There is no shortage of demand for affordable housing on Hawai'i island and across the State. However, there is significant competition for the State's limited supply of subsidized low-income housing tax credits and other financing sources. The Hawai'i Housing Finance and Development Corporation (HHFDC) administers affordable housing financing programs in the State, including the Low-Income Housing Tax Credit Program, Rental Housing Revolving Fund, and Dwelling Unit Revolving Fund. Many of these funding sources are awarded through a competitive bid process in which projects across the State must apply and compete for financing.

# There are too few organizations and/or individuals with the depth and breadth of (re)development financing acumen necessary to increase the production of (re)development projects in the State of Hawai'i.

There are a limited number of affordable and community development developers (private and nonprofit) domiciled in the State of Hawai'i. Leadership and succession planning are key concerns for Hawai'i-based developers due to a very limited pool of next generation development professionals in the wings with core development expertise.

<u>Examples of nonprofit developers include</u>: Hawai'i Island Community Development Corporation (Hawai'i Island), Hale Mahaolu (Maui), EAH Housing, Catholic Charities, Housing Development Corporation, Mutual Housing Association of Hawai'i, and Affordable Housing and Economic Development Foundation (AHED).

In addition to nonprofit developers, there are some for profit developers who build affordable housing in Hawai'i. Nevertheless, there is a trend of mainland developers entering the Hawai'i market, while Hawai'i domiciled developers are struggling to maintain their independence amongst the larger players entering the market.

# There is a limited amount of specific community development financial acumen within the municipalities throughout the State of Hawai'i.

Community development finance is an evolving and iterative process that requires steadfast focus on unique and everchanging financing strategies. County and State departments need to have centralized expertise in order to maximize current community development tools and to create new incentives and programs to support (re)development projects in partnership with financial institutions and other key stakeholders.

# Affordable housing projects in Hawai'i County face higher financing gaps than projects elsewhere in the State.

Affordable housing developments on Hawai'i island face a particular challenge with respect to financing. The HHFDC establishes maximum rent levels, including utilities, for each County based on the Area Median Income (AMI). The AMI in Hawai'i County is lower than incomes for other counties in the State and as a result, the maximum allowable rent for affordable housing projects that receive HHFDC funding is lower. **Table 3** presents the 2019 median income limits published by HHFDC along with the maximum monthly rent for 2-bedroom units for households earning up to 100 percent of AMI. As shown, the maximum rent for Hawai'i island is more than \$250 less per unit compared to Kaua'i and nearly \$1,000 less per unit compared to O'ahu. In addition, utility allowances on Hawai'i island are high, resulting in lower net rents and lower return on investment. As such, affordable housing projects on Hawai'i island face a higher development financing gap compared to projects elsewhere in the State.

**Table 3.** Median Income and Maximum Allowable Rent, 2019

	Median Annual Income	Median Monthly Income	Maximum Monthly Rent 2 Bedroom 100% AMI
Hawaiʻi	\$70,100	\$5,842	\$1,767
Oʻahu	\$99,000	\$8,250	\$2,712
Kauai	\$90,000	\$7,500	\$2,025
Maui	\$83,800	\$6,983	\$2,197
Source: Hawaiʻi Housing F	inance and Development Cor	poration, 2019.	

# There are some unresolved questions associated with the opportunity zones program while the deadline to maximize benefits looms.

Opportunity Zones is a new community investment tool established by the Tax Cuts and Jobs Act of 2017 to encourage long-term investment in low-income urban and rural communities nationwide. As will be discussed further in Chapter IV, this program offers incentives for investors to re-invest realized capital gains into Opportunity Funds in exchange for temporary tax deferral and other benefits. The Opportunity Funds are then used to provide investment in capital in certain low-income communities that have been designated as Opportunity Zones. Four (4) census tracts in East Hawai'i and two (2) census tracts in West Hawai'i have been designated as Opportunity Zones.

While the designation of areas in and around Hilo and Kona presents opportunities to attract additional investment into the area, there are some potential challenges that may impede full realization of benefits associated with the Opportunity Zones program. Because Opportunity Zones is a new program, implementation guidance from the Internal Revenue Service has not been complete. The new regulations included as part of the Tax Cuts and Jobs Act were initially so vague that the IRS later issued hundreds of pages of guidance to explain how and over what time period the program was designed to work (Douglas, 2019). Additional guidance from the IRS on the program is still anticipated.

While investors continue to have questions on the benefits of the program, the clock is ticking for taxpayers wanting to maximize the benefits allowed. Specifically, investors seeking to maximize the exclusion of deferred gains offered by the program must invest in a Qualified Opportunity Fund before December 31, 2019.

# <u>Hilo and Kona must compete for new Opportunity Zones investments with shovel-ready projects across the State and County.</u>

Opportunity Funds also have deadlines for investing in Opportunity Zones, which means entitled and shovel-ready projects are more appealing to investors. The East and West Hawai'i Opportunity Zones are among 25 Opportunity Zones in Hawai'i and 8,764

Opportunity Zones nationwide. To be competitive, Hawai'i island needs to have shovel-ready projects to attract investors to participate in Opportunity Zones.

Furthermore, according to a recent article in *The Pacific Business News*, investment in Opportunity Zones have yet to take off in Hawai'i. Only a handful of limited liability companies clearly linked to Opportunity Zone funds have registered with the State Department of Commerce and Consumer Affairs, and even if investment is already happening, there is no public disclosure that would indicate a transaction or development was part of the Opportunity Zone (Magin, 2019).

# E. RECOMMENDATIONS

There is a need for gap financing that exceeds what any one lender or incentive program can fill. Most community development projects require multiple sources of debt and equity in the capital stacks to make projects feasible. For affordable housing developments in particular, there is high demand for a limited pool of incentives and financing subsidies. Furthermore, projects in Hawai'i County face higher financing gaps than projects elsewhere in the State.

# Look for additional capital stack opportunities as traditional sources are unable to fulfill entire need for (re)development.

Responsible Party: State, County, Private Sector, CDFIs, Nonprofits

Given the unique economic conditions of Hawai'i island, financing redevelopment projects (from pre-development to permanent financing) will require specialized financing options with multi-layers of sources to secure the necessary capital. These (re)development efforts may require access to capital and financial resources for new infrastructure, investment, growth and sustainability. Partnerships will need to be formed with local grassroot groups, for-profit and non-profit developers and Federal, State, and County governmental agencies to close the unique financing gaps in this rural market.

County agencies will have a critical role in (re)development efforts. As projects are identified with specific barriers, County departments would need to consider their unique role in supporting the creation of additional community and economic development tools that may not yet exist. There are various tools across the nation to use as a basis to consider such as creating infrastructure financial districts, community facilities districts, assessment and business improvement districts, local general fund grants, local bond financing, use of public land, government code development agreements, density bonuses and incentives, infrastructure loan programs, and permitting process improvements.

In the end, the intent of the (re)development efforts is to incentivize and leverage precious resources on Hawai'i island. This means approaching (re)development efforts from a new

perspective by joining new public/private partnerships to underwrite economic activities which neither banks nor the public sector can do alone. Using government loan guarantees, interest rate subsides, philanthropic sources (such as program related investment (PRIs) and loan guarantees and blended-rate loans in partnership with local lenders and CDFIs, all will benefit from sharing the costs and risks associated with community redevelopment projects.

Leverage different financing mechanisms to support development and redevelopment, including Business/Community Improvement Districts, Tax Increment Financing, and Community Facilities District.

Responsible Party: County

To support development and redevelopment in communities, the County should explore various financial incentives and tools. Such tools include:

- Tax Increment Financing (TIF) TIF is a public financing tool which is often used as a subsidy for redevelopment, infrastructure, and other community-improvement projects. TIF districts are established and the real property tax base is frozen at the pre-development level. Increases in property tax revenues in the TIF district are allocated to an economic development project or public improvement project. The money a city invests in TIF projects is often obtained through the sale of bonds that are repaid over time with the annual tax increment funds. Hawai'i has TIF-enabling legislation pursuant to Chapter 46-103, HRS, which authorizes any County Council to adopt an ordinance establishing a TIF district. However, there are no TIF districts established in Hawai'i today.
- Business Improvement Districts (BID) A BID can also be referred to as a community improvement district (CID) or special improvement district (SID). A BID is established by ordinance of the County Council for a designated geographic area. Properties within the BID pay an additional tax assessment, which is collected by the County and set aside to fund projects within the district. The Kailua Village Business Improvement District (KVBID) was established in 2007 by Ordinance 07-171 for the area in and around Historic Kailua Village. The KVBID mission is to make Historic Kailua Village a model sustainable community that is a better place to invest, work, live, and play. Past initiatives have included security patrols, janitorial services, streetscape improvements, development of a landscape master plan, branded interpretive signage, among other things (KVBID, 2018). Other examples of BIDs and SIDs in the state include the Waikiki Beach Special Improvement District and Waikiki Business Improvement District.
- <u>Community Facilities Districts (CFDs)</u> CFDs are another tool which the County may consider. Section 46-80.1, HRS provides that counties may create by

ordinance, a CFD to finance special improvements. Properties within the district would be assessed a special assessment to finance the special improvements and to pay debt service on any bonds issued for those improvements. CFDs can fund improvements such as roadway, water, sewer, and drainage infrastructure, police and fire facilities, park and recreation improvements, libraries, etc. In 2008, the County of Kaua'i created the Kukui'ula CFD for the purposes of financing regional transportation improvements around the Koloa-Po'ipu area, water infrastructure improvements, and civil defense and shoreline recreational improvements (Kuku'iula, 2013).

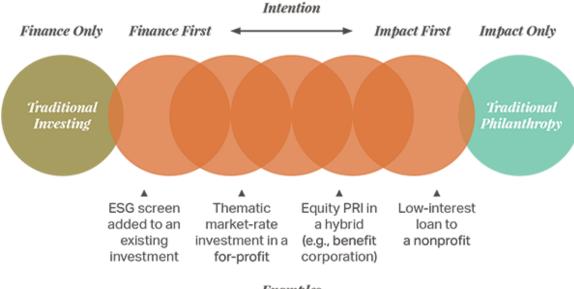
It is imperative that County staff positions responsible for developing and implementing new tools have specific community development financing acumen and that any new initiatives are vetted with all major stakeholders in advance to ensure intended impact. Additionally, once enacted, a plan should be outlined and widely distributed to ensure that key stakeholders are aware of the availability of new community development incentives to support their future (re)development projects.

To support development and redevelopment in communities, the County should explore innovative public-private partnerships since these partnerships remain the most underutilized but most needed community development tool available to developers and municipalities alike.

Responsible Party: County

Public-private partnerships can take many forms. While programs like the low-income housing tax credit program are heavily used and are only limited by the availability of tax credits, other programs such as community development block grants and philanthropic initiatives such as loan credit guarantees and PRIs are still underutilized and in some cases, still not understood in the Hawai'i market.

Impact Investing is a type of public-private partnership which is starting to gain traction in Hawai'i, forging innovative approaches to community development in partnership with private and public entities. Impact investing seeks to generate social and/or environmental benefits while delivering a financial return. The impact investing movement allows Hawai'i-based philanthropic entities and businesses leverage their capital in ways that can support (re)development projects with additional sources of flexible capital. While the Hawai'i market is just getting started in impact investing, the current impact investing market is at nearly \$9 trillion in the United States.



Examples

Source: Rockerfeller Philanthropy Advisors

The more convening opportunities that are forged, the more creative solutions will be borne out of private and public partnerships to effectuate (re)development projects in Hawai'i.

### Consider tax incentives for (re)development.

Responsible Parties: State, County

Tax incentives can play a key role in State and County economic development strategies. Taxes are a consideration in developer financial feasibility models and can influence site selection or project implementation decisions. Tax incentive programs can reduce or eliminate the amount of taxes paid by a developer in exchange for investment or public benefit. In addition to well established federal tax incentive programs, local and State tax incentives could be offered to encourage (re)development. At the County level, tax incentives could include real property tax exemptions or abatements for development in specific areas, such as Opportunity Zones, or for particular types of development like rehabilitation of historic structures.

Other tax policy modifications could include amendments to property tax classification processes. County real property tax law establishes that land is classified based on its highest and best use, with major consideration given to the State Land Use, General Plan, and zoning districts (Chapter 19-53(e), Hawai'i County Code (HCC)). As such, property tax classifications and resulting assessments are typically updated following a rezoning action for the property rather than at the time of construction. However, there is a significant lag between the time of rezoning and completion of construction and occupancy of a property. Construction permits need to be obtained, which as has been discussed,

can be a lengthy process, and time is required for actual construction. During this time, there is no income being generated on the property, yet the landowner is faced with higher property taxes based on the new zoning. The County may consider exploring the feasibility or desirability of delaying the property tax assessment change until the time of certificate of occupancy. This could be done on a Countywide level or for specific areas, such as the East Hawai'i and West Hawai'i Opportunity Zones, to incentive development in target areas. It is recognized, however, that such changes would be anticipated to require changes by ordinance to Title 19, HCC.

### Fund the Banyan Drive Redevelopment Agency.

Responsible Party: State, County

The Banyan Drive Redevelopment Agency was established by the County Council in 2016 to promote the planning for and redevelopment of the area, also known as the Waiakea Peninsula. However, the implementation of a redevelopment plan has stalled due to funding issues. Legislation has failed in 2018 and 2019 to fund the Redevelopment Agency. In 2019, bills to provide funding for the Redevelopment Agency failed. Senate Bill 914 would have allocated 10 percent of the State's land lease revenues in the Banyan Drive to the redevelopment agency while House Bill 910 would have appropriated funds for the Office of Planning to conduct a study on the infrastructure of the Banyan Drive Area. State legislators have indicated that they will pursue funding for the Banyan Drive Redevelopment Agency again in 2020 year (Brestovansky, 2019).

Funding this agency and domiciling staff within the agency with specific expertise, including community development finance, will be critical to ensuring productive partnerships with lenders, community development entities and developers, to increase (re)development projects going forward.

Given the limited amount of specific community development financial acumen within the municipalities throughout the State of Hawai'i, create a capacity building plan for County departments, local developers and community stakeholders.

Responsible Parties: County in partnership with LISC and/or others

Consider retaining LISC or another similarly situated entity, to conduct training to build capacity around community development finance as it relates to funding (re)development projects. Community development finance is an evolving and iterative process that requires steadfast focus on unique and everchanging financing strategies. County and State departments need to have centralized expertise in order to maximize current community development tools and to create new incentives and programs to support (re)development projects in partnership with financial institutions and other key stakeholders. Ensure that capacity building engagements allows for a deep dive of the availability of current tools and specific recommendations of additional enhancements that

can supplement the range of tools available to foster (re)development projects on Hawai'i island. Community development finance capacity building is one component of a larger capacity building effort for Community Development Corporations, which will be discussed further in Chapter IX.

# <u>Develop an Opportunity Zone Strategy to identify specific economic development</u> priorities and attract investment.

Responsible Parties: State and/or County

To capitalize on the opportunity presented by the Opportunity Zones program, it is critical to have a plan to identify economic development priorities and strategy for attracting investment. There are organizations that can provide technical assistance to communities in this area. High level initiatives for Opportunity Zone Strategies include aggressively marketing communities, aligning its own resources to demonstrate "skin in the game" (i.e., infrastructure improvements around development sites, grants, other financing tools), and minimizing barriers, such as aligning stakeholders, as well as streamlining the development review and permitting process (ESI, 2019). Specific strategies with respect to funding could include a community creating their own Opportunity Fund, developing an outreach strategy to attract investment from existing Opportunity Funds, or a combination of both (Council of Development Finance Agencies, 2019).

# Consider State and County incentives to encourage investment in Opportunity Zones.

Responsible Party: State, County

While Opportunity Zones is a federal program, states and local municipalities have the ability to create additional incentives to attract investors or encourage the development of specific types of projects. States and municipalities across the country are considering additional incentives such as tax breaks for creating jobs or developing affordable housing. Other local incentives that could be considered include expedited permitting or waiving permitting fees.

# Build a detailed investor prospectus to attract investment in Opportunity Zone designated areas in Hilo and Kona.

Responsible Parties: County

An investor prospectus can be developed to inform and excite investors about opportunities in East and West Hawai'i Opportunity Zones. Several cities have already created investment prospectuses that market the benefits of their local geographies and showcase select investment-ready projects. The prospectuses provide investors with information on local talent, investment trends, top industries, real-state footprint, shovel-

ready projects, and specific investment opportunities the cities are pitching. In partnership with Accelerator America and New Localism Advisors, Erie, Pennsylvania; Louisville, Kentucky; Oklahoma City, Oklahoma; and South Bend, Indiana have published prospectuses (Julien, 2019). Accelerator for America has prepared a guide for creating an Opportunity Zone Propsectus, which is available on their website <a href="http://www.acceleratorforamerica.com/OZGuide">http://www.acceleratorforamerica.com/OZGuide</a> (Accelerator for America, 2019).

# INFRASTRUCTURE



# V. INFRASTRUCTURE

Given cost implications and concurrency requirements, stakeholders view infrastructure adequacy as a significant component in advancing successful project development. This section identifies key takeaways from stakeholder input and provides discussion and analysis that further clarifies concerns expressed by stakeholders related to infrastructure. In general terms, these key takeaways relate to infrastructure development costs, system capacities, as well as administrative and regulatory oversight of infrastructure systems. Because stakeholders identified infrastructure as a significant impediment to (re)development, the infrastructure criteria was given a higher weight in the Suitability Analysis presented in Chapter II.

# A. BARRIERS AND CHALLENGES

### 1. General

### There is low infrastructure capacity and high costs to develop new systems.

In some of the more rural towns and villages on Hawai'i island, infrastructure availability may be minimal. In existing developed areas, the infrastructure systems may not have the capacity to support new infill development with construction costs for onsite vertical development already high. The added cost for offsite infrastructure development can be constraining for a project's budget.

Stakeholders noted that requirements for infrastructure development do not take into account risks to the developer. For instance, while developers are required to pay for water source, storage, and transmission systems required for their projects, there is a financial risk to front load these infrastructure development costs if the market does not allow the inventory to move fast enough for the developer to make the project pencil out.

### 2. Water

# Water is not available in some areas on the island, and there is not enough source to expand systems.

The Water Use and Development Plan for the County forecasts development of aquifer system areas out 20 years using the County General Plan's Land Use Plan Allocation Guide (LUPAG) and County zoning maximum density-build out scenarios to determine if the sustainable yields of the aquifers can support the projected build out. In some areas, such as Kohala, it was noted that the sustainable yield of the aquifer would not be able to support projected build out without providing more water through means, such as transfers between aquifer systems. In other areas, such as Northeast Mauna Loa, which has the highest

current water usage as it encompasses urban Hilo, the aquifer sustainable yield can support projected build out due to the high rate of aquifer recharge from rainfall. The Water Use and Development Plan noted that providing water to all areas on the island can be achieved through a combination of aquifer transfers and the development of adequate infrastructure to transport the water around the island, however, the cost of developing infrastructure to transport water between aquifer systems can be high. In addition, the projected future use of the originating aquifer area must be calculated and balanced with those of the receiving aquifer area to ensure that both areas' needs will be met (Fukunaga & Associates, Inc., 2010).

# <u>Department of Water Supply policies present challenges for developers</u> seeking to build new or upgrade existing systems.

Many stakeholders indicated process challenges in obtaining water allocation for new projects from the County Department of Water Supply (DWS). For planned developments within existing service limits, the DWS will confirm if the existing system is adequate to accommodate the proposed development without impairing service to existing customers. If a large quantity of water is required or a large investment is necessary to provide service to the development, the DWS may condition the development for provision of service. For instance, a capital assessment fee determined and approved by the Board of Water Supply may be charged for the improvements, and will be prorated based on the number of lots or units. It is noted that developers are required to pay for all onsite and applicable offsite improvements as determined by the Board of Water Supply, which could include source development, storage, and transmission systems.

Discussions with stakeholders found that DWS policies for developers looking to develop new water source for dedication to the County may create unfavorable terms for the developer. In particular, DWS policy limits pumping to two-thirds of well capacity, with the remaining one-third reserved for redundancy purposes. Of the two-thirds capacity that is pumped, DWS reserves two-thirds for other users of the County system. As a result, the amount of water available for the developer's project is limited to a fraction of the total capacity of a new well which a developer may construct and dedicate to the County.

Stakeholders noted that development of new or upgrades to existing systems in areas planned for growth as designated by County plans should be a priority. The County's current draft general Plan update includes policies and actions such as requiring water system improvements to correlate with the County's desired land use pattern, focusing source development to serve Urban Growth Areas, and coordination between DWS and the Planning Department to establish priorities prior to the adoption of water use or land use plans (County of Hawai'i, 2019).

### 3. Wastewater

### Wastewater systems are insufficient and not available in many areas.

Stakeholders noted that wastewater systems in many areas are insufficient, or do not have broad enough coverage to support new developments. As a result, landowners and developers may be left to develop private systems or construct costly extensions or upgrades to County systems. Furthermore, the development of wastewater treatment plants trigger the need to prepare an Environmental Assessment or Environmental Impact Statement pursuant to Chapter 343, HRS, which can be a costly and lengthy process.

It is noted that in Kona, the County is moving forward with improvements to the Kealakehe Wastewater Treatment Facility that will provide additional treatment to produce R-1 standard water suitable for reuse for irrigation (Wilson Okamoto Corporation, February 2019). The County is also exploring options and sites for a proposed wastewater treatment plan in Nāʻālehu and Pāhala.

# There are limitations and regulations associated with Individual Wastewater Systems (IWS).

Because County wastewater service is not available in all areas, properties in Hawai'i County, particularly in rural areas, are serviced by IWS, such as cesspools or septic systems. There are nearly 50,000 cesspools on Hawai'i Island. Cesspools can contaminate ground water, drinking water sources, streams, and oceans with disease-causing pathogens and other harmful substances. As such, in 2017, the State legislature passed Act 125 requiring all cesspools in Hawai'i to be upgraded or converted into septic systems or the property must be connected to a sewer system by January 1, 2050 (State of Hawai'i, Department of Health).

## 4. Traffic

# Some roadways in the County are inadequate and contribute to poor traffic flow.

Stakeholders have noted that in some areas, particularly the more rural towns and villages, roadway conditions are inadequate in terms of maintenance and lack of connectivity and as a result traffic flow is often poor, leading to inaccessibility for some areas. (Re)development in these areas would likely require roadway upgrades, at a high cost to the developer. In some cases where roadways may be in a better maintained state, they are not developed to handle the volume of cars that travel upon them, resulting in poor traffic flow.

# County roadway improvement requirements can be stringent and increase development costs.

Stakeholders noted that roadway improvement costs can be significant and the County's roadway standards may not provide the desired level of design flexibility. In some cases, the required level of standard may not align with the scope of a particular project. As part of the subdivision process, developers must show on their draft plat maps all proposed streets, whether or not they are planned to be dedicated to the County. The Hawai'i County Code specifies development standards for dedicable and non-dedicable streets. For subdivisions with lots over an acre, such as rural and agricultural subdivisions, there is still a requirement to pave roadway surfaces, that for these types of developments, may not necessarily be needed or practicable. In addition, should it be deemed necessary by Council, sidewalks, curbs, and gutters may also be required.

### Parking can be an impediment to (re)development.

Some stakeholders have noted that in some areas there is a lack of parking. With this limitation, businesses do not receive the amount of customer traffic needed to succeed. In other instances where property owners or developers are looking to improve existing structures, minimum offstreet parking requirements can be a key constraint in determining the amount of density that can be achieved on a property.

# **B. RECOMMENDATIONS**

Encourage County Departments to develop a collaborative infrastructure plan with prioritization of projects based on desired growth areas as identified by the General Plan.

Responsible Party: County

As is the case in many jurisdictions, there are many infrastructure improvement needs that must be addressed with limited funds. Although the County has a Capital Improvements Plan, and individual Departments have individual priority project lists, the County Departments may consider developing a collaborative infrastructure plan that prioritizes infrastructure projects in accordance with overall planning goals and development priorities as identified within the General Plan. Infrastructure improvements in areas that are targeted for development or redevelopment (such as in Opportunity Zones) represents an opportunity for prioritization.

Such a plan could be implemented in accordance with the September 2006 Infrastructure and Public Facilities Needs Assessment that was prepared to calculate the maximum impact fees that the County could charge for infrastructure upgrades based on existing levels of service for roads, park and recreation facilities, fire, police, and emergency

medical services, residential solid waste facilities, and wastewater facilities (Duncan Associates, 2006).

# <u>Facilitate public-private partnerships in infrastructure investment in areas targeted</u> for (re)development.

Responsible Parties: State, County, Private Sector, Nonprofits

Infrastructure capacity has been identified by stakeholders as a significant challenge for (re)development efforts, particularly with the high cost of system upgrades which developers often face. Public-private partnerships for infrastructure investment allows the private sector and government share in the costs and risks of the infrastructure development.

### Provide flexibility in infrastructure development concurrency requirements.

Responsible Party: County

Infrastructure concurrency requirements tie the completion of specific infrastructure improvements to proposed development projects. Given the high cost of infrastructure development at the front end of projects, the County may explore ways to provide flexibility to developers in the timing of infrastructure construction or share in the cost of infrastructure improvements in areas identified for planned growth by the County.



# VI. LAND USE POLICIES

Land use policies exist at the State and County level and refer to policies that manage and regulate the use of land to achieve various goals, including environmental, sustainability, economic, and social goals. Stakeholders expressed concerns with land use policies that lack clarity or which create inconsistencies between layers of regulatory controls.

# A. BARRIERS AND CHALLENGES

# The County's Community Development Plans process and requirements create impediments to (re)development.

The current Hawai'i County General Plan, approved in 2005, is the overall planning document for Hawai'i Island. The General Plan outlines the process for adopting Community Development Plans (CDPs), which serve as the forum for translating community input into County policy at the regional level and coordinating the delivery of County services to the community. The CDPs translate the broad General Plan statements into actions as they apply to specific geographical areas. The CDPs direct physical development and public improvements and may contain detailed land use information on matters relating to the planning area.

It was noted by some stakeholders that the CDPs can be too restrictive and not consistent with the general nature of the General Plan. In particular, concerns were raised with respect to the Kona CDP and conflicts between mandatory language in the Kona CDP and the Hawai'i County Code and Administrative Rules. In 2017, the Intermediate Court of Appeals ruled on the Missler Case (No. CAAP-13-0002347) and found that the Kona CDP had the force of law as an ordinance and regional implementer of the General Plan and that certain language in the Kona CDP was mandatory. In response to the Missler Case, the County proposed amendments to the Kona CDP that are intended to alleviate conflicts between the CDP and County Code and Administrative Rules, committments to provide support or funding for projects and/or actions that the County currently cannot fulfill, and policies and actions mandated by the Kona CDP that are beyond the authoirty of the General Plan or CDP. The County Council adopted the amendments to the Kona CDP on September 4, 2019.

Some stakeholders noted that there is a disconnect between the CDPs and overall public sentiment. They shared an observation that a small portion of the community is involved in the CDP process that is not representative of the general public.

### Zoning should be updated in some areas.

Stakeholders noted that some areas poised for (re)development do not have existing zoning that would allow uses that may be desirable in such (re)development efforts. In particular, some older industrial areas in Hilo and Kona were noted as potential areas for updated zoning. With shifting trends and locations in industrial land uses, more commercial uses are moving into these older industrial areas. However, light industrial zoning designations limit the potential for certain types of commercial uses and do not permit residential development.

### **B. RECOMMENDATIONS**

Continue to engage with the community, including landowners and developers, during the update of the County's General Plan, which establishes the long-range policy framework for the County.

Responsible Party: County

The Planning Department is in the process of updating the County's General Plan and a draft of the General Plan 2040 was made available to the public for review in August 2019. The General Plan is a policy document for the long-range development of the island of Hawai'i, with a planning horizon of 20 to 30 years. It represents the highest level of long-range goals, policies, standards, and actions for the County. The CDPs and zoning implement the General Plan. The language utilized in the General Plan objectives and policies should be crafted in the context of the General Plan as a long-range policy guide, allowing for flexibility as changes in market, environmental, technological and socio-economic conditions occur over the course of time. From a stakeholder perspective, recognizing the need to manage long range goals, objectives, and policies in a way that supports governance flexibility is important. In this regard, the construction of plan policy statements should be guidance oriented (versus directive oriented). In the General Plan context, there is recognition that there are more specific land use tools such as the CDPs, zoning, and other regulatory processes which can be more nimbly implemented to address changes in the external environment (e.g., through application of conditions of approval).

### Allow for more flexible zoning.

Responsible Party: County

Stakeholders encouraged the County to allow for more flexibility in its zoning ordinance. One tool a growing number of municipalities are turning to is form-based codes. While traditional zoning ordinances typically emphasize land use regulation through the separation of land uses and controlling development through floor area ratios, dwelling units per acre, setbacks, etc., form-based codes primarily stress the physical form and urban design. Form-based codes address the relationship between building facades and

the public realm, regulating street and building types (or mix of types), build-to lines, number of floors, and percentage of building frontage (Form-Based Code Institute, 2019). Form-based codes encourage a mix of uses rather than traditional single-use zoning districts, promoting walkability and reducing the need to travel. Form-based codes are most often adopted for individual neighborhoods/communities rather than on a city- or county-wide basis because they are place-based and have to be tailored to the needs of individual neighborhoods. The County may consider exploring the feasibility of adopting form-based codes for communities on Hawai'i Island, with a particular focus on those where development and redevelopment are targeted. It is noted that the County incorporated a form-based code approach in the Kona CDP through its Village Design Guidelines. The Village Design Guidelines envision and encourage a certain physical outcome at the community, block, or building level that is compact, walkable, and mixed-use.

Form-based codes have implemented elsewhere in the State. In Kaua'i County, the South Kaua'i Form-Based Code was established in 2015 and provides a streamlined set of regulations that were intended to help remove barriers to development by making code compliance clear and straightfoward. The South Kaua'i Form-Based Code is a pilot project that will allow the County to acquire firsthand experience with the application and administration of this model in a limited area before considering expansion to other parts of the island (Opticos Design. Inc., 2015).

Another zoning tool that can provide flexibility for specific targeted areas is overlay zoning. An overlay zoning designation creates a special zoning district, placed over an existing base zone, which identifies special provisions in addition to those in the underlying base zone. Regulations or incentives may be attached to an overlay district to guide development within a specific area.

# Consider County-initiated State Land Use Commission District Boundary Amendments.

Responsible Party: County

Given the lengthy nature of SLUC district boundary amendment (DBA) process, the County may consider proactively initiating DBA petitions to reclassify lands to "Rural" or "Urban" to support desired land use patterns consistent with the General Plan. Where a County-initiated DBA petition has been processed, the need for individual, project-based DBA petitions would be eliminated, saving the landowner and developer significant time and costs in the entitlement process.

### Consider County-initiated rezoning in areas targeted for redevelopment.

Responsible Party: County

Due to shifting land use patterns and community needs, existing zoning in some areas may no longer align with current demands. In some cases, individual property owners have sought rezoning from the County Council to obtain land use entitlements for specific projects. For example, in the Waiākea House Lots area of Hilo, several properties have undergone rezoning from residential to commercial zoning. However, the rezoning process can be costly and lengthy and, as a result, not one which many landowners or developers are keen on initiating. To support and encourage infill development and redevelopment in targeted areas, the County Planning Department may consider sponsoring County-initiated rezoning efforts for larger areas rather than individual properties. This promotes a more comprehensive approach to planning and zoning, rather than individual spot-rezoning efforts, and also eliminates a significant barrier to development and redevelopment for individual landowners. The Kanoelehua Industrial Area in Hilo and the Kona Industrial Subdivision in Kona are areas where rezoning may be considered due to the shifting demands for industrial lands and changing character of these older neighborhoods. It is noted that the August 2019 Draft General Plan 2040 includes Policy No. 516, that states "develop and implement a schedule for periodically evaluating zoning and land uses in places of transition to proactively initiate change of zones to accommodate growth and facilitate the County's desired land use development". The Planning Department noted that a potential challenge with County-initiated rezoning of larger areas is that the action could result in increased property tax for all properties, which would be particularly challenging in affordable residential neighborhoods. As noted in Chapter IV, tax policy modifications may be explored to address this issue.

### Create a County urban renewal process for addressing blighted properties.

Responsible Party: County

Blighted properties have adverse impacts on the surrounding neighborhood, including raising concerns related to health, safety, and welfare. Stakeholders encouraged the County to take more proactive actions in addressing blighted buildings. The State's Urban Renewal Law, codified in Chapter 53, HRS establishes the ability for redevelopment agencies to initiate and carry out redevelopment plans and urban renewal projects. Urban renewal projects may include undertakings and activities for the elimination of blighted, deteriorated, or deteriorating areas. As will be discussed further in Chapter IX, the Hawai'i Redevelopment Agency (HRA) is granted powers for implementing the State's urban renewal law under Chapter 53, HRS. Pursuant to Section 2-35.1, Hawai'i County Code, the HRA falls within the authority of the County Planning Department.

# ENTITLEMENTS AND PERMITS

# VII. ENTITLEMENTS AND PERMITS

In the context of stakeholder input, entitlements and permits refer to the administrative and regulatory processes for obtaining project approvals. Challenges expressed by stakeholders relate to processing durations, procedural complexities, regulatory redundancies, and conditions attached through discretionary processes.

# A. BARRIERS AND CHALLENGES

# 1. General

# There is a lack of clear, consistent government processes with regards to entitlements.

Stakeholders have stated that entitlement processes in the County, and in some instances at the State level, can be unclear and inconsistent. Stakeholders report that requirements are not clarified or are modified, and can vary depending on who is consulted. The uncertainty associated with entitlement processes presents numerous challenges for development.

In some cases, entitlement processes at the County and State levels may not complement each other, which leads to process redundancy and frustration about requirements. A number of stakeholders cited the need for improved communication and collaboration between agencies.

In addition, stakeholders noted that permit processes, which appear to be ministerial, are sometimes treated as discretionary. This leads to further process uncertainty that challenges the project development effort.

Stakeholders have also indicated that entitlement and building permit processes are lengthy and with requirements that make the experience burdensome. The lengthy entitlement process makes planning the timing of development challenging for developers.

# Multiple levels of land use control and review creates redundancy and a lengthier process.

The State of Hawai'i is unique in that there is land use control at both the State and County levels. The State Land Use Law (Chapter 205, HRS), adopted in 1961, establishes an overall framework of land management whereby all lands are classified into one (1) of four (4) land use districts: urban, rural, agricultural, or conservation. If a proposed development is not consistent with the underlying State land use designation, a District Boundary Amendment (DBA) or State

Special Use Permit (SUP) must be obtained from the State Land Use Commission (SLUC) through a quasi-judicial proceeding (for projects 15 acres or larger) or the County Council (for projects under 15 acres). At the County level, land use control is established by the General Plan, Community Development Plan, and zoning. If a proposed project is not consistent with County land use designations, a Change of Zone must be obtained from the County Council.

For larger projects that require both SLUC and County entitlements, there are multiple land use review processes which can be lengthy and seen as redundant. In particular, for projects that are 15 acres or greater, the SLUC process and County entitlement process cannot be done concurrently.

# Conditions of approval associated with land use entitlements can be burdensome.

Discretionary land use approvals such as SLUC District Boundary Amendments or County Change of Zone have conditions of approval established by the approving agency. Conditions can range from offsite infrastructure improvements to park dedication requirements or affordable housing requirements. Conditions related to offsite infrastructure improvements may require that such particular offsite improvements be completed prior to vertical construction within the development. Discretionary approvals also typically have time stipulations in which construction must commence and must be completed.

Stakeholders noted that conditions of approval can be burdensome. As projects move through the entitlement process, they can become more constrained by conditions associated with various approvals. In some cases, the conditions attached to approvals make project implementation costly and time consuming, which can affect project advancement decisions. In other cases, developers seek to amend the conditions of approval. However, this process is not an easy task and requires seeking an amendment through the original approving body such as the SLUC or County Council.

Expiration dates associated with entitlements can be particularly challenging. In many cases, projects are not able to be initiated or completed within the approved timeframe due to changes in market conditions or other unforeseen circumstances. In these instances, time extensions must be sought and are not guaranteed.

One example of a project that has been limited by conditions of approval is the Palamanui development in Kona. An original condition of approval was for the developer to construct an approximately 1.5-mile road connecting Queen Ka'ahumanu Highway to Highway 190. A decade later, problems getting a right-of-way approved through State dryland forest and new standards for construction caused the road to increase in size to twice its original planned length and three

(3) to four (4) times the expense, necessitating Palamanui to request relaxation of this condition so that the project could move forward (Yager, 2014).

### 2. State Entitlements and Permits

# The State historic review process is particularly lengthy, which delays permit review and issuance.

The State's historic preservation review process is codified in Chapter 6E, Hawai'i Revised Statutes (HRS) and is administered by the State Historic Preservation Division (SHPD). Historic preservation review under Chapter 6E, HRS is required for State or County projects (HRS 6E-8) before any State or County agency issues a permit, land use change, or other entitlement approval (HRS 6E-42). The Chapter 6E, HRS review process is a multi-step process involving 1) identification and inventory, 2) evaluation of significance, 3) determining effects to significant historic properties, 4) mitigation commitments, 5) development of mitigation plans, and 6) verification of mitigation completion. Review times are codified in Hawai'i Administrative Rules (HAR) Chapter 13-275 and 13-284, and provides for 30 days from time of initial submittal to SHPD and their written acceptance of the submittal, 45 days for review of the information for adequacy, and an additional 45 days to render a concurrence or non-concurrence with the proposed determination and mitigation. However, stakeholders noted that SHPD review frequently extends well beyond the statutorily established timeframes, in some instances, extending over several years. SHPD review is required for County permits, such as grading permits. This requirement often adds to the processing time for these County permits as the County will not approve the permit until a determination from SHPD is received.

It is noted that for HRS 6E-8 and 6E-42 processes, if the SHPD fails to respond within the 90 day period, or by a mutually agreed upon date, then the SHPD is presumed to concur with the submittal, as stated in HAR, Chapters 13-275-3 and 13-284-3, respectively.

Furthermore, projects with a Federal trigger such as use of Federal funding or requiring a Federal permit such as a Department of Army Permit pursuant to Section 404 of the Clean Water Act also must undergo Federal historic preservation review pursuant to Section 106 of the National Historic Preservation Act. The SHPD also oversees Section 106 review and issues with respect to lengthy review periods as reported by stakeholders apply to the Federal process as well.

The lengthy SHPD review, under both the State (Chapter 6E, HRS) and Federal (Section 106, NHPA) processes presents a significant impediment to project

advancement. Permitting agencies, in many cases, will not issue an approval until the historic preservation review process is complete.

### 3. County Entitlements and Permits

# The building permit process is lengthy and can require multiple rounds of agency review.

One of the most frequently cited barriers from stakeholders was that the building permit process was seen as lengthy, sometimes spanning over one year. As previously noted, permitting delays increase holding costs and delay sales or leasing for developers. The building permit process involves filing a permit application and plan sets with the Building Division of the Department of Public Works (DPW), and having the application and plans reviewed by a number of County and State agencies to ensure that the proposed development is in compliance with all applicable building codes. Depending on the scope of work, thoroughness of plans, and number of plans in the queue for review, the process could take several months to complete. Incomplete submittals or issues with the plans which need revision may result in processing delays. According to the Building Division of the County DPW, common issues with plans that delay the processing of building permit applications include incomplete plan sets, structural drawings that do not meet code requirements, and labeling or stamping errors.

# B. <u>RECOMMENDATIONS</u>

### Provide clarification on entitlement and permitting processes.

Responsible Party: County

Stakeholders have noted that the entitlement process can be daunting, requiring many landowners and developers to hire consultants to assist in navigating the process. Stakeholders encouraged the development of guidelines for the land use and entitlement process for landowners and developers. These guidelines may include a roadmap or flow charts to depict the entitlement process and anticipated timeframes for completion. Stakeholders also noted that clarification on the role of the Community Development Plans (CDPs) and CDP Action Committees relative to zoning would be helpful.

### Explore opportunities to reduce redundancy and streamline entitlement processes.

Responsible Parties: State, County

As previously noted, multiple levels of land use control and review creates redundancy and a lengthier entitlement process. In particular, the State's unique system of land use control at both the State and County levels can result in projects going through multiple

land use review processes. For instance, projects that are 15 acres or larger and do not have proper land use designations may need to go through the quasi-judicial State Land Use Commission (SLUC) process as well as the County entitlement process. There are a number of possible modifications to explore to streamline the entitlement process, including:

- Amending the State land use law (Chapter 205, Hawai'i Revised Statutes (HRS)), to increase the threshold for which projects must be reviewed by the SLUC from 15 acres to something larger like 30 acres or 50 acres. State legislation to this effect has been proposed in the past but has not succeeded.
- Requiring preconsultation meetings with the Planning Department to confirm permitting requirements prior to application initiation.
- Offering more administrative approvals for smaller-scale projects.
- Encourage land use reclassifications to be conducted as land use exercises rather than project-specific approvals.

# Explore opportunities to grant flexibility in conditions of land use approvals, where appropriate.

Responsible Party: County

As noted previously, conditions of approval associated with discretionary land use approvals can be burdensome. In particular, as market conditions change over time, complying with certain conditions of approval may become infeasible. Recognizing the need to respond to the evolving development environment, the County may explore ways to provide flexibility in amending conditions of land use approval, where appropriate. In many cases, the current process for amending conditions of approval involves returning to the original approving body - either the Planning Commission or the County Council. The County may consider providing the Planning Department the ability to administratively approve amendments to certain types of conditions if such amendments would not substantively alter the original intent of the condition.

### Work with the State to streamline the historic review process.

Responsible Party: State, County

The historic review process through the SHPD is a particularly lengthy component of the entitlement and permitting process. Pursuant to Chapter 6E, HRS, projects seeking an approval for a permit, license, land use change, subdivision, or other entitlement from the State or County must undergo historic preservation review through SHPD. Despite statutory timeframes for review processes to be completed, SHPD review can extend for

months or even years, holding up developments. The County and State are encouraged to explore ways to streamline the historic review process with SHPD. Potential solutions may include exploring the feasibility of incorporating third party archaeological review to assist with the backlog and understaffing challenges at SHPD. The County may also explore policies or procedures for permit processing in instances when SHPD review is not completed within the statutory timeframes. It is noted that pursuant to State regulations, if the SHPD fails to respond within the statutorily established time period, or by a mutually agreed upon date, then the SHPD is presumed to concur with the submittal, as stated in HAR, Chapter 13-275-3 and 13-284-3. The County may consider hiring a County archaeologist who could assist with archaeological review for County permits in instances where the SHPD review may not be completed within established timeframes.

# Review building permit processes to identify opportunities to streamline the process and gain efficiency.

Responsible Party: County

The construction permit process (including building permits, grading permits, etc.) can be very lengthy, in some cases extending over the course of many months. This is due, in part, to State agencies that are involved in the review process whose review the County has no control over. The delays in obtaining construction permits increase costs for developers and serve as an impediment to development and redevelopment. A review of the building permit process is recommended to identify areas for simplifying and streamlining the process. This may include reviewing lessons learned from other agencies that have expedited review processes.

It is noted that the County is exploring a new permitting system, EnerGov, which is an online permitting system that will automate submittal and review processes with the intent that this will streamline workflow, improve communication amongst agencies, and increase productivity, thereby, decreasing overall permit processing time. Presently, the County is targeting to release EnerGov sometime in 2020.

Efficiencies in building permitting could also be gained by employing strategies such as offering expedited permit review processes for certain types of projects such as affordable housing projects or projects in specific areas where (re)development is targeted (i.e., Opportunity Zones).

Encourage the use of the 201H, HRS process for expediting affordable housing development, especially in or adjacent to urbanized areas with adequate or expandable infrastructure.

Responsible Party: State, County, Private Sector, Nonprofits

Chapter 201H-38, HRS provides for exemptions from planning, zoning, construction standards for subdivisions, development and improvement of land, and the construction of units for projects that primarily or exclusively include affordable housing units. The Office of Housing and Community Development is the lead agency within the County of Hawai'i for processing 201H applications. Developers also have the option to request 201H approval through the Hawai'i Housing Finance Development Corporation (HHFDC) if the County denies a 201H expedited processing request. The 201H process provides for greater design flexibility and cost savings for affordable housing projects and has the potential to significantly reduce processing times. Chapter 201H-38, HRS provides that the County Council or HHFDC shall have 45 days to render a decision on the application and if on the 46th day a project is not disapproved, it shall be deemed approved by the Council or HHFDC. Greater use of the 201H process for development of affordable housing is encouraged.

# Explore the feasibility of establishing a County of Hawai'i exemption process for expediting affordable housing development.

Responsible Party: County of Hawai'i

While the State 201H process provides the ability to obtain exemptions for affordable housing developments, the County may also explore the feasibility of establishing a County of Hawai'i exemption process for expediting affordable housing development. In 2018, the County of Maui adopted Residential Workforce Housing Policy Incentives and Exemptions (Chapter 2.97, Maui County Code; Ordinance No. 4941). The County of Maui ordinance establishes a process by which developers of 100 percent affordable housing projects (serving incomes of 140 percent of AMI or less) may seek fast track development of their projects by applying for County exemptions. In the case of the County of Maui, the Department of Housing and Human Concerns administers the process and coordinates review and approval with the County Council. Considerations for a County of Hawai'i fast track process could include provisions for an initial consolidated consultation meeting with agencies, a requirement that the proposal addresses the concerns raised by the agencies, and a final review/revision cycle before the matter is forwarded to the County Council for approval. Projects moving through this process should be given priority.



# VIII. MARKET CONDITIONS

Market conditions speak to demographic character, economic feasibility parameters, market demand, and market response to overall economic conditions. While these issues are not easily addressed, stakeholders recognize that suitable market conditions is a necessary incentive for (re)development to occur. Key stakeholder takeaways related to market conditions are discussed in this Chapter.

## A. BARRIERS AND CHALLENGES

# Household incomes in Hawai'i County are lower, resulting in lower purchasing power.

Median household incomes in Hawai'i County are lower than elsewhere in the State. As shown in **Table 4**, the median income in Hawai'i County was \$70,100, which is substantially lower than median incomes in other counties (Hawai'i Housing Finance and Development Corporation, 2019). Lower incomes in Hawai'i County mean that households have lower purchasing power and limits residential purchase prices that can be supported by the market.

Table 4. Median Household Income. 2019

		Median Income
Hawai'i	\$	70,100
Oʻahu	\$	99,000
Kauai	\$	90,000
Maui	\$	83,800
Source: Hawai'i Housing Finance	and De	evelopment Corporation, 2019.

### Construction costs on Hawai'i Island are high.

Numerous developers and landowners reported that a major barrier to development on Hawai'i island is that construction costs are high. In addition to added costs to ship materials from O'ahu to Hawai'i island, there are other factors that may contribute to the higher construction costs. Stakeholders report that there are only a few contractors that can handle specialized construction jobs and it is costly for contractors to ship equipment and staff from other islands. In particular, it was noted that there is limited on-island capacity for multistory construction and such projects must utilize off-island contractors, thereby increasing the development costs. One stakeholder also noted that high end resort residential construction draws construction trades away from other types of projects.

In addition, site preparation costs can be significant, particluarly for sites with lava rock and/or sloping terrain.

# There is a mismatch between development costs and prices the market can support.

The lower household incomes on Hawai'i island and higher construction costs result in a mismatch between the cost to develop and prices the market can support. If projects are not financially feasible, development and redevelopment projects will not occur.

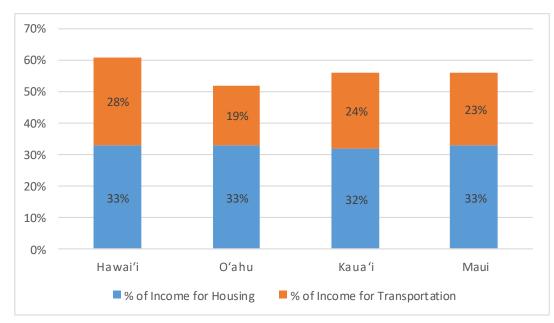
# The housing affordability crisis continues to grow as the gap between population growth and new housing development widens.

Hawai'i County, like elsewhere in the State, faces an affordable housing crisis. Population growth continues to outpace new housing development, leading to an unbalanced market. The State Department of Business, Economic Development, and Tourism (DBEDT) projects that Hawai'i County's population will grow by 29 percent between 2015 and 2025, compared to 25 percent for Maui County, 19 percent for Kaua'i County, and 9 percent for the City and County of Honolulu. The forecasted demand for additional housing units for Hawai'i island is 19,610 units between 2015 and 2025, second only to the City and County of Honolulu (State of Hawai'i, DBEDT, 2015). See **Table 5**.

**Table 5.** Housing Demand by County, 2015-2025

	Units	Percent of State
Hawai'i	19,610	30%
Oʻahu	25,847	40%
Kauaʻi	5,287	8%
Maui	13,949	22%
Total	64,693	100%

In addition to significant demand for housing, residents in Hawai'i County spend the highest proportion of their income on housing and transportation costs. In 2017, the typical household in Hawai'i County spent 61 percent of its income on housing and transportation, more than any other county in the State.



Housing and Transportation Costs as a Percent of Income in 2017

Source: State of Hawai'i, and Center for Neighborhood Technology

A lack of affordable housing affects not only the residents and households who struggle to afford a decent and safe place to live. It affects communities as many essential workers critical to the local economy cannot find housing that is affordable. This creates challenges for businesses looking to hire and retain workers.

With the concentration of the tourism infrastructure in West Hawai'i, much of the investment is concentrated in that region as well. Several stakeholders noted that there is limited intrinsic demand, particularly in areas outside of tourism hot-spots of South Kohala and North Kona. Economic diversification is needed to attract and sustain investment and create demand for real estate development. Industries with potential for further expansion on Hawai'i island include astronomy, renewable energy, and research and development.

# Lengthy entitlement processes, combined with the cylical nature of the market, makes development planning difficult.

As previously discussed, many stakeholders indicated that lengthy entitlement processes and uncertainty associated with it presents numerous challenges for development. From a market demand standpoint, the lengthy entitlement process is particularly challenging due to the nature of real estate markets. Real estate is cyclical, with peaks and troughs. For developers, the timing of bringing product to market is critical to a project's feasibility and success. The lengthy entitlement process and associated uncertainties makes planning the timing of development challenging.

# Greenfield development in areas such as Puna is significantly cheaper than infill development in existing urban areas.

While infill development within existing urban areas presents an opportunity to leverage existing infrastructure and services, it can be costlier for developers and their future tenants or buyers. There is ample land in more rural areas of the island, such as Puna, where land costs are lower. Lower density development in these rural areas are generally more straightforward and cost effective than higher density infill development in urban areas. Developers also understand that the affordability of areas such as Puna is appealing to potential buyers while the added commute time may not be considered significant.

## B. RECOMMENDATIONS

# <u>Diversification in economic drivers in the County is needed.</u> There is limited demand to support new development.

Responsible Party: County, Nonprofit, Private Sectors

Sugar cultivation has been Hawai'i island's most significant economic contributor since the mid-1800's to its peak production in 1983. Since that time, the industry steadily declined, until 1997 when the last sugar operation in Ka'ū closed. Today, agricultural pursuits include cattle ranching and growing of coffee, macadamia nuts, papaya, flowers and nursery products, vegetables, aquaculture, and forestry (County of Hawai'i General Plan, 2005). While agriculture remains an important part of the County's economy, tourism has emerged as the primary economic activity on the island. The majority of visitor accommodations are concentrated in West Hawai'i in South Kohala and North Kona.

## Encourage more developers (nonprofit and for profit) to build affordable housing.

Responsible Party: County, Nonprofits, Private Sector

Affordable housing demand is high across Hawai'i island and the State. In addition to meeting a critical need for local residents, affordable housing development and rehabilitation can be a community and economic development driver. Some developers build affordable housing, as required by the County's inclusionary zoning law (Section 11-4, HCC), while others specialize in affordable housing development. While all affordable housing developed contributes to solving the housing crisis, developers who specialize in affordable housing understand the unique and complex financing mechanisms for such projects. Local Community Development Corporations, such as Hawai'i Island Community Development Corporation (HICDC), have been providing affordable housing in the County for decades. There are other affodable housing developers operating Statewide that do not yet have a large presence in the County. The County may explore ways to attract more affordable housing developers to Hawai'i island. This may include

offering underutilized public land for affordable housing, offering incentives for affordable housing development, or expediting processing of construction permits for affordable housing. Related to the issue of attracting more affordable housing developers to Hawai'i Island, capacity building opportunities for Community Development Corporations can be provided to enhance the organizational capacity of organizations to pursue (re)development activities. This will be discussed further in Chapter IX.

Make vacant and underutilized government owned lands available for affordable housing or other (re)development, especially in or adjacent to urbanized areas with adequate or expandable infrastructure.

Responsible Party: State, County

Vacant and underutilized public lands present opportunities for affordable housing or community and economic development uses through public-private partnerships. Land costs represent a substantial portion of overall development costs and contribution of land by the State or County at a low cost can encourage (re)development. It is noted that a Special Action Team on Affordable Rental Housing, led by the State Office of Planning, prepared the Affordable Rental Housing Report and Ten-Year Plan in July 2018. The Ten-Year Plan included a suitability mapping exercise for affordable rental housing in each County. The study analyzed public and private lands and categorized them into three (3) tiers of suitability and readiness for affordable housing development. Within Hawai'i County, 4,211 acres of lands were identified as "Tier 1" lands that are most suitable for near-term development, including 557 acres owned by the State and 96 acres owned by the County. The County identified a short list of parcels with the most potential to produce the greatest number of affordable rental units in the shortest amount of time. The County of Hawai'i short list included nine (9) publicly owned parcels and one (1) parcel owned by HICDC (State of Hawai'i, Office of Planning, 2018). A list of these nine (9) parcels is provided in Appendix "M".



## IX. OTHER CONSIDERATIONS

Previous chapters of this report discussed (re)development funding and financing, infrastructure, land use policies, entitlements and permits, and market conditions. While many of the issues raised during the stakeholder engagement process can be grouped into these general categories, other comments pertaining to various (re)development considerations were discussed and are presented below.

## A. BARRIERS AND CHALLENGES

# The current process to lease State lands does not incentivize lessees to make substantial improvements on their properties.

The majority of leased State lands in Hawai'i County are in Hilo, and are owned by the Department of Land and Natural Resources (DLNR) and the Department of Hawaiian Home Lands (DHHL). State leases, with the exception of DHHL homestead leases, are limited to terms of 65 years, after which time the properties, and any improvements upon them even if improved by the tenant, revert back to the State for redisposition through the public lands auction process as codified in HRS, Chapter 171.

# There is strong community sentiment expressed about development projects, with a rise in opposition to development noted.

Community members islandwide are becoming more interested in (re)development projects being proposed. Stakeholders have noted a rise in NIMBY ("not in my backyard") sentiment and such opposition can prove challenging to (re)development proposals.

# <u>Challenging site characteristics such as soil conditions and topography increase</u> <u>development costs.</u>

Various site characteristics can present challenges and increase development costs. For example, sites comprised of lava rock or sloping terrains have higher site preparation costs. As another example, stakeholders report that because of soil composition in some areas north of Hilo, the County restricts post-and-pier foundation construction until a soils study is done or otherwise requires large footings to be constructed as part of this foundation type. However, these studies and larger footings can be very costly and so it is often cheaper to construct a concrete slab foundation.

# Natural disasters cause damage to communities and recovery efforts are long and costly.

In the wake of the 2018 Kīlauea eruption, risks associated with natural disasters are at the forefront of the community's mind. Some of the County's more affordable areas, such as

parts of Puna, Kaʻū, and South Kona, are located in areas designated as Lava Zone 1 or Lava Zone 2, which are the highest risk areas for lava hazard.

Beyond volcanic risks, sea level rise, flood hazard areas, and tsunami evacuation areas are concerns for developers. Many in Hilo remember the devastating 1960 tsunami, when a 35-foot wave killed 61 people and destroyed or damaged more than 500 homes and businesses. Today, a large portion of downtown Hilo lies within the tsunami evacuation area.

Developers report that some investors may require owners to carry insurance premium options that insure any property loss during a natural event. These insurance premiums have the potential to significantly increase the base insurance cost which can have a large impact on annual building operating costs.

## B. **RECOMMENDATIONS**

## Encourage amendments to HRS 171 to allow for flexibility for State leases.

Responsible Party: State

Many properties in commercial areas of Hilo are owned by the State Department of Land and Natural Resources (DLNR) and Department of Hawaiian Home Lands (DHHL). The leases are governed by Section 171-36(b), HRS, which establishes a maximum term of 65 years. With many tenants facing lease expirations in the coming years, there is no incentive to construct improvements to the properties. For lessees with month-to-month leases, improvements to the property could result in increased rents. Stakeholders encouraged the State to consider ways to allow greater flexibility for State leases, including potential measures to address challenges tenants face as their lease terms near expiration.

However, it is noted that Section 171-191, HRS, enacted in 2018 as Act 149, establishes the Hilo Community Economic District, a geographically defined area of Hilo wherein the Board of Land and Natural Resources (BLNR) is able to extend State leased lands by up to 40 years upon the approval of a development agreement proposed by the lessee to make substantial improvements to the existing improvements or to construct new substantial improvements. Substantial improvements are defined as any renovation, rehabilitation, reconstruction, or construction of the existing improvements, including minimum requirements for offsite and onsite improvements, the cost of which equals or exceeds thirty per cent of the market value of the existing improvements. As such, an opportunity does exist for State leased lands within the Hilo Community Economic District to have their leases extended if substantial improvements to properties are made.

# Establish a community (re)development stakeholder group to act as a neutral convener.

Responsible Party: County, Nonprofit, and/or Private Sector

As the island of Hawaiii grapples with the challenge of economic growth and (re)development, the role of a neutral convener can promote stakeholder collaboration and community engagement to avoid silos and narrow solutions.

Without one entity or a group of stakeholders to keep the focus on the key issues, to work as a neutral facilitator for the development of innovative solutions, and to drive projects to completion, true redevelopment may struggle to get the lift it needs to effectuate community impact and change. Longitudinal facilitated discussions involving all key stakeholders such as community development practitioners, policymakers, government officials, researchers, and funders (banks, credit unions, loan funds, CDFIs) is a best practice with the intent of moving toward concrete recommendations and actionable steps for (re)development, that wouldn't otherwise be revealed by working independently in the natural silos of business.

The goals of long-term convening can include exploring research and data identifying equitable development tools/strategies to address specific barriers, and forging collaborative partnerships among key stakeholders to implement development strategies.

## **Encourage County collaboration in support of (re)development efforts.**

Responsible Party: County

County agencies also have a critical role in (re)development efforts. As priority areas and projects are identified with specific barriers, County departments should consider their unique role in supporting the creation of additional community and economic development tools that may not yet exist. As previously noted, there are various tools from across the nation that may be considered to support (re)development, such as creating community facilities districts and business improvement districts, developing vacant/underutilized government land, encouraging more flexible zoning, and improving permitting processes. Beyond developing tools to support (re)development, County agencies play an important role in developing and implementing policies affecting (re)development actions within communities as well as reviewing and commenting on proposed projects seeking entitlements. Coordination amongst County agencies in this regard can facilitate implementation of (re)development in support of County goals.

The Hawai'i Redevelopment Agency (HRA) may be the appropriate agency to lead the County's coordinated effort around (re)development efforts. The HRA is granted powers for implementing the State's urban renewal law under Chapter 53, HRS. Pursuant to Section 2-35.1, Hawai'i County Code, the HRA falls within the authority of the Planning

Department. As the lead agency, the Planning Department shall delegate the responsibilities of the Hawai'i Redevelopment Agency to the appropriate departments, commissions, and agencies to insure that the procedures of compliance are adhered to. The Planning Department currently does not have dedicated staff to HRA responsibilities. Should the HRA be tasked with leading and coordinating (re)development efforts, additional resources and staff positions will be needed for implementation.

# <u>Provide Capacity Building Opportunities for Community Development Corporations.</u>

Responsible Party: County

Community Development Corporations (CDCs) are for-profit or nonprofit entities that are created to support and revitalize communities. CDCs most often deal with the development of affordable housing, thus creating jobs for residents, attracting public and private capital investment, and helping to build local leadership capacity. Nonprofit CDCs are tax-exempt and may receive unlimited donations and grants from private and public sources. As such, CDCs provide for tremendous opportunities for encouraging (re)development. The County may explore ways to encourage capacity building for CDCs to become more active. This recommendation is in line with the recommendation presented in Chapter IV regarding capacity building related to community development finance.



## X. NEXT STEPS

The (Re)development Feasibility Assessment synthesized information from stakeholder outreach, suitability analysis, place-specific opportunity analysis, and funding and financing analysis and presented recommendations for consideration to capitalize on (re)development opportunities and mitigate barriers and challenges identified. The recommendations are diverse, covering areas of funding and financing, infrastructure, land use, entitlements and permits, market conditions, and other areas.

There are many stakeholders in government, private, and nonprofit sectors that can play a role in addressing (re)development barriers and challenges. To facilitate a coordinated effort to foster (re)development on Hawai'i Island, encouraging collaboration amongst County agencies and with the private and nonprofit sector is recommended. Several recommendations presented in this report highlight opportunities to establish an organizational and institutional framework to guide initiatives to mitigate (re)development barriers and implement (re)development strategies.

## **Encourage County collaboration in support of (re)development efforts.**

Many County agencies play a critical role in (re)development efforts. In addition to developing tools to support (re)development, County agencies play an important role in developing and implementing policies affecting (re)development actions within communities and reviewing and commenting on proposed projects seeking entitlements and approvals. Coordination amongst County agencies in this regard can facilitate implementation of (re)development in support of County goals. The Hawai'i Redevelopment Agency (HRA) may be the appropriate agency to lead the County's coordinated effort around (re)development efforts. Should the HRA be tasked with leading and coordinating (re)development efforts on behalf of the County, ensuring adequate resources and staffing will be important.

# Establish a community (re)development stakeholder group to act as a neutral convener.

Recognizing that government is only one component of the (re)development picture, an effort to organize a broader group of community (re)development stakeholders is recommended to keep the focus on key issues, serve as a neutral facilitator for the development of innovative solutions, and to drive projects to completion. The County, nonprofit sector, and private sector can all play a role in this endeavor. The goals of long-term convening can include exploring research and data identifying equitable development tools/strategies to address specific barriers, and forging collaborative partnerships among key stakeholders to implement development strategies.

# Given the limited amount of specific community development financial acumen within the municipalities throughout the State of Hawai'i, create a capacity building plan for County departments, local developers and community stakeholders.

Community development finance is an evolving and iterative process that requires steadfast focus on unique and everchanging financing strategies. County and State departments need to have centralized expertise in order to maximize current community development tools and to create new incentives and programs to support (re)development projects in partnership with financial institutions and other key stakeholders. The County may consider retaining LISC or another similarly situated entity, to conduct training to build capacity around community development finance as it relates to funding (re)development projects.

# <u>Provide Capacity Building Opportunities for Community Development Corporations.</u>

Community Development Corporations (CDCs) play an important role in supporting and revitalizing communities. It was noted that there is a limited number of affordable and community development developers in Hawai'i and leadership and succession planning is a key concern for these Hawai'i based organizations. In conjunction with the above noted recommendation, capacity building to support CDCs may promote more active participation in (re)development efforts on Hawai'i Island.

As noted earlier, the challenges and related recommendations span all aspects of (re)development, from funding and financing to entitlements and permitting and infrastructure. Identifying key players and establishing an organizational and institutional framework will allow for a coordinated approach to prioritizing and implementing initiatives to encourage (re)development on Hawai'i Island.



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# HILO STAKEHOLDER MEETING SIGN-IN SHEETS AND NOTES (April 22, 2019)

## **APPENDIX**





# Real Estate Development Opportunities and Challenges on Hawai'i Island Stakeholder Meeting Sign-In Sheet April 22, 2019 | Hilo, Hawai'i

Phone

Email Address

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Affiliation/Company	Zendo Hern Planing Consult.	Am. Trading 6	PJL 11C /	Biz Island Husing Found	Welly Panning, Wer	AL MO	HATD	HOOL	V	4/44	Land Use Commission	Planks	35DC
Name	Food Hen	Chous Matsumura	Lauri Ingari	Sassen Krens	BILL MOOKE	They farm	GERALD TELLO	Levanus McCowles	Dahm Aras	Janta Lamencho	Klancy ( apred	) کر	WILL WILL



# Real Estate Development Opportunities and Challenges on Hawai'i Island Stakeholder Meeting Sign-In Sheet April 22, 2019 | Hilo, Hawai'i

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avestion I Q. Limitations on height etc? Q: Community plans - Need to go where infrastructure ix, e.g. water/fireflow with capacity L Downtown Hito not ideal; Kanselehva has capacity - Bring infrastructure to the site - Traffic determines where businesses go. - Kaumana- water? Link between Hood Kona - wastewater also important - Intractivative a barrier for rural areas Growth should go to Pun/Kea'an , lots of and - Property ownership on Ksue to landowners necessarily know how to develop? - Einited residential in downs wn. Waltability is a desirable trait for residential - Existing infrastructure capacity is a challenge. Moded Upgrades -communication, who has what responsibility? incentive - Opportunity in variety of products offered - something for everyone. - Obviously Banyan Drive - oritial to Hile, Dountown as well. - Geography is a major consideration for new businesses

- DOWNTOWN good for walkability.
- HOUSE LOTS in Wainker - GP has designations for higher density | commercial. Big Island Candies over to Hoc. Has sever, need more water.
- Banyan Drive is critical to Hilo.
- Kandelenda
- Land use boundaries limit dwelopment, especially for bysinesses. Eg. road to Pahoa
- Ponahawai, Wailami prime for development.

- Fandewa to Keaau smetch along highway

- Komoham, (Wailani)

Question 2 (Parriers)

- Government processes,

- lack of ctarity, inconcistenties

- Bldg. permitting

- cost is difficult to estimate (infrastructure)

- carrying cost

- permitting not online (able to dreck on status)

Public / private partnerships dep w/ infrastructure

aligning planning docs. on targeted development w/ private

in vestment in infrastructure

- country more responsibility (P3 financing mechanisms)

- Less risk averse public investments - Fair share program - Antiquated rate structure for Fair Share program . - Infraetructure coets inhibits affordability - Time it takes for acting bldg. permits should be more efficient - too many steps/requirements - county should copy O'ahu's system, specifically automatic approval if his action in Eartain time frame - More clanity in process/regul reeneuts - inspections are time consuming - Availability of capital - worky of banks - Market imbalance. No market to support dor. - Low density in certain areas no infra investment - Transportation issues, specifically for more rurals areas - multi-modal trans Cultural vancor barriers. MIMBYS - Anti-development sentiments. - people who move to file for "quiet" atmosphere Opportunities to get back to objective parspectives. E.g. PC making decisions based on "who yell the lovdest" - Government needs to be consistent! - process issues: at time requirements - Burdan on developers

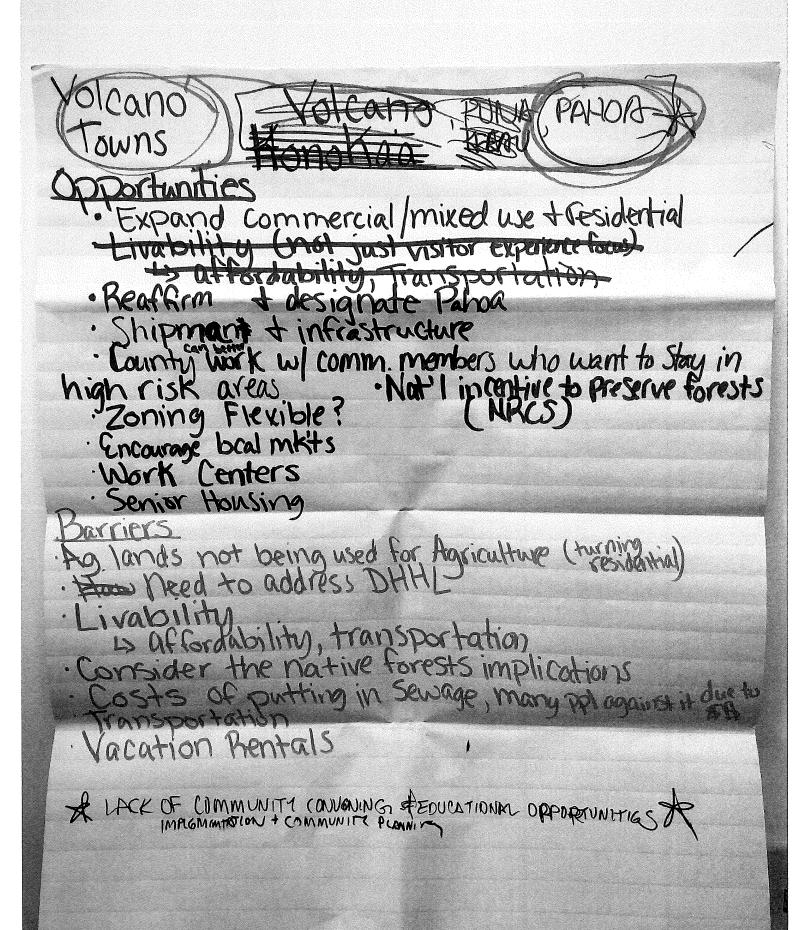
- County Departments - more customer service ethic.

Proactive and facilitative in supporting development.

- Ability to get chapper energy (e.g. pv)

## (Nestion 3 - County to got revolving funds to facilitate un transition - take advantage of (CIDs etc. 10PDs). Why not MFF ! Existing financing mechanisms. - Granks for development." NPD COCs. Can make projects WORK that sometimes private developous cauna, - county danity on processor/ requirements for developous - Having to hire yourcone to navigate process when process is Supposed to serve the public - Flowdharts for entitlements / parmitting (By right development) pathways w/in contain geographic areas - Dealing w/ historic Stes can be a barrier. SHPD courtination - review process is lengthy. I delayed. county's Action Committees can be a barrier cops - ap should be broad/ COPS smuld beless broad - More danty on jurisdiction of AGDP (CPS visavis zoning More residential in downtown A10 / mixed use, MF apportunities Diversity in housing products ) (eg. lofts, ex.) - Courty processes for blighted properties? Waiaken Villas Hilo Hotel - more proactive in addressing blighted bldgs

- Waiatea Villas is an opportunity parting downtown is a barrier/parting management is an issue
- uncertainty in investing in older structures

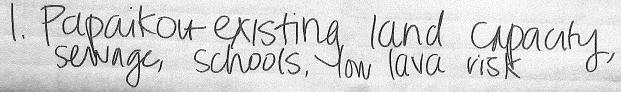


tono Ka'a · Livability (affordability, transportation)
· Zoning is flexible? Water, Schage for town area · Senior Housing, Adult daycare, assisted living · Market small town Hawai'i, Pahoa, Naa Lehu, HonoMa · Farmers Market (For econ. dev.) Holuston, Honokagetc.) Barriers (for all) Permitting processed local & State level)

\*\* Water & waste sewage process - Franspo,

Little is done to incentionse Hib & small town HI to pappieciate 4 develop · Need Historic residential tox incentives (ex. Jahu)
Le looks @ 50% of value rule for rennovations who should we talk to? - State Mistoric Preservation, Hawai'l Historic Places - 41 Historic Foundation ーカイド - Community Dev. Planners (Purposion commissions)
CDPS IN GOOD PROBLEMO PROBLEM AREA

Water, Sewage · Highest Populated our ·Loning \* Look into vacant properties (including \* Mixed use properties, Hib Hotel \* Se \* Mixed use properties, Hib Hotel \* Se \* 2nd story vacant properties in Hilo town \* Parcel across street from Hilo Theater within tsunami zone Revisiting code restrictions, need fluidity Developing in a <u>responsible</u> way (climate) eminary KHailid Keawt Vincent Thou eed Gap financing/ Needs to figure out Capital uses latural Disasters Foods of the R of sestorative funding CHARLES HOTE EXPORT leed more historic preservation ALL STRUCENTIVES (il tox Considerations) SEMAGE, SCHOOL INFRASTRUCTURG



-road/access challenges? X
many bridges
consult with Dot
-challenging community sentiment

2. Pheo-proximity to Hilo. upgrades to sever required. County gave up future extension of Komohana across Wallum

soil issues-applies to many areas

3. Large landowners - some are already undergoing their own planning processes. I focus areas may be more appropriate to select areas w/ many landowners

Shipman - water is largest construint (cost of Storage) - this is an island wide Constroyer.



Constraints

- Duntion to get to "shovel ready"
- Entitlements-Face challenges. "bad guys"
- SHPD

1. Candonners

2. Entitlements Required. — "bad guys"
3. Shovel Ready developers

Hilo retail environment is not good? Service-economy won't be ontsourced. (re restaurants, perconal servis)

CDP process—becoming NIMBY. Hot im driving general plan instead of implementing GP small portion of community involved in CDP process disconnect blun. General public sentment and who participates

POSSIbility of RDA partnership in large landowners? RDA makes more sense w/many landowners

State lease process - Banyan Drive & KIAA disincentivizes reinvestment in property

DHHL/DLNR lease regulations are constraints.
Comprises large portion of property in Hilo.
is fee Simple possible? State should consider selling

Permit and code enforcement

Costly and lengthy

Entitlement process is onerous so people focus on

purmitted uses per zonang

SLUC process - DBA to whom

- current commission is more open to unbanization

- LUC process requires high lard of detail,

clock running, exactions overland,

Greguires smaller increments.

- zoning has similar constraints.

- analyse condit the way conditions of approved are

- Planning Dept. provides recommendations for wordstrons. This can be changed.
More of a performance based

-Planning Dept. Initiative to delay prop tax to which occupancy occurs.

-\$ 2011/19 quasi-legislative

LUC & zoning both set conditions of approval. Conditions from many years ago we no longer relevant

home rule and county & jurisdiction

12. KCOP includes lands classified as AG

ULC Should take direction from county planning

efforts.

Luc but doing regular boundary reviews

Infrastructure—fire flow, water, sower.

DLNR & CNRM permit extension process. Water lease extension.

Building Division—an go on for 2+ yrs.

DOH requires sewer system and no longer allows smaller increments to proceed. 49+ Cots. Sewer WWTP triggers EA/EIS

Underground lines - costly.

economic cycles-entitlement places takes so long that creates challenges when timing market. Boom/Bust residential market.

Puna zoning - Changed affordability

Reeast-Should be more developed, goteway/commental area

Encourage development/density in secertain areas. Mailani Mixed use - Residential Waround floor vetail. — area bolum. Kapiblani & Kimode. Oldside flood zone

Parking requirements-County Should build Structure

Downtown this Multimodal master plan-implement

Parking on Kam Ave.

But euonomically, parking structure down to make sonse-tow/st

Domitourn clients renovate up permits due to code challenges



- Ululani St. Mesor Unned by Cathdir For Church
   Surface parking a on Alendio Stream behind gas st.
   Donal Limited apportunities for local recidents.
- every regulation/condition adds to cost
- thy implications Sewer fees not equitable? Should be hed to Had

Improvement districts - Subdivision improvement district. Similar to Wakiki, KUBIO Can be used for roads, beautification, security, etc. County would administer/Collect fee. Karas comm. Choose Dribrities

KONA STAKEHOLDER MEETING SIGN-IN SHEETS AND NOTES (April 22, 2019) **APPENDIX** 

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# Real Estate Development Opportunities and Challenges on Hawai'i Island Stakeholder Meeting Sign-In Sheet April 22, 2019 | Kailua-Kona, Hawai'i

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Name	Affiliation/Company	Email Address	Phone
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DAVE PURTICAL	SUN GO COMMERCIA		
Denne Bond	SBBC		1000
MERRICK NIGHINGE			\$ 150 miles
Marissa Harman	Kamehamelm Sci.		,
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jours Brace	Bio Island hove Own		
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1

Real Estate

Geographic Opportunities

Should target:
Laupahoehoe-Ogr. tredeu

Kona (Mailuatown) b. Have 1 Characteristics for (re) development: ding for wastemeter infrastructure · Create new Job centers · Hilo & Kona well positioned for innovative zoning · Look at housing inventory (multifamily etc.) · Kea'au - Opp. for relocation of VOR LIBYS · Housing is far from Ag lands Soil classifications not appropriate for Hamai'i · Zouina (Oly indispulal origins to bour Morriso of hollos needs to be updated Entitlement process · Zoning process for Fentals / Airbnb · Dispercement of ppl who are homeless

bona

Palama.

Palamanui \* Waikalog Village - Commercial dev.

Palua loa - (Age. Mansions), Zoning issues | enforcement

Kona international market place

Medevelopment
Opps
· Accessible Attainable

Nousing 1 12 Talk to pol who will actually need affordable

rousing
La Area near colleges
La Housing for millennials
Lallyable, bilkable, exc.
Inventory of infrastructure
Directify Economic Engine
Of community (not just tourism)

Baciers
Values Vision are not Capturing the Entire Communities experience
Lack of housing (affordable)

· Costs for infrastructure · Demographic Sistainability not there

· Focus on "Ag-Mansions" in dev.
· Poodur Completion of

Community & Som not point connect and FORK of inconsists Consider in Longman counsating

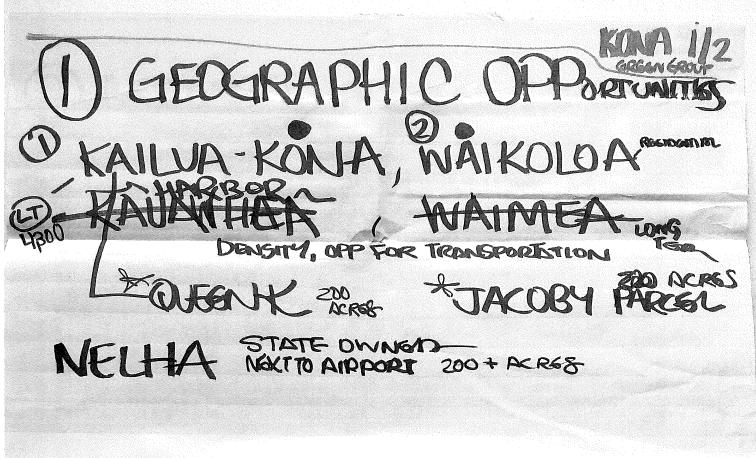
· Traffic Darking · Misinformation of Rules (i.e hozard Mitigation rules etc.) Incentives

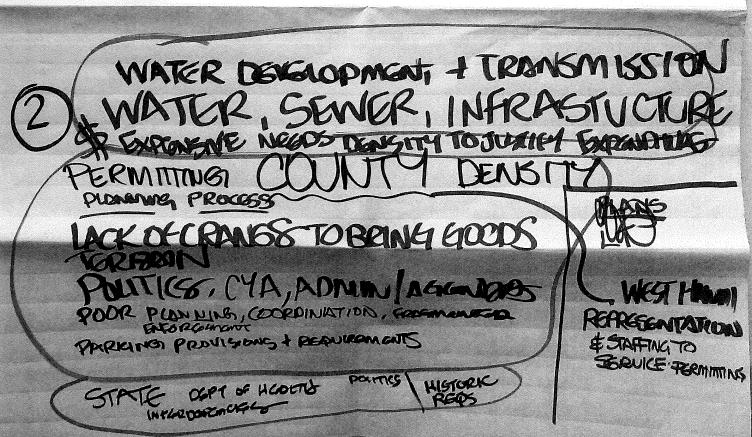
Deps
Parriers

Deportunity 2 one tox break is
Enterprize 2 ones are top long
more locally driven
People not taking advantage of
Look at Overall
Existing incentives

Himing of incentives

Who should we talk to?
Greg Chun
Courty Council members & Other policy-makers
Planning Dept.
Howai'i Community Foundation
Hawii Hawiii Krust
Association of Manpalit Org.
All i Trust





ACTIONS TO ADDRESS BARRIERS

CHESTOK FORES - STREAM UNF PROSS
COUNTY NOWDS TO CAGANIZE, CREATE
A THYEUNG 4 READMAP, BEALCHMARKS
THAT CAN BE ENFORCES.
TO MANY
SUBJECTIVITY TO BE REDUCED ARBITRADE
COUNTY: STATE: MAJOR LANDOWNERS

ECONOMIC INCENTIVES - HAND ACCESS? TOX INTERPREDE
WHAT EXISTS: HOW LEAR ING GERENI MARK? HEDCO
HOW CAN WE MEES ? "CLEAPERN MARK? HEDCO
HOW CAN WE MEES ? "CLEAPERN MARK? TO SOUT STATES OF WANNIN

4) WHO ESSE TO TALK TO?

PALAMA NUI - PRIVATE, SCHOOL - 18 MERS
STANFOR CARR
TSA - GAYPGUCUM
KS/STATE ACREE
DUML HORROR
EVITA PERMITTING TROX FORCE
ON A

PUBLINOPHES, WATER PLANVILLES & FIRE 2 2

1. Geographic Opportunities

- Where people Want to live / work - Koni —— Honokohau, Makalapua, Norta Kona - (Wainea) - Along the coast) Korn vistas -> North to Palisades - (LOKO St. north to Palamanui \* Kona COP is a roadblock to development - Water, Sewer, roadways are important Ali Drive & co convi Grove to Palani Rd. \* Water, pipes in ground but what is availability L Source Capacity issue L requires upgrades - certain areas in South Kond L properly sized, scaled enhancements L properties that auld enhance the areas L'mixed uses; ag., village centurs Kamehavola Investment comp. lands in Keauhou res. Keacher has we treatment capacity more housing droice opportunities in Kearhon # sloping terrains = high construction cost Barrier High site costs affect affordability of product LVOCK LHELW L Historic preservation

- Milled use opportunities - Kealakehe

- Pa'avilo; Hamatva in general - consideration. Kas large landowners. Mission-driven landowners.

- Worth of Wailuku Pivor to Waimea, coil is softer, less construction costs.

- Geology as part of suitability analysis L different mountains / soil types - Water development cheaper in East Hawaii vs. West

- Higher density allowance in urban cares

- variable: understanding of hydrology is evolving

- Emerging opportunities for new sources

- Issue w/ structure of bws and their policies redelivery of water

- County administration's responsibility to provide infrastructure in areas to guide development consistent of development plans - Govt. involvement is tey.

- proporties near Lowes (R. Wheelork owner) apportunity for home, roadway

LOP, Opportunity zone

2 BARPIERS ECOP aspects - Transportation - TOD plan - Water (un predictable) nature of the permitting process - Carrying Costs, -(SHPD) coordination; agency-specific issues; lengthy process of no accountability - Processes which should be ministerial are now treated as discretionary - Time conditions of changes in zoning - SHPD doesn't have staff in Kona, both count approach them, must je through Planning Dept. - (NPS) barriers. Intervene or projects. North Form specifically claims related to hydrology of water. - population. a increases. NIMBS. Planning decisions not objective. - Better alignment boun. RPT Policies of land use.

- Multiple lavels for (permitting (grading /grubbing CHPD coordination) - Building permit process - Once plans approved, should already be permitted Redundancy in parmit processes (e.g., grading) L specifically strp has to see grading permits 2x L subdivisions also require multiple strp reviews VIFWY critical habitat designations add to construction cost

# 3. INCENTIVES

- take lessons learned from agencies that have expedited review process

Minimize DoH CWB taking care of baetton - When LVC conditions follow-up. Too many conditions on redesignations. - Designations should be changed based on desired development.

- General Plans purpose to identify uses and where they should be

- Time conditions on entitlements are an issue. All levels.

- country requirements - redundant when included as Luc 1500 conditions.

- specific parformance requirements as conditions are burdensome



# HONOLULU STAKEHOLDER MEETING SIGN-IN SHEETS AND NOTES (MAY 2, 2019)

# **APPENDIX**





# Real Estate Development Opportunities and Challenges on Hawai'i Island Stakeholder Meeting Sign-In Sheet May 2, 2019 | Honolulu, Hawai'i

Name	Affiliation/Company	Email Address	Phone
fresh Try	1770		
Lova Moora	DLAIR		
Desa Minklemi	HHFDC		
DEEPAK NEUPANE	HHFDC	7.5.	-
CHELSE MANICA			
Mitch Silver	Hart Down		
DIAMA ALLEN	The Kupara Group		
Man an Gusman	CAH		1 ( ;
Michael Shibater	Lili voteloni Trust		
CINCHAL SUMIL	USC	) ) )	
	HCDK		
Figure 70%			
Windows foe	New Nexton		
CRING HIRAI	LIMEDE	. ,	4 1

# Office DEPOT







Item 434-958

# Blue Group

0'AHM 5/2/19

# OPPORTUNITIES

- DHHL lands
- Keaukana
- Panaewa
- Kona Clai Opvas
- Available financing
- HHFDC lands
- Kona (Fa Makana Village)
- Lands across W. Hawai'r civicate. opportunity zone designation
- Hilo Durn
- HPP village nodes per CDC
- Existing Hilo retail / hotel
- Degraded nature of existing built envi
- Kona
- -HILO
- Banyan Drive
- Keaau
- Wainea

- Expiring PLNR leases In 4th (Banyan Drive gard KIA)
- Banyan Drive I Maniloa
- Flat topography
  - Access to intrastructure

# Office DEPOT





25 in x 30 in (63.5 cm x 76.2 cm)

# CHAllenges

- Strange I. U. patterns
- Lack of trainsit
- Lack of Infrastructure
- Water availability
- Degraded nature of existing built env.
- Nortural disasters
- HRS 171
- DLNR land disposition process
- Inability to issue direct leases
- Disincentive for current lessees to invest
- old leases don't have improvement removae veglvinements
- -logislature
- Inflexibility of DLNR leases
- SHPD dreview/agency capacity
- -lot requirements

- Archaeology
- CWRN backup Source requirements
- DWS'S teem Unwilling to proactively lovid
- HRS 343 triggers for DLNR developments
  - DLNR mandate

- Kana wastewater plant future capacity



# Office DEPOT







llem 434-958

# WHAT can be Done

- Adjustments to HRS 171 to allow for extensions
- Adjustments to thes enabling legislation to allow
- Leveraging different funding sources
- Evenptions for public redevelopment
- Diverse housing options (rentals us ownership)
   rent to own / community land trust
- Mindset shift re homeownership us vertal
- Become more knowledgeable of processes of finding
- DLNR make land available for having
- Diverse housing products
- Mindset shift re housing options
- Zol H. process more use of
- Mixed rated win res developments more affordable and subsidizing infrastruture
- Streamlined permitting processes (bldg. of entitlements)

B





Where Rona-res demand.

· high end development strong · middle market challenging · low-income - more financing

· land supply is available and may be eather/cheaper than infill

Barrier

Water - NPS comments re anchibine ponds

Construction costs

Water-high chlondes

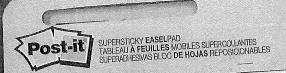
Frentment

· All county incomes are much lower one net rest is lower, lower ROI wigh whity allowances higher development gap.

· Ounstruction costs

· Zoning process longthy

HCDA has done little to speed process on Odni
Circuted another layer





Kona CDP-inconsistency of vanious items ie street requirements.

· Infrastructure costs

· perception that a lot of land held work, which adds another layer

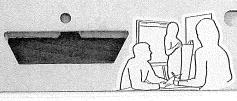
AH-always compenny for Same pot-

· HHFDC development projects based on where State has land

· HHFDC financing - 3 approved LIHTC several applications More Projects Secting financing on Island

· & Commercial demand? Kamakana-cutting commercial Vacancies at existing dev.





25 IN/P0 x 30 IN/P0 63,5 cm x 76,2 cm 5.2 SQ FT/Pl² (0,48 m²) **3M** 

Opportunities Provincent your investors with projects

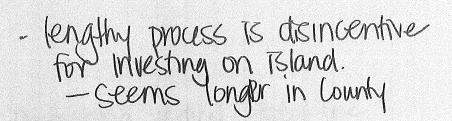
County put up lands that are Underutitized for development.

Pair Drojects - Affordable and market to share infrastructure wsts

· Entitlement process improvements. Streamline process who necessarily forming hew group

> Dead time blun active steps/actions
> Back and forth blun Kona/fillo-was supposed to make · Zoning renewal for non controversize things faster for Project - 4 hearings W. Hamari projects

·Govt. processes in general are lengthy - progreement - land control



a site characteristics
Infill site w/ infrastructure
transit proximity—limited on island

·OZ-length of time for shovel ready status. Competing w/ ent UZs across country

pre-work that could be done to get projects shovel ready

How proactive can County/State be?

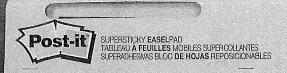
-Identify lands/ projects early
- Soliciting investment

More Coordination blun State/County

DBEDT, DLNR

Roads-safety Sgetting right ppl at table

State us. County





25 IN/PO x 30 IN/PO 63,5 cm x 76,2 cm 5.2 SQ FT/Pl² (0,48 m

31

(5)

- Promoting vertical mixed use hard to find developers for this need right market.
- TIMT as economic engine
- · More efficient transportation born tillo & Kona
- · traffiz improved wopening of they.
- . County target strategrally where they want AH
- · Affricing nine Japanese tourism

HAWAI'I LEEWARD
PLANNING CONFERENCE
MEETING NOTES
(MAY 24, 2019)

**APPENDIX** 



Real Estate Development Opportunities and Challenges

Affordable Hs8 Infrastructure Economics Resilience

5 Focus Areas (Specific Regions/Villages)
Land Use Criteria
Opportunity Zones (OZs) Hilo a Kona

GROUP Discussion

Kona CDP seen as deterrent

Parameters | Criteria erroneous ves Pepeekeo?! No Waikoloa Village?

# Opportunities

Land Ownership

Puna-inc self-helplaffordable housing

\*\*\*Waikoloa Village (need to revisit criteria)

Private H20 Company (more opp than County DWS)

County H20 Bonding Availability

State Funding to East HI

Lots already Zoned sitting undeveloped

Housing - Efficient, Dense

County make Hard Decisions

County make Hard Decisions
Financing Resources - Impact Fees, Bord Financing, Tax Increment Increases
Kona Old Industrial Area (need County proactive)
Palamanui (County as barrier)
201 H Process (need public buy-in)

# CHALLENGES COST, PROCESS, REQ'TS USE Gen Plan, Permitting County H20 County-Banyan Drive SHPD - Archaeologica / Regts - Obsolete Opportunities but NO continuity | Need Leadership Lack of Collaboration W Land Owners, etc. Natil Fire Code Urban Design Criteria on Rural Infrastructure County Interpretation or Need County build infrastructure State Control us Home Rule Costs of new State policies, reqts Inconsistent rules, process, interpretations barbitrary H2O In/Out (Potable/Waste) Trend to shorten timeline for development/zoning conditions .. capital | finance apportunities blocked by lack of clear path Ministerial vs Regts for Concurrency - Upfront Infrastructure (Cannot quantify) Residential cannot support necessary infrastructure commercial dev DPW-DPP - Communications (lack thereof) Contractors cannot find housing, storage Sea Level Rise, Other Hazards

Grubbing Permit (Interpretation, Response DPW)

Weed to update

bldg and other code,

Short respecting 45 days

SAPD hold up Need to move

# STAKEHOLDER MEETING KEY TAKEAWAYS

**APPENDIX** 



### Stakeholder Meetings Key Takeaways

Recognizing that being located in the County and engaging in the development world yields valuable knowledge as to what the (re)development opportunities and challenges are, stakeholder engagement was crucial to the analysis.

The stakeholder engagement component of the analysis involved reaching out to developers, landowners, planners, real estate agents, finance specialists, and other interested parties and inviting them to participate in a number of stakeholder meetings held in Hilo, Kona, and Honolulu. The Hilo and Kona meetings were held on April 22, 2019, and the Honolulu meeting, for those interested parties located on Oʻahu but with development interests on Hawaiʻi Island, was held on May 2, 2019. An additional stakeholder meeting for the membership of the Hawaiʻi Leeward Planning Conference (HLPC), an organization who advocates for sound planning decisions for Hawaiʻi Island, was held on May 24, 2019.

Below are key takeaways from these meetings.

### Where are the (re)development opportunity areas?

NO.	AREA	NO. OF COMMENTS
1	Kona	6
1a	Pālamanui	3
1b	Hōlualoa	2
1c	Kamakana Village	2
1d	Laʻi ʻŌpua	1
1e	Ali'i Drive	1
1f	Kona Palisades	1
1g	Kona International Marketplace	1
1h	Old Kona Industrial Area	1
1i	Lands across West Hawai'i Civic Center	1
2	Hilo	3
2a	Banyan Drive	5
2b	Downtown Hilo	3
2c	Ponahawai Street	1
2d	Haili Street and Keawe Street	1
2e	Vacant buildings/retail spaces in Downtown Hilo	1
2f	Parcel across the street from the Palace Theater	1
2g	Area between Kapiolani and Kinoole Streets	1
2h	Pu'ueo	1
2i	North of Wailuku River	1
2j	Wailani	3
2k	Kanoelehua	2
21	Expired/ing State leases	1
2m	Pana'ewa	2
2n	Naniloa Golf Course	1

NO.	AREA	NO. OF COMMENTS
20	Waiākea House Lots	1
2p	Keaukaha	1
2q	Waiākea Villas	1
2r	Existing Hilo retail/hotels	1
3	Kea'au	4
4	Waikoloa	3
5	Waimea	3
6	Puna	2
7	Pāhoa	2
8	Honoka'a	2
9	Volcano	1
10	Nā'ālehu	1
11	Honomū	1
12	Pāpa'ikou	1
13	Kawaihae	1
14	Pa'auilo	1
15	Laupāhoehoe	1
16	Pepe'ekeo	1
17	South Kona	1
18	Keauhou	1
19	Hawaiian Paradise Park	1
20	General Comments	
20a	Wherever infrastructure is readily available	3
20b	Proximity to transit	2
20c	Area near colleges	1
20d	Along the coast	1
20e	DHHL Lands	1
20f	HHFDC Lands	1
20g	Areas with flat topography	1
20h	Opportunity Zones designations	1
20i	Undeveloped lots with existing zoning	1
20j	Degraded nature of existing built environment	1
20k	Underutilized County lands	1
201	Small landowners and collaborative redevelopment efforts	1
20m	Build and expand private water systems	1

## What are the barriers to (re)development?

NO.	COMMENT	CATEGORY	NO. OF COMMENTS
1	There is low infrastructure capacity and high costs associated with development of new systems.	Infrastructure	14
2	Poor traffic flow, inadequate transportation systems, road and access challenges	Infrastructure	9
3	Poor water system availability in some areas, not enough source to expand systems	Infrastructure	9
4	Wastewater systems inadequate, not available in some areas	Infrastructure	6
5	Lack of parking availability and management, particularly in downtown Hilo	Infrastructure	4
6	Low density in some areas, so less investment in infrastructure	Infrastructure	2
7	DWS policies regarding delivery of water and unwillingness to proactively build systems unconducive to development	Infrastructure	2
8	DLNR and CWRM permit extension process - water lease extension process is unknown	Infrastructure	1
9	Not enough system capacity to meet fire flow requirements	Infrastructure	1
10	CWRM system redundancy requirements are burdensome	Infrastructure	1
11	The cost to place utility lines underground is high	Infrastructure	1
12	Water source development cheaper in East Hawaii versus West Hawaii due to soil considerations	Infrastructure	1
13	County administration not fulfilling their responsibility to provide adequate infrastructure	Infrastructure	1
14	Arduous, lengthy, costly building permitting processes	Entitlements and Permits	13
15	Lengthy entitlement processes	Entitlements and Permits	7
16	Lengthy SHPD review process and no agency accountability on timeliness of reviews; lack of staff especially in Kona	Entitlements and Permits	7
17	Lack of clear, consistent government processes with regards to entitlements	Entitlements and Permits	5
18	Multiple levels of permitting creates redundancy in reviews and conditions	Entitlements and Permits	3
19	LUC and County zoning conditions are redundant and out of date	Entitlements and Permits	2
20	Time conditions on entitlements are burdensome	Entitlements and Permits	2
21	Archaeological review requirements (HRS 6E) are stringent	Entitlements and Permits	2

NO.	COMMENT	CATEGORY	NO. OF COMMENTS
22	Lack of county staff in West Hawaii to service permitting	Entitlements and Permits	2
23	Ministerial permitting processes being treated as discretionary	Entitlements and Permits	2
24	Increasing federal agency intervention on entitlement processes, particularly NFS, NPS, USFWS	Entitlements and Permits	2
25	Arduous and lengthy SLUC process, particularly DBAs to Urban	Entitlements and Permits	1
26	LUC jurisdiction - should take direction from county planning documents	Entitlements and Permits	1
27	HRS 343 requirements for DLNR development slows process down	Entitlements and Permits	1
28	DOH sewer system requirements trigger EA requirements, which is a lengthy and costly process	Entitlements and Permits	1
29	CDP process (particularly Kona) - driving general plan instead of implementing it	Land Use Policies	6
30	Land use boundaries limit development, especially for businesses (e.g. accessibility)	Land Use Policies	2
31	Values/vision of planning documents do not capture the entire community's experience	Land Use Policies	1
32	Ag. lands not used for ag.	Land Use Policies	1
33	Housing is located far from ag. lands - inefficient for farm workers	Land Use Policies	1
34	Lack of housing affordability	Market	3
35	Hilo retail environment is not good	Market	1
36	Lack of demographic sustainability	Market	1
37	Hawaii County incomes are lower, net rent is lower, lower ROI	Market	1
38	Market imbalance - no market to support development	Market	1
39	Overall construction costs are high	Market	1
40	Limited residential in downtown Hilo, people like walkable neighborhoods	Market	1
41	Boom/bust residential market - entitlement process takes so long that it's difficult to predict market	Market	1
42	HHFDC financing - high demand and not enough funding available	Financing	1
43	Opportunity Zone funding - competing with projects across the country	Financing	1
44	Opportunity Zones - lengthy process to get projects shovel ready	Financing	1

NO.	COMMENT	CATEGORY	NO. OF COMMENTS
45	Soil issues and topography - high cost of development for site prep (e.g. grading and removal of rocks)	Locational Considerations	4
46	Natural disasters cause damage to communities and recovery efforts are long and costly	Locational Considerations	3
47	Geography is a major consideration for new businesses (e.g. easily accessible, near other businesses and residential areas)	Locational Considerations	1
48	State lease process (HRS 171) - disincentive for existing tenants with expiring leases to invest in older buildings, inability to issue direct leases is burdensome	Other (State Lands)	6
49	Cultural barriers, NIMBYs, challenging community sentiment regarding development	Other (Community)	4
50	No enforcement/regulation of vacation rentals	Other (Enforcement)	2
51	Lots of blight in downtown Hilo (i.e. Hilo Hotel)	Other (Blight)	1
52	Degraded nature of existing built environment	Other (Blight)	1
53	Landowners unknowledgeable about development processes	Other (Capacity in the Development Pipeline)	1
54	Contractors are unable to find housing and storage for equipment	Other (Capacity in the Development Pipeline)	1
55	Inefficient fair share program with an antiquated rate structure	Other (Concurrency & Infrastructure Requirements)	1
56	Lack of communication and collaboration between County departments	Other (County Capacity)	1
57	Lack of permit and code enforcement leads to unsafe and unsightly developments	Other (Enforcement)	1
58	HHFDC development projects based on where State has land, does not benefit all	Other (State Lands)	1
59	No alignment between RPT policies and land use (e.g. assessing taxes based on zoning)	Other (Tax Policy)	1

### What can be done to capitalize on (re)development opportunities and overcome barriers?

NO.	COMMENT	CATEGORY	NO. OF COMMENTS
1	Streamline and simplify building permit processes to foster efficiency and a "customer service" focus.	Building Permits	5
2	Encourage the County to provide clarification on permitting/entitlement processes (e.g. flow charts).	Building Permits	1
3	Recognize the Thirty Meter Telescope as an economic engine.	Capacity Building and Partnership	1
4	Educate landowners about available financial redevelopment incentives.	Capacity in the Development Pipeline	2
5	There are many lots that are vacant and that presents opportunities for development.	Capacity in the Development Pipeline	1
6	Encourage Redevelopment Agency partnerships among landowners.	Capacity in the Development Pipeline	1
7	More non-profit organizations/community development corporations - can make projects work that governments can't	Capacity in the Development Pipeline	1
8	Encourage more coordination between State and County agencies.	County Capacity	1
9	Encourage the County to create a timeline and roadmap of benchmarks that can be enforced (e.g. streamlined permitting processes, updates to plans etc.)	County Capacity	1
10	Develop county processes for dealing with blighted properties	Enforcement	1
11	Legislative amendments to HRS 343 to allow for more exemptions for public development.	Entitlements	1
12	Put more responsibility on the county to leverage different financing mechanisms (e.g. CID/CPD/TIF).	Financing	6
- 13	Encourage mixed-income developments to share infrastructure costs.	Financing	2
14	Opportunity Zone designated areas and connecting investors with projects.	Financing	2
15	Encourage public/private partnerships to fund projects.	Financing	1
16	Establish business/community improvement districts to allow for revitalization of areas.	Financing	1
17	County DWS has the ability to bond water system improvement projects.	Financing	1
18	Amendments for enabling legislation to allow for greater use of tax increment financing, particularly by the County.	Financing	1
19	Due to an evolution of understanding of hydrology, there are opportunities for new water sources.	Infrastructure	1
20	Encourage the County to develop an infrastructure plan with prioritization of projects.	Infrastructure	1
21	More efficient transportation between Hilo and Kona.	Infrastructure	1
22	Allow for more flexible zoning.	Land Use Policy and Settlement Patterns	3
23	Allow for the expansion of commercial/mixed use and residential developments.	Land Use Policy and Settlement Patterns	1

NO.	COMMENT	CATEGORY	NO. OF COMMENTS
24	Encourage vertical mixed use developments.	Land Use Policy and Settlement Patterns	1
25	Designate land uses based on desired development.	Land Use Policy and Settlement Patterns	1
26	Encourage more alignment between development and planning documents.	Land Use Policy and Settlement Patterns	1
27	Encourage the County to strategically target where they want affordable housing.	Land Use Policy and Settlement Patterns	1
28	Establish by right development pathways within certain geographic areas (e.g. if it follows zoning code, it does not need planning commission approval).	Land Use Policy and Settlement Patterns	1
29	General Plan should identify desired uses and where they should be located.	Land Use Policy and Settlement Patterns	1
30	Encourage the County to work with community members who want to stay in high risk areas (e.g. eruption recovery efforts).	Natural Disasters	1
31	Offer a variety of housing products to cater to all income levels.	Residential Development	6
32	Encourage more use of 201H process for housing development.	Residential Development	2
33	Encourage the DLNR to make land available for housing development as this is part of their mandate.	Residential Development	1
34	Legislative amendments to HRS 171 to allow for flexibility of State leases.	State Leases	1
35	Provide more tax incentives.	Tax Policy	4
36	Consideration of changing property tax assessment rate after a rezoning action to when occupancy occurs	Tax Policy	1

# STAKEHOLDER INTERVIEW SUMMARIES

**APPENDIX** 



### Real Estate Development Opportunities and Challenges in Hawai'i County

### Stakeholder Interview Summary

**Interviewee(s):** Mary Begier, Mary Begier Realty

Interviewer(s): Bryan Esmeralda, Munekiyo Hiraga

Date of Interview: June 6, 2019

### **Summary of Discussion**

# 1. In town/village centers you are familiar with, where is the opportunity for real estate development and redevelopment?

- Waiakea House Lots. There is a disconnect between the General Plan and Community Development Plan; previous administrations have designated this area for industrial uses, however, residents do not want industrial uses in their neighborhood and are investing in improvements to their dwellings. Lots of older homes in good shape.
- Neighborhood between Kilauea Avenue and Kinoole Street, and Hualalai Street and Hoku Street in Hilo. Although these lots are smaller, lots of potential for residential redevelopment.

### 2. What are the barriers to (re)development of prime areas or sites?

- Lack of communication and collaboration between County departments.
- Lengthy entitlements and permitting processes. Especially for kit homes; the County should not have to review them time and again.
- Construction limitations because of soil composition. For example, because
  of soil composition north of Hilo, the County restricts post-and-pier
  foundation construction until a soils study is done. These studies can be
  very costly for homeowners. Often times it's cheaper to construct a concrete
  slab foundation.
- No affordable homes are being built because there's no profit in it for the developer. Also, sometimes affordable housing projects have more hoops to jump through, particularly if they utilize Federal funding.
- No affordable homes being built in Hilo although there is a demand.

# 3. What can be done to capitalize on the (re)development opportunities and overcome the barriers?

- The economy needs to improve and be appropriate so that developers can move their inventory.
- Affordable housing developments should be more incentivized.
- The County should look into expediting the rezoning process.

### Real Estate Development Opportunities and Challenges in Hawai'i County Stakeholder Interview Summary

Interviewee(s): Andrew Choy, Department of Hawaiian Home Lands (DHHL)

Interviewer(s): Tessa Munekiyo Ng and Bryan Esmeralda, Munekiyo Hiraga

Date of Interview: May 23, 2019

### **Summary of Discussion**

# 1. In town/village centers you are familiar with, where is the opportunity for real estate development and redevelopment?

- Hilo DHHL General Leases issued between the 1960s and 1980s will be expiring over the next 10 or so years. This presents an opportunity for redevelopment.
  - General Leases are issued after putting out a Request for Proposals.
     Therefore, whomever gets granted leases has the responsibility of maintaining any existing improvements.
- Homestead lands in West Hawai'i.
- Commercial lands in Kona.

### 2. What are the barriers to (re)development of prime areas or sites?

- Water is the biggest development constraint.
  - Lack of water credits available to DHHL. Per the State Water Code, water in the ground is reserved for DHHL, however getting the water to users is a challenge. Developers, including DHHL, are required to pay for source, storage, and transmission systems.
  - Department of Water Supply (DWS) policy regarding well development states that for total capacity of well, only 2/3 is able to be pumped, the remaining 1/3 must remain for redundancy purposes. Of the 2/3 that is pumped, DWS takes 2/3 for their system. As a result, the amount of water left for developers is limited.
- Subdivision standards are strict.
  - In rural areas, it is difficult to get TMK numbers assigned to subdivisions if subdivision standards are not met (e.g. roadway standards). The subdivision standards may not differentiate between urban areas and rural areas.

# 3. What can be done to capitalize on the (re)development opportunities and overcome the barriers?

- Encourage DWS to adopt less strict policies for public agencies and for developers who provide affordable housing and other community benefits, or partner with these developers to share costs of system development.
- West Hawai'i is upgrading the Kealakehe Wastewater Treatment Plant to increase capacity and to produce R-1 water. Incentivize developers to connect to the R-1 system by giving water credits in exchange for use of R-1 as this results in less demand for potable water.
- Encourage the County to look at relaxing subdivision standards for rural areas.
- County should continue working with DHHL.
  - County Community Development Plans provide DHHL with a sense of what the communities want so that DHHL can design projects to fit into the existing community so as to avoid conflicts with community members.
  - County and DHHL have a Memorandum of Understanding wherein the County will rezone DHHL lands to be consistent with their Hawai'i Island Plan designation.
  - Allow DHHL to develop below subdivision standards in rural areas, particularly for roadways, if DHHL maintains improvements, with the exception of providing adequate access and roadways for emergency response.

### Real Estate Development Opportunities and Challenges in Hawai'i County

### Stakeholder Interview Summary

**Interviewee(s):** Peggy Farias and Kimo Lee; W.H. Shipman, Ltd.

Bill Moore, William L. Moore Planning, Inc.

Interviewer(s): Ron Whitmore and Princess Agina; County of Hawai'i

Date of Interview: May 6, 2019

### **Summary of Discussion**

# 1. In town/village centers you are familiar with, where is the opportunity for real estate development and redevelopment?

- There is concern regarding a continuing pattern of the County and others taking part in planning activities for privately-owned land without consulting the landowner. W.H. Shipman is happy to work with the County, but needs to be ensured that they will have a significant role when it comes to planning processes that affect Shipman lands and development plans. W.H. Shipman is a single large landowner in Kea'au, and is currently pursuing planning and entitlement efforts for its lands, thus may be further along in the planning process than as a potential focus area for this study. However, it is noted that the ongoing planning and entitlements efforts for Shipman lands in Kea'au may assist the County and consultant team in identifying and addressing development challenges.
- Keauhou Workforce housing demand

### 2. What are the barriers to (re)development of prime areas or sites?

- Code concurrency requirements
- Timing of traffic study requirements has to be within 6 months of application
- Arduous, time-specific conditions are hard to follow given timing between zoning approvals and desired build out
- Arduous staff-driven conditions on Change of Zoning/Project District approvals
- Infrastructure Capacity and Availability
  - Water source availability and system development
  - Inflexibility of roadway standards
  - Wastewater system availability and capacity
- Two major upfront costs: water and wastewater systems development
- Hawai'i Revised Statutes, Chapter 343 compliance
- Having to coordinate with multiple County departments

# 3. What can be done to capitalize on the (re)development opportunities and overcome the barriers?

- County Alignment. There are opportunities to work with the County to preempt zoning. Coordination with Community Development Plan, Disaster Recovery Plan, General Plan, and other economic development goals etc. Provide transit centers/hub in the center of town. Rebuild inadequate roads. The goal is to have a solution in-between opposing ideas, consideration of costs, and listening to a diversity of perspectives.
- Use of Project District designation flexible standards
- Having multiple design goals that balance aesthetics and usability
- Commitment to customer service needs to be consistent throughout all County staff members instead of being fragmented. Need more interdepartmental and stakeholder collaboration and integration.

### Real Estate Development Opportunities and Challenges in Hawai'i County

### Stakeholder Interview Summary

**Interviewee(s):** Peggy Farias and Kimo Lee, W.H. Shipman, Ltd.

Interviewer(s): Bryan Esmeralda, Munekiyo Hiraga

Date of Interview: June 18, 2019

### **Summary of Discussion**

# 1. In town/village centers you are familiar with, where is the opportunity for real estate development and redevelopment?

- Puna. This region of Hawai'i Island is the fastest growing with the fastest growing tax base, although it has the least amount of infrastructure. County should invest in this area.
- Kea'au makes sense to place needed services to serve the Puna region as it is located at a crossroads relative to all areas.
- No other opportunity areas on Hawai'i Island in regards to residential development other than Kea'au; there is enough demand everywhere else on the island.
- The Kea'au community is transitioning to become more mainstream in terms of services offered and job opportunities. As such, Kea'au should be targeted for residential development to accommodate future demands.
- Existing schools, commercial space, and major roads make Kea'au ideal for careful development.

### 2. What are the barriers to (re)development of prime areas or sites?

- Entitlement processes, particularly Change of Zone, is lengthy. There is too much back and forth with the Department of Planning. Long, drawn-out processes are also costly to the developer.
- Other agency processes are also time consuming, such as State Historic Preservation Division.
- Lack of infrastructure availability increases costs for the developer.
   Sometimes the cost is so prohibitive, that developers abandon projects because they don't pencil out.
- Interpretation of the general plan has a tendency to become cumbersone, which inhibits development.
- Planning on Hawai'i Island has become more about what you can't do and what people don't want. One or two dissenting voices can derail an entire project.

- Government should collaborate with landowners and developers in order to provide services to the communities. For example, W.H. Shipman is willing to provide land for community needs, include infrastructure.
- The County should be more balanced in talking to the community and large landowners about planning processes underway. Include everyone in the conversations. There needs to be more equity. Avoid making plans for private lands without including landowner from the beginning of the process.
- County ordinance needs improved clarity, with enough flexibility to allow for high quality innovation. Mixed messages from different County departments create frustration and inhibits development.

## Real Estate Development Opportunities and Challenges in Hawai'i County

### Stakeholder Interview Summary

Interviewee(s): Joel LaPinta

Interviewer(s): Tessa Munekiyo Ng and Bryan Esmeralda, Munekiyo Hiraga

Date of Interview: June 3, 2019

### **Summary of Discussion**

1. In town/village centers you are familiar with, where is the opportunity for real estate development and redevelopment?

#### Waikoloa

- Infrastructure in Waikoloa was developed in the early 1970's. Water and wastewater systems are both privately owned.
  - West Hawai'i Water Company has a new well coming online which will increase pump capacity to 11 million gallons per day.
- Land is zoned for residential and commercial development. Because zoning was established in the 1960's, there are no conditions of zoning, which makes development easier.
- Lots of residential development occurring in Waikoloa. Ikaika Ohana is building an affordable housing project consisting of approximately 60 units.
- Because of the resort areas along the coast, there are lots of job opportunities for residents. This creates demand for affordable housing.
- Because of the rate at which Waikoloa is developing, public funds should be allocated there. Particularly for needed roadway improvements including providing the village with a second access.
- There is market demand in Waikoloa and the price points are high enough for developers to get a return on capital.
- See attachments regarding Waikoloa.

#### Pepe'ekeo

- Pepe'ekeo is a bedroom community for Hilo and does not represent a significant opportunity for development/redevelopment.
- Pepe'ekeo is not easy to develop due to configuration of parcels, topography, and other factors. There may also be a limited water supply.
- Joel developed a residential subdivision in Pepe'ekeo in the 1990s. The market study indicated there would be demand for first time homebuyers. The biggest source of competition was from Hawaiian Paradise Park where people could get 1-acre lots at affordable prices.

#### 2. What are the barriers to (re)development of prime areas or sites?

- Land Use Commission (LUC) processes are arbitrary and redundant. Sometimes decisions rendered by LUC result in negative consequences.
  - o For example, previous developer of the Sunrise Ridge subdivision in Hilo did not want to comply with the LUC's typical requirement at that time of providing 60 percent affordable units as part of a planned district boundary amendment, so they developed 1-acre lots instead of a higher density development that would have been possible if the land use designation was reclassified to Urban.
  - o More development could occur if LUC processes were not so onerous.
  - Time frame for complying with zoning conditions is too short. Five years is not enough time given the investigations, design, engineering and opportunities for public participation required to bring a project to the stage that it is ready for development then have the luck to encounter the right combination of market conditions for both the real estate and the capital markets. The five year time frame that is in favor with the lawmakers these days is simply an arbitrary period. Time frames set by deliberative bodies like the County Council need to be justified on evidence and not simply picked for the convenience of the legislators.

- Pass legislation to change LUC processes.
- Allocate public funds for additional infrastructure to support growth in Waikoloa.

## Waikoloa Potential Residential Development

#### Waikoloa Potable Water

According to Hawaii Water Service Company, manager of the water system servicing Waikoloa Village and the Waikoloa Beach Resort, there are currently 7 wells operational capable of producing 10 MGD and an 8th well that is being outfitted at this time to be completed very soon which will raise production to 11.4 MGD. With the 8th well in place, based on the criteria the company uses to calculate effective production having the 2 largest wells out of service, the effective production is calculated at 8.3 MGD. Present demand is 5.0-6.0 MGD.

#### Water Source Sustainability

Regarding the sustainability of the sources for Waikoloa's water, Waikoloa straddles the Waimea and Anaehoomalu aquifers. The two aquifers have a combined sustainable yield (SY) of 54 MGD according to the current Water Resource Protection Plan (WRPP) 2008 and 46 MGD SY according to the 2019 Draft WRPP published October 2018 for public review. As of Dec 2016, users were pumping ~19 MGD as reported in the Draft WRPP. The projected future use for the two aquifers to supply residential needs based on zoning is 24.79 MGD (See Table H-35, of Water Resources Protection Plan 2019 Update).

## Hawai'i Water Plan WATER RESOURCE PROTECTION PLAN (WRPP) 2019 UPDATE Public Review Draft October 2018

(Aquifer Code Number) Aquifer	Sustainable Yield (SY) (MGD)	Existing Water Use (MGD)	SY minus pumpage (MGD)	Existing Water Use as a Percent of SY	
System		12 MAV			
(80301) Waimea	16	13.83	2.17	86.4%	
(80701) 'Anaeho'omalu	30	5.45	24.55	18.2%	
Combined 80301 & 80701	46	19.28	26.72	41.9%	

MGD means Million Gallons per Day

MAV means Million gallons per day Average Volume used

Pumpage = MAV(?)

RAM means Robust Analytical Model

(Data source for table is the WRPP, 2019 Update, Appendix H, Pages 25 & 71)

#### Jobs & Job Growth, Waikoloa

Waikoloa is located near the resort areas of S. Kohala which as a primary industry creating a wide range of jobs associated with the vacation and resort housing industry. Another industry that is soon to expand in the area will create jobs in the energy field. Hawaiian Electric has already accepted the proposals for two utility scale solar voltaic plants with battery storage totaling 55MW near Waikoloa Village. The Power Purchase Agreements have been approved by Public Utility Commission. Hawaiian Electric is issuing a second round of RFPs for the area. We anticipate another 80MWs to be added to what is already proposed. More solar voltaic will likely be developed and there is suitable land available. There will be increased demand for electric power from these sources not only from build out of the currently planned resort housing but also as the vehicle fleet of the island transitions from being powered primarily by internal combustion engines to electric motors.

#### Available Zoned Lands Waikoloa Village

I have attached a spreadsheet showing the major landholdings within the Urban District of Waikoloa Village for undeveloped residentially zoned land. This does not include commercial zoned parcels on which residential may be a permitted use.

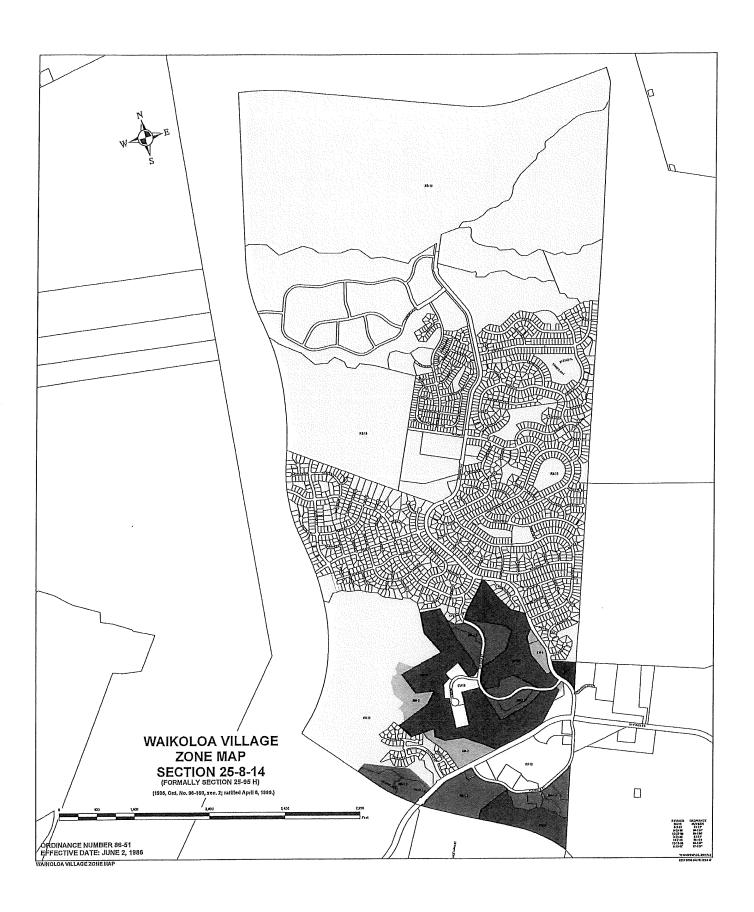
My total estimate is 4,980. The estimate takes into consideration that:

- 1) the largest land holdings of 867 acres has a private recorded covenant limiting its residential density to 2,025; and
- 2) the County's Kamakoa Nui project has the number of units already planned; and
- not all the zoned density is possible on the unplanned parcels based on limitations due to topography, drainage, required interior roads, open space, and other site-specific limitations for development.

I've attached an Excel spreadsheet with data and my estimates.

(BTW, the estimated number of 4,980 would require ~3MGD of water per day at the rate of 600GPD per residence.)

Tax Map Key	Project Name	Owner	Land Area Zoning	Zoning Density E	Estimate	Planned	Г
6-8-2-27	Kikaha	Castle & Cooke Waikoloa LLC	214.27 RS-10	33	488	1	488
6-8-37-60	Makani Kai	Castle & Cooke Waikoloa LLC	8.003 RM-1.5	232	102	. Ц	102
6-8-41-1 6-8-41-2 6-8-41-3 6-8-41-4 6-8-41-6 6-8-41-7 6-8-41-9 6-8-41-10 6-8-41-10 6-8-41-10 6-8-2-22 6-8-2-46 6-8-2-47	Kamakoa Nui Waikoloa Heights aka Keolalani	County of Hawaii	19.65 39.72 8.12 11.99 7.82 31.78 27.13 12.06 80.99 0.312006428 0.660996327 240.2330028 578.59 RS-10 36.88 39.24	1,200	1200	12	1200
b-8-2-49			54.58 867.23	3,777	2025	20	2025
6-8-2-40		Waikoloa Development Co.	179.9 RS-10	783	626	ΔN	П
6-8-2-28		Ikaika Ohana	4.6 RM-1.5	134	64	NA	Τ
6-8-3-29 6-8-2-31 6-8-3-32 6-8-2-36 6-8-3-37	·	Waikoloa Mauka Land Corp	4.6 RM-1.5 3.71 RM-1.5 27.74 RM-1.5 3.28 RM-1.5 2.3 RM-1.5	134 108 806 95 67	80 64 322 57 57	N N N N N N N N N N N N N N N N N N N	
6-8-3-41			29.61 OPEN 71.24	0			T
Total of Estima Total of Zoned	Total of Estimated Residential Units (estimate) Total of Zoned Residential Units (approximate	Total of Estimated Residential Units (estimate) Total of Zoned Residential Units (approximate calculation)	+7.7	8,268	5,068		
							ı



Interviewee(s): Joel LaPinta

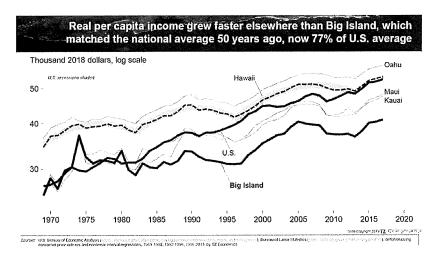
Interviewer(s): Ron Whitmore, County of Hawai'i

Date of Interview: July 1, 2019

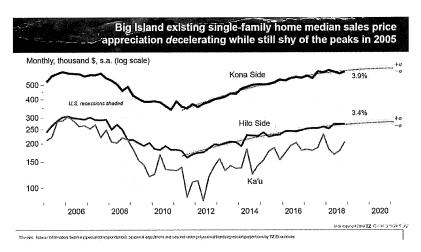
## **Summary of Discussion**

## What are the barriers to (re)development of prime areas or sites?

There is a fundamental gap between income and purchasing power on Hawai'i Island



 Single-family home median sales price appreciation decelerating, meaning that residents are being driven outside of existing town/village markets into nonconforming subdivisions.



Interviewee(s): Jim McCully; McCully Works

Interviewer(s): Tessa Munekiyo Ng and Bryan Esmeralda; Munekiyo Hiraga

Date of Interview: May 20, 2019 (via phone)

## **Summary of Discussion**

## 1. In town/village centers you are familiar with, where is the opportunity for real estate development and redevelopment?

- Banyan Drive. Banyan Drive is the heart and face of Hilo and needs to be revitalized.
- Vacant State Lands. There are many acres of open State lands around Hilo town in proximity to infrastructure systems, particularly in the vicinity of the airport, and other areas along Kanoelehua Avenue. These lands have sat vacant and undeveloped for years.
- E. Hawai'i has the lowest cost of development in the state. Lower cost housing is available compared to other counties, which is an economic development advantage. As a result, it is often cheaper to develop in the Puna area (i.e., Hawaiian Pardaise Park, Orchidland, Hawaiian Acres) than to redevelop properties in Hilo. There is still a lot of supply of land in Puna and the commute time is not much different.
- Hilo cannot compete with cheaper greenfield development. Horizontal development is simpler than vertical (more dense) development.

## 2. What are the barriers to (re)development of prime areas or sites?

- Inconsistent and redundant land use regulations at both the State and County levels make development a challenge.
- For the most part, the island lacks drivers for intrinsic demand. Most demand is focused in West Hawai'i. Investment in other areas is largely passive investment.
- The cessation of sugar production along the Hāmākua coast left many large agricultural lots empty. Because of this, agricultural production in the area suffered. As lots started to get subdivided, it made it more difficult for commercial agriculture ventures in the area to succeed.
- The implementation of the State Land Use Commission's Land Use Designations added another level of entitlements for landowners, and restricted the Counties from developing and enacting regulations that would

- make the development process efficient. The land use system at the State level slows the transition of lands to productive uses.
- There is a decrease in demand for industrial space in Hilo. In terms of uses
  within existing industrial areas, there has been a shift to more recreational
  uses (e.g. martial arts and dance studios) and office instead of true
  industrial uses. In addition, stores are using less industrial warehouses for
  storage of goods.
- Expired/ing Department of Land and Natural Resources (DLNR) leases present redevelopment challenges. These leases have no provisions for lessees to remediate the properties or to repair or remove structures when the lease expires. In addition, the improvements on the land revert back to DLNR upon expiration of the leases, so there is no incentive for lessees who are nearing the end of their lease to improve existing structures. As such, many of the properties are in disrepair. Finally, for those tenants who hold a Revocable Permit rather than a General Lease, there is no incentive to make improvements to existing structures as their rent rates may be increased as a result of improvements made. It is noted however that in 2018, the Governor signed Act 149, codified in HRS 171-191, 192, and 193 which creates a ten-year pilot program in East Hawai'i wherein State lands currently leased out would be able to have their leases extended in an area known as the Hilo Community Economic District in order to encourage reinvestment.

- County should utilize Real Property Taxes as a means of implementing policies.
- In other jurisdictions around the world, governments are leasing publiclyowned lands to citizens which allows for cheaper costs of living.
- County should liberalize Condminium Property Regime requirements to allow property owners to subdivide their own properties and encourage infill.
- Review and amend Hawai'i Revised Statutes, Chapter 171 to allow for greater flexibility in State-owned lands that are leased.
- Encourage the formation of Business Improvement Districts to help improve distressed areas and help local businesses.
- As previously discussed, industrial space demand for true industrial uses is diminishing. In recognizing this paradigm shift, repurpose industrial areas to cater towards demand. The best choice for rezoning depends on the area, however, MCX is usually selected.
- Encourage mixed-used zoning as a way of spurring development.
- Propose legislative amendments that would relax regulations, and create opportunities for redevelopment of distressed areas. For example, House Bill 1219 during the 2019 legislative session would have created a redevelopment authority for the Waiākea Peninsula (Banyan Drive) in Hilo.

I ourism development and infrastructure promotes economic development and vacation rentals provide an opportunity for diversifying the tourism base. However, restricting the use of vacation rentals has the opposite impact of limiting tourism.

Interviewee(s): Anonymous

Interviewer(s): Tessa Munekiyo Ng and Bryan Esmeralda, Munekiyo Hiraga

Date of Interview: June 4, 2019

## **Summary of Discussion**

## 1. In town/village centers you are familiar with, where is the opportunity for real estate development and redevelopment?

- The University of Hawai'i at Hilo is a big asset to Hawai'i Island. The university should be invested in and encouraged to expand.
- Throughout the island, former plantation lands present opportunities for agricultural development and economic growth.
- Tourism is a big economic driver on Hawai'i Island and development to support this industry should be encouraged.

#### 2. What are the barriers to (re)development of prime areas or sites?

- Infrastructure is a barrier.
- Hawai'i Island is not a high growth area, and it doesn't have a lot of economic diversification. The majority of the businesses are small businesses concentrated in Hilo, Kona, and Waimea. In addition, businesses often times have a hard time maintaining staffing.
- Hawai'i Island, especially Hilo, has a lot of retirees. Not a lot of people are relocating to the island. As a result, there is not a lot of business growth.
- In areas such as Hilo, industrial demand is low. Leasing properties is difficult for owners.
- Construction costs, particularly on Hawaii Island, are high.
- Entitlements in general are difficult to obtain.

- Development is not a leading activity; it follows. For example, residential demand is driven by increasing populations. In this regard, the focus should be on fostering businesses and creating new industries as demand for new development will follow.
- Continue to foster tourism on Hawaii Island.

## Real Estate Development Opportunities and Challenges in Hawai'i County

## Stakeholder Interview Summary

**Interviewee(s):** Anonymous

Interviewer(s): Ron Whitmore, County of Hawai'i

Date of Interview: June 5, 2019

### **Summary of Discussion**

## 1. In town/village centers you are familiar with, where is the opportunity for real estate development and redevelopment?

- Opportunity Zones. There has been increasing interest in Opportunity Funds and acquiring property in Opportunity Zones.
- Three types of developers that should be consulted with:
  - o Land bankers (i.e. kamaaina families sitting on land)
  - Those who pursue entitlements to get things shovel ready
  - Those who only work with shovel ready sites

## 2. What are the barriers to (re)development of prime areas or sites?

- Community Development Plans
- NIMBYism
- Asynchronized market cycles and entitlement processes
- Change of Zone applications being considered based on perceived merits of prospective project as opposed to appropriateness of range of uses permitted with new zoning
- Discretionary decisions that should be ministerial
- Lack of clarity, and consistent use of, criteria driving discretionary decisions
- Multiple bites at the apple
  - E.g. time conditions in Change of Zone ordinances gives inappropriate opportunity for opposition to challenge project.
- Inconsistency in guidance from Planning Department no clear, predictable path and changing requirements over time
- Lack of coordination among County agencies

- Need education/training for Planning Staff, Planning Commission on development and entitlement process
- Proactive coordination among County agencies during entitlement process

**Interviewee(s):** Anonymous

Interviewer(s): Bryan Esmeralda, Munekiyo Hiraga

Date of Interview: June 7, 2019

## **Summary of Discussion**

## 1. In town/village centers you are familiar with, where is the opportunity for real estate development and redevelopment?

- Kona. There is currently a limited supply of housing inventory to purchase.
- Resort residential is in demand. Lots of people look to purchase second homes in Waikoloa and Mauna Lani.
- (Re)development should be targeted to areas where infrastructure is existing. Putting in new infrastructure is a financial risk for developers if the project does not move forward in a timely manner.
- Waimea. Lots of people that work in Waimea, particularly staff at the hospital, commute from Waikoloa or Mauna Lani because there is no available housing in Waimea.
- Existing derelict buildings should be redeveloped since infrastructure is already in place which reduces development costs.
- Redevelopment in existing areas will have services already in place and can inject newer services that can complement the area.

## 2. What are the barriers to (re)development of prime areas or sites?

- Due to poor site conditions and the geology of the area, site preparation tends to be extensive and involved which often represents a large portion of the construction project. This could be anywhere form 10% to 25% depending on how severe the issues are.
- The Former Waikoloa Maneuver Area Formerly Used Defense Site encompasses approximately 100,000 acres on the northwest side of the island. Development utilizing public funding in this area requires clean up of the site. Currently there is no mandate or plan to clean up the area. This is left to developers to do if they chose to develop in the area.
- The recent Kilauea volcano exposed homeowners who did not carry the proper home insurance that covers force majeure, which a volcano can be characterized as. Depending on funding, the investor may require the owner to carry such insurance options to insure any loss during a natural event.

- These insurance premiums have the potential to exponentially increase the base cost which can have a huge impact on annual building costs.
- Depending on funding, utilizing public funds may or may not trigger stringent criteria. Most infamously is the revised flood zones of 2013 that has raised the bottom floor buildings several feet requiring additional site work, in turn, increasing costs.
- The cost of land is high. Developers often have a hard time trying to make projects pencil out for them.
- Permitting processes, particularly in the County of Hawai'i, are lengthy and arduous. Processes at the different levels of government are redundant, and often times don't work well together. As landowners and developers move through the process of entitling land, they become more constrained by the conditions attached to permits. Sometimes, by the end of the process the project isn't feasible anymore so the landowner or developer will abandon the project.
- Government is too demanding during the entitlements process. The cost and time spent to have technical studies redone is a deterrent.
- The building permit office is inefficient. They do not handle the volume of permits that other counties do, so they are not incentivized to update their processes and procedures.
- Permit expiration dates and having to request extensions is burdensome, especially when construction stalls occur on projects.
- County requirements for infrastructure do not take into account risks to the
  developer. It is a financial risk to front load infrastructure development costs
  as sometimes the market doesn't allow the inventory to move fast enough
  for the developer to make the project pencil out.
- Construction costs are dependent on the market. It tends to fluctuate with upward and downward market trends. However, the Chinese Tariffs is an example of a random variable in the market that creates instability resulting in an abnormal pattern of higher than normal construction costs.
- There is a lack of continuity and cohesiveness between the County departments.
- Unforeseen conditions are a familiar issue in the construction industry. However, in Hawaii, 'iwi are a unique condition resulting in instant construction stop work orders upon discovery with an undetermined resolution period due to the amount of coordination with the local family and how remains should be addressed.
- The County's affordable housing credit calculation formula is complicated, and the County doesn't offer an in lieu fee option. There is no incentive to provide affordable housing even though the demand exists.
- There are only a few contractors that can handle specialized construction jobs. It is also costly for contractors to ship equipment and staff to other islands.
- Behind the scenes of development, which is called due diligence, can add onto the soft costs of the project. The developer is often investing a lot of time and money in investing, marketing, constructing and litigating the

feasibility of a project which often is a cost added on top of construction. This compound effect of hidden costs can increase the construction cost of a project. For example, a project that costs \$3 million to build might cost \$6 million to do all of the due diligence work as a result from hidden costs of the project.

- The County should put money towards upgrading infrastructure in areas where infill (re)development could occur. For example, upgrade infrastructure to be able to support more multi-family development.
- The County should learn how to be more efficient with building permit reviews and issuance from other Counties. Some things to consider are:
  - Electronic submittals
  - Third party reviews
  - Master track permitting
  - Developing a system that acknowledges developers in "good standing" and allow their reviews to be prioritized
  - o Prioritize permits that are more complex in nature
  - Prioritize permits for affordable housing projects
  - Allow joint-lot development (e.g. allowing large developments to occur over multiple TMKs without the need to consolidate)
  - Allow zero lot line development
- Update permitting information on the County website so that it is more clear and understandable for the public.
- Establish an organization similar to the Hawaii Community Development Authority in Kaka'ako which establishes development guidelines and helps projects move through the entitlement and permitting processes faster.
- Encourage an expansion of the County bus system and establish transitoriented development nodes on the island. Transportation and access to destinations spur (re)development. Transit-oriented development also helps to initiate installation of infrastructure which will offer direction for development.
- Encourage joint-development projects (e.g. separate workforce housing projects that satisfy County requirements which are separate from the projects triggering requirements)
- Educate the public on the permitting and construction process. Oftentimes the public will complain about the lack of affordable housing or the length of time it takes for projects to develop, because they are unaware of the process and all that it entails.

# SUITABILITY ANALYSIS TECHNICAL INFORMATION

**APPENDIX** 

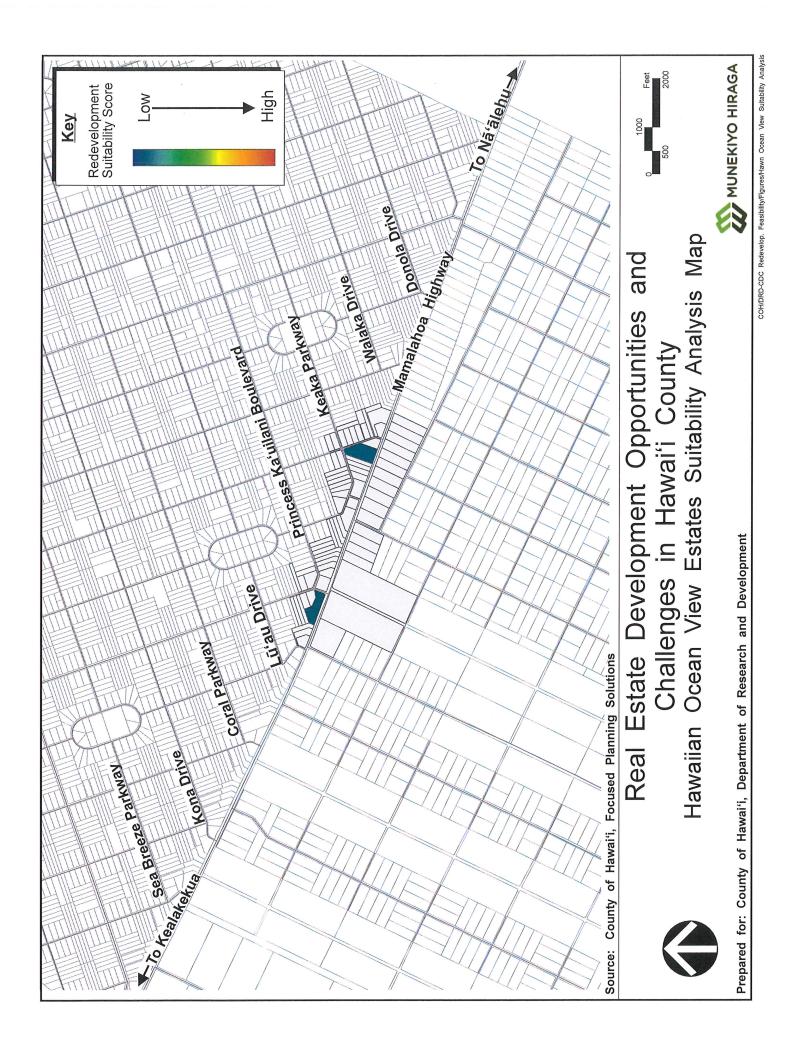


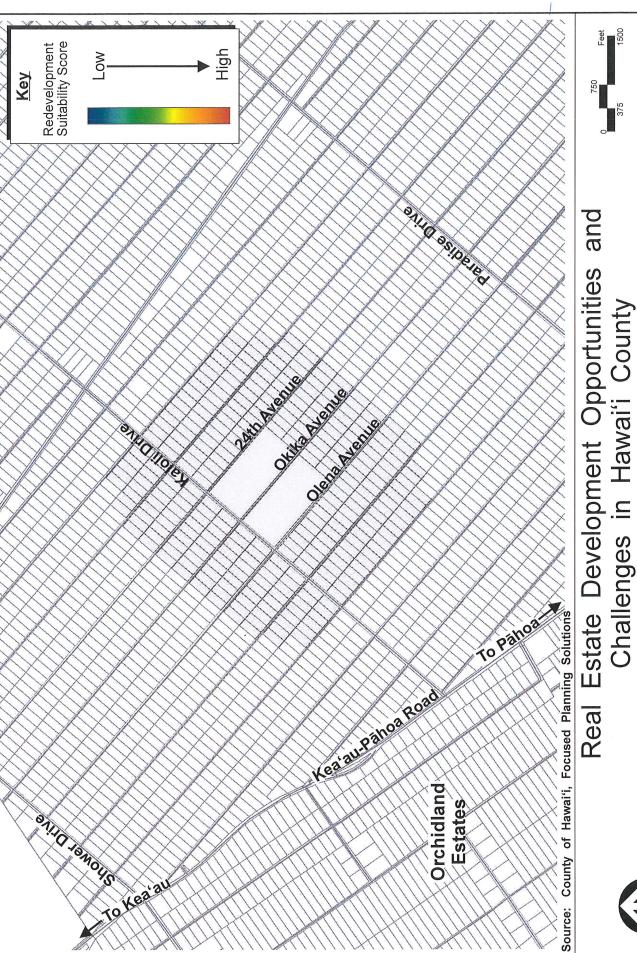
Grouping	Criteria	Assumption Name	Value in Model	Description
Built Characteristics				Floor area ratio for commerical development.
				Commercial square feet divided by land area in
			5	square feet. Low FAR is rated highly for
	Low FAR Weight	S LowFAR Weight		redevelopment potential.
	2011 17 III TEIGIIC	5_EOWITH WEIGHT		Residential density. Dwelling units divided by land
			5	
	Low Donsity Woight	C Dansity Waight	3	area in acres. Low density is rated highly for
	Low Density Weight	S_Density Weight		redevelopment potential.
			_	Building value divided by land value. Low
	Low Improvement to Land Value		5	improvement to land value is rated highly for
	Weight	S_ImpToLandValue Weight		redevelopment potential.
				Most current build year for commercial structures on
	Aging Commercial Structure		5	property. Older structures are rated highly for
	Weight	S_Comm_Year_Built Weight		redevelopment potential.
				Most current build year for residential structures on
			5	property. Older structures are rated highly for
	Aging Residential Structure Weight	S Res Year Built Weight		redevelopment potential.
				Land area of parcel. Larger parcels are rated highly for
	Size of Parcel Weight	S_LandSize Weight	5	redevelopment potential.
		o_zamesize tre.gt		reacted princing potential.
Neighborhood Character				Dwelling units on parcels within a quarter mile
_				divided by the land area of parcels within a quarter
			5	mile. High residential density nearby is rated highly
	High Residential Density Weight	S ResNearby Weight		for redevelopment potential.
	The state of the s	o_nesitedizy treignt		Commercial square feet on parcels within a quarter
			5	mile divided by land area of parcels within a quarter
	High EAD Maight	C. Commande and Mariaba		mile. High commercial intensity nearby is rated highly
	High FAR Weight	S_CommNearby Weight		for redevelopment potential.
				Permits within a quarter mile divided by land area of
			5	parcels within a quarter mile. High permit density is
				rated highly for redevelopment potential.
	Recent Permit Activity Weight	S_Permits Weight		rated highly for redevelopment potential.
	<u></u>	<del>,</del>		<u>,                                      </u>
Infrastructure Access				Parcel intersects water service area. 1 intersects and 0
			10	does not intersect. Access to water service is rated
	In Water Service Area Weight	S_Water Weight		highly for redevelopment potential.
				Minimum distance to a wastewater line. Close to
	In Wastewater Service Area		10	wastewater line is rated highly for redevelopment
	Weight	S_WW Weight		potential.
		5_1111111611		Intersections (more than 2 road ends meet) within a
				quarter mile of parcel divided by parcel area. High
			5	road density is rated highly for redevelopment
	Dense Road Network Weight	S RoadNetwork Weight		
	Delise Road Network Weight	3_Roadivetwork Weight		potential.
Facilities Access				Minimum distance to a school, public or private.
i aciiities Access			5	1
	Naca Caba ala Waisht	C Calcard Metable	5	Close to school is rated highly for redevelopment
	Near Schools Weight	S_School Weight		potential.
Hazard Avoidance				
				Parcel intersects lava hazard zones 1 or 2. 1 intersects
	Outside of Lava Hazard Zones 1 &		5	and 0 does not intersect. Intersecting high hazard lava
		C. Lava Maiaht		zones is rated lowly for redevelopment potential
	2 Weight	S_Lava Weight		
				Percent of parcel area within flood zone. A greater
	Majority of Land Outside Flood		5	percent of overlap with flood zones is rated lowly for
	Zone Weight	S_Flood Weight		redevelopment potential.
				Percent of parcel area within tsunami inundation
			5	area. A greater percent of overlap with tsunami
	Majority of Land Outside Tsunami		5	inundation zone is rated lowly for redevelopment
	Zone Weight	S_Tsunami Weight		potential.
				Percent of parcel area within NOAA SLR 6 foot
	Majority of Land Outside SLR		5	exposure zone. A greater percent of overlap with SLR
	Impact Area Weight	S_SLR Weight		is rated lowly for redevelopment potential.
	impact Area weight	2 2FV MEIRIIT		is rated lowly for redevelopment potential.

# SUITABILITY ANALYSIS MAPS

**APPENDIX** 





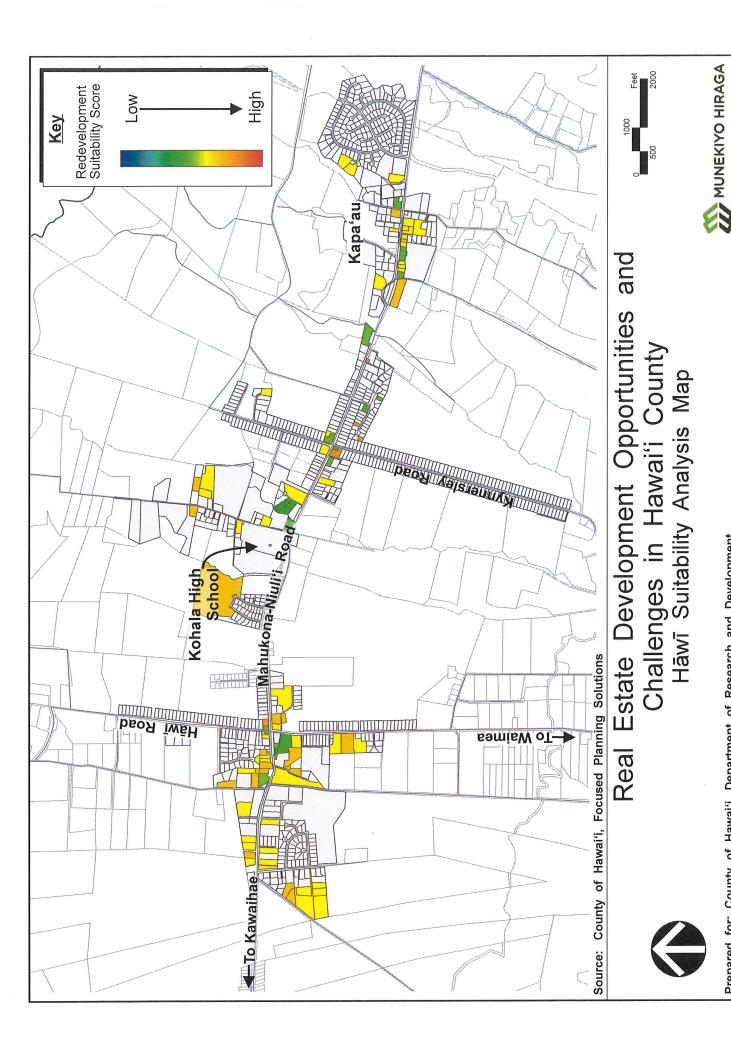


Hawaiian Paradise Park Suitability Analysis Map



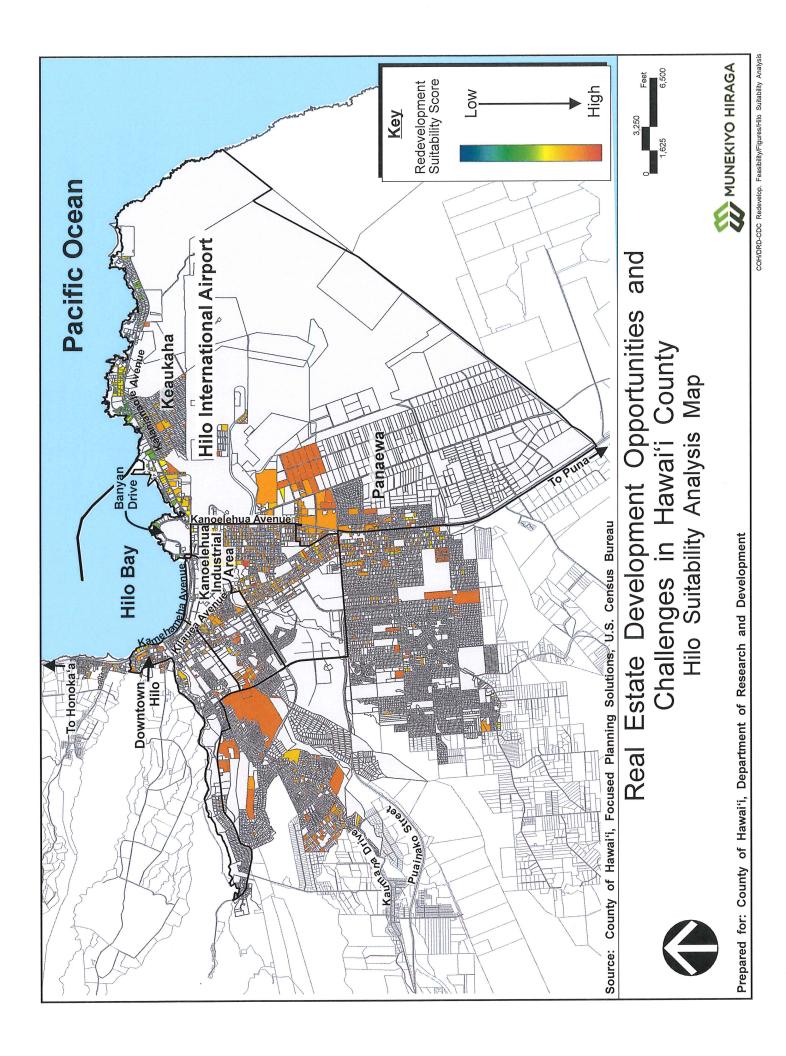
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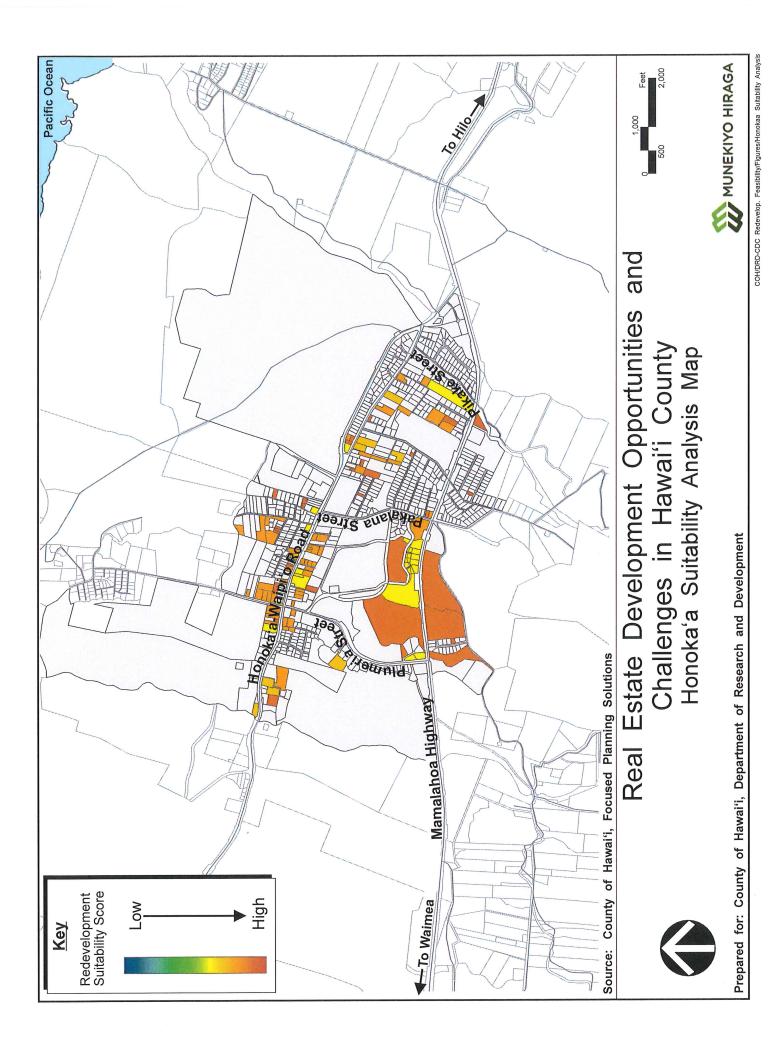


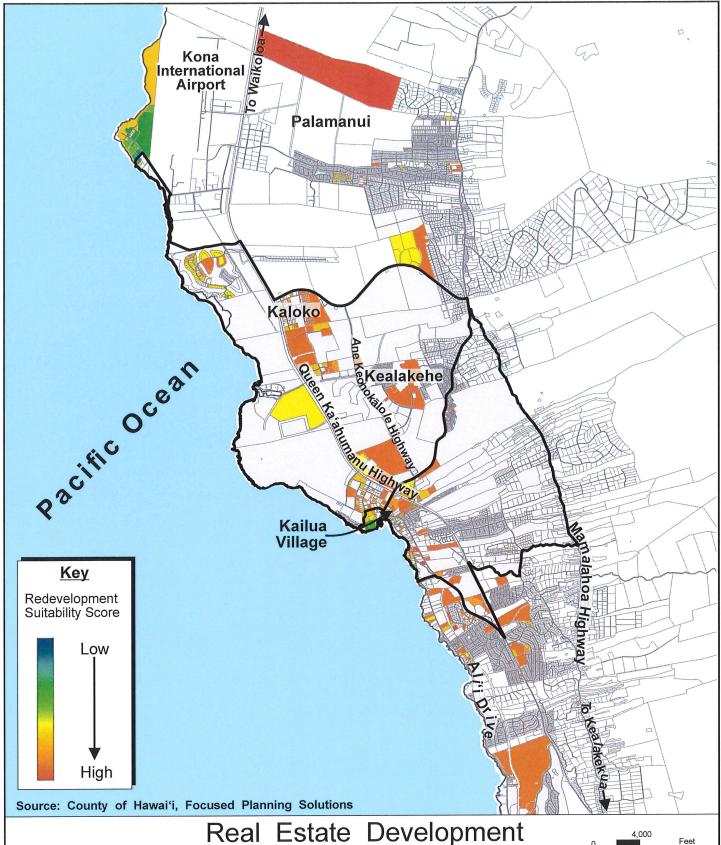


COH/DRD-CDC Redevelop. Feasibility/Figures/Hawi Suitability Analysis

Prepared for: County of Hawai'i, Department of Research and Development







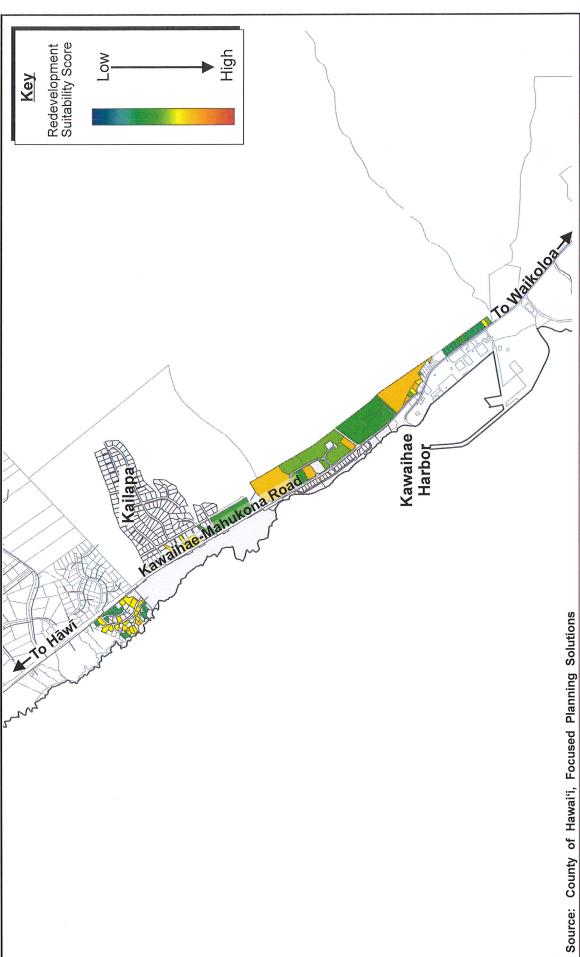


Real Estate Development
Opportunities and Challenges
in Hawai'i County
Kailua-Kona Suitability Analysis Map



**MUNEKIYO HIRAGA** 

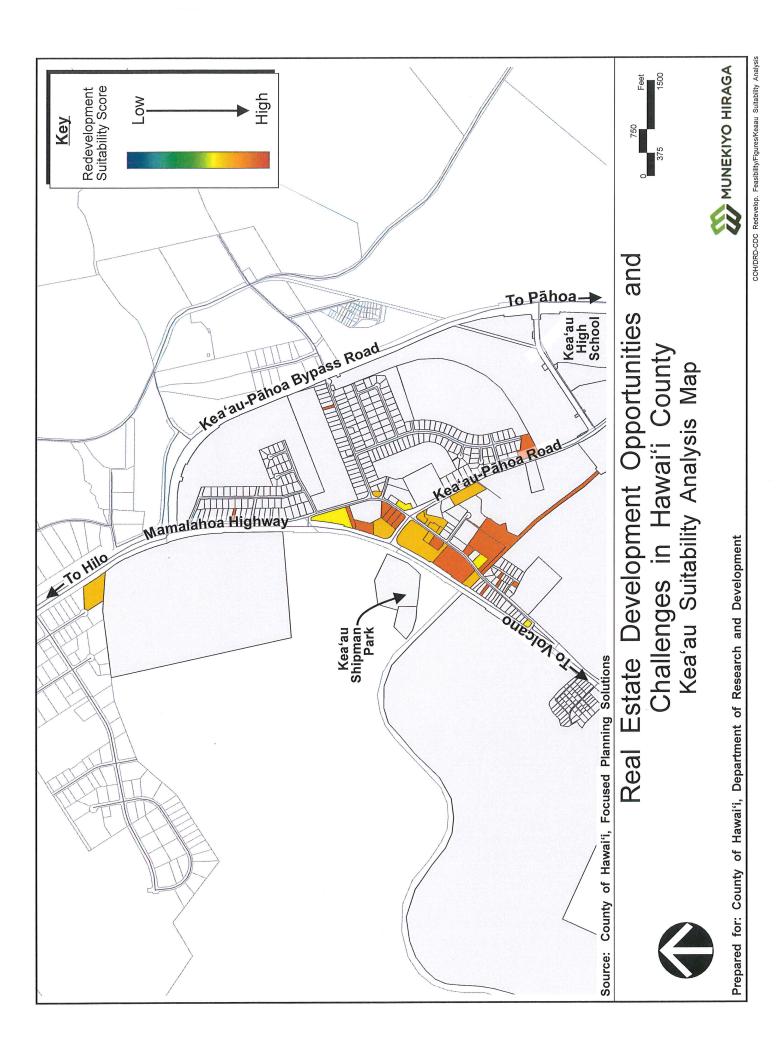
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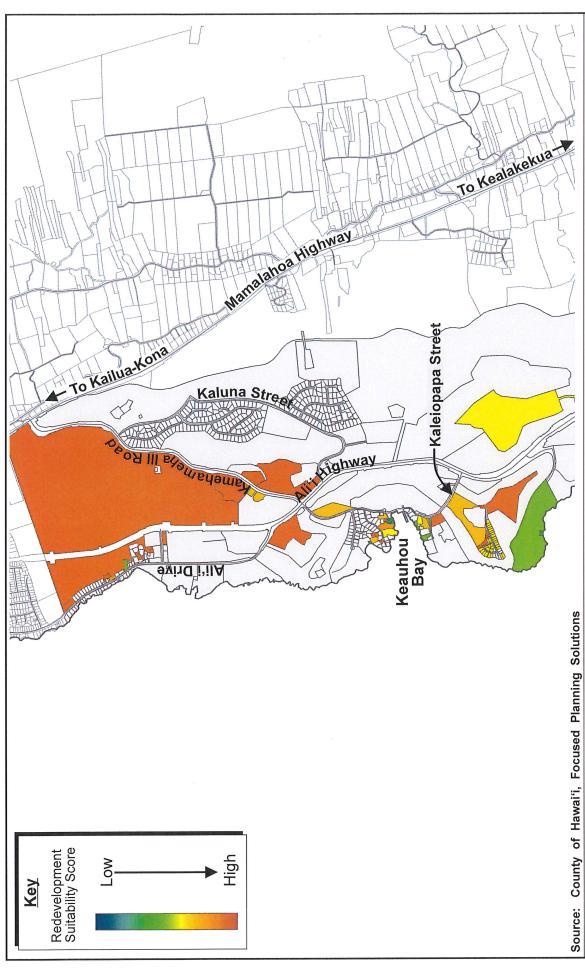












Estate Development Opportunities and Challenges in Hawai'i County Keauhou Suitability Analysis Map Real

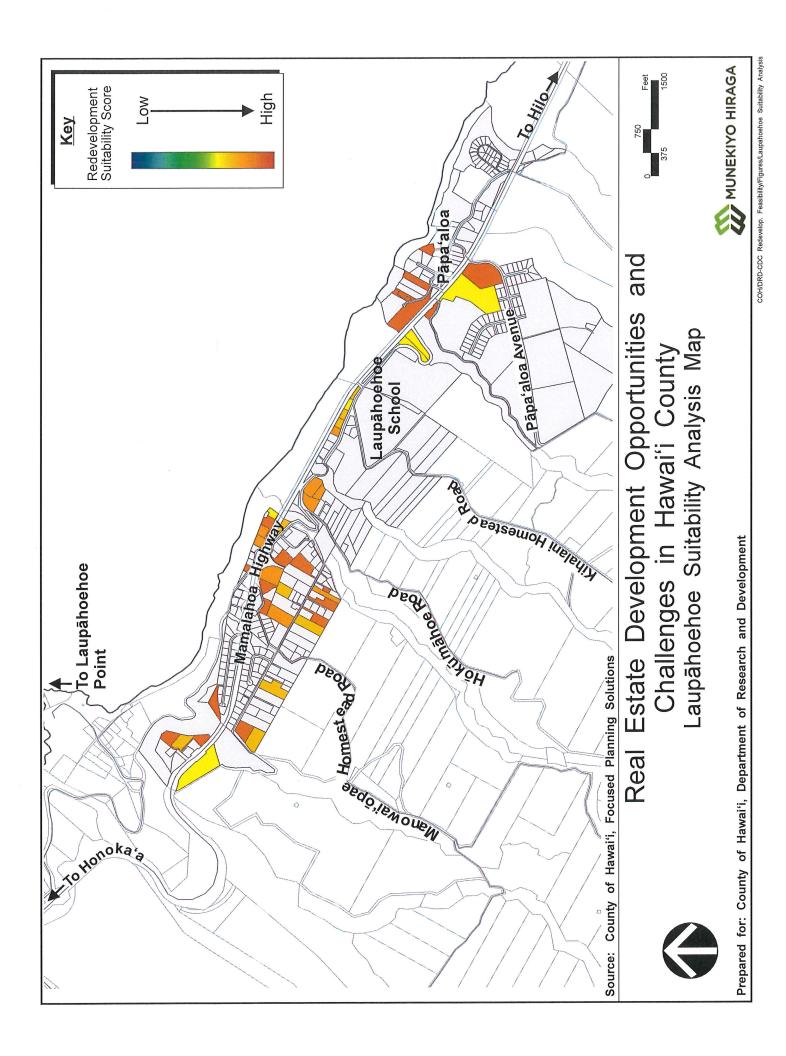


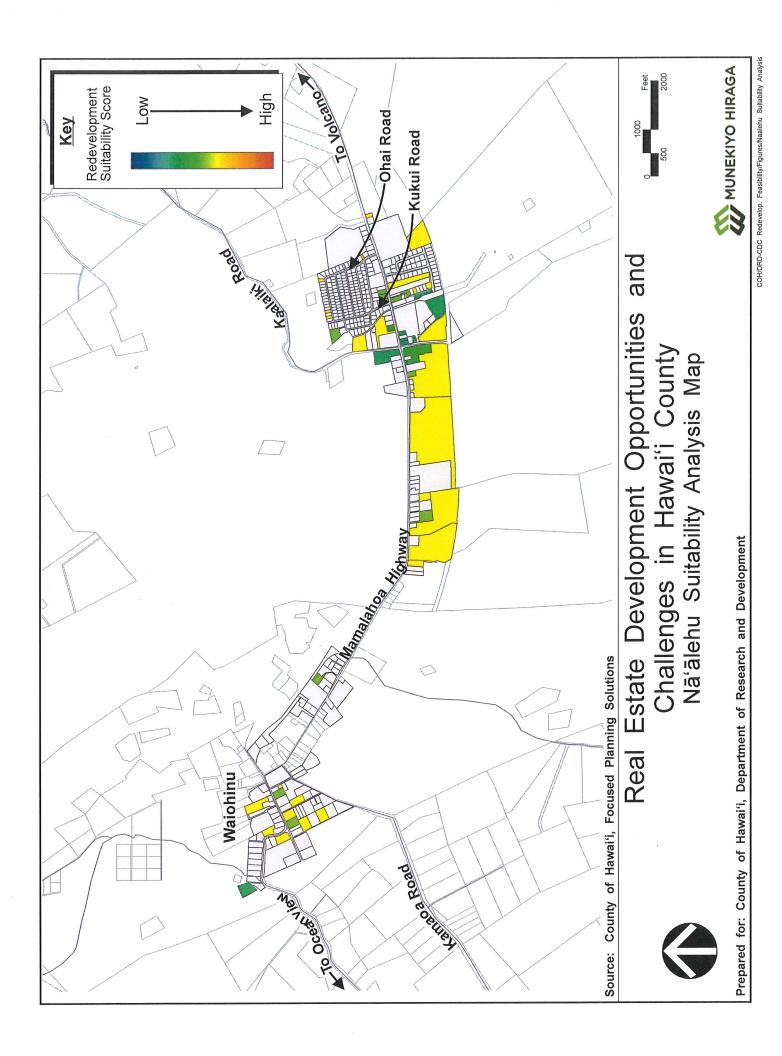
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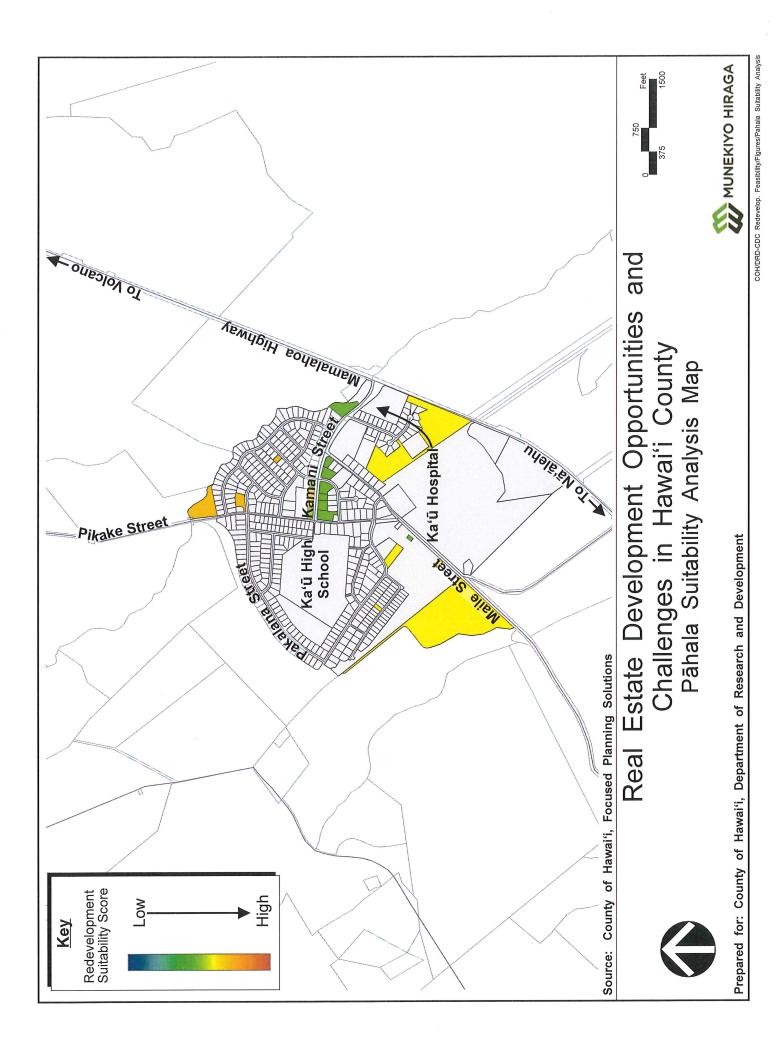


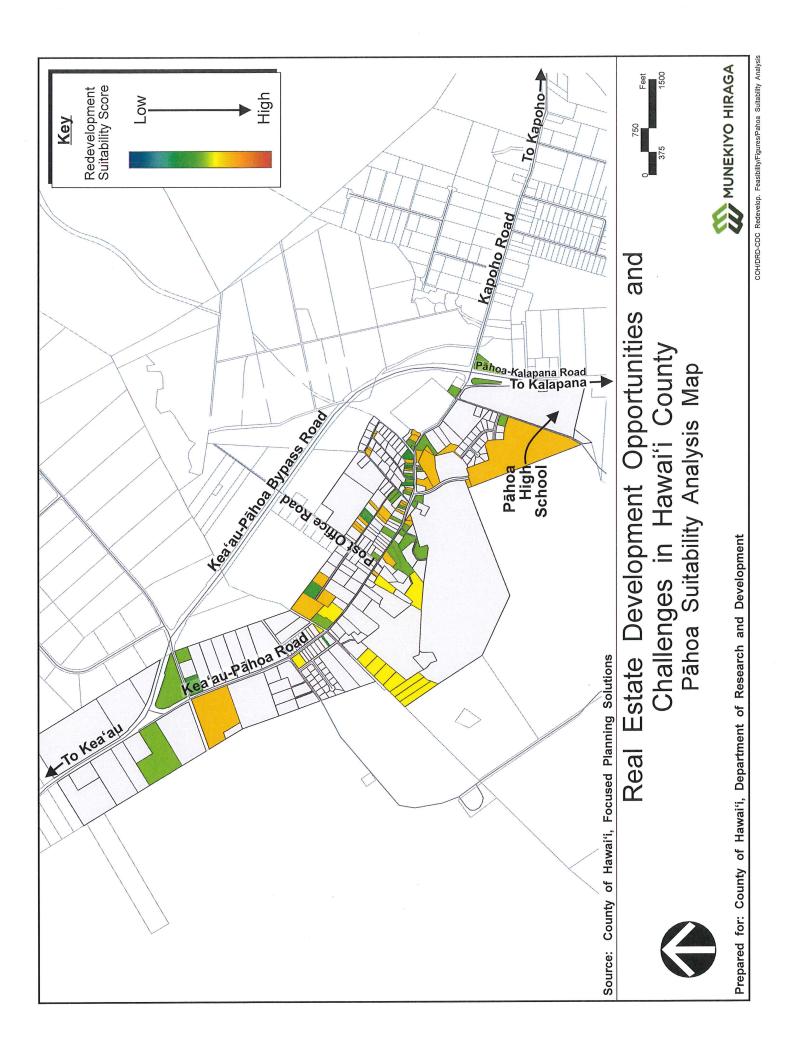
MUNEKIYO HIRAGA

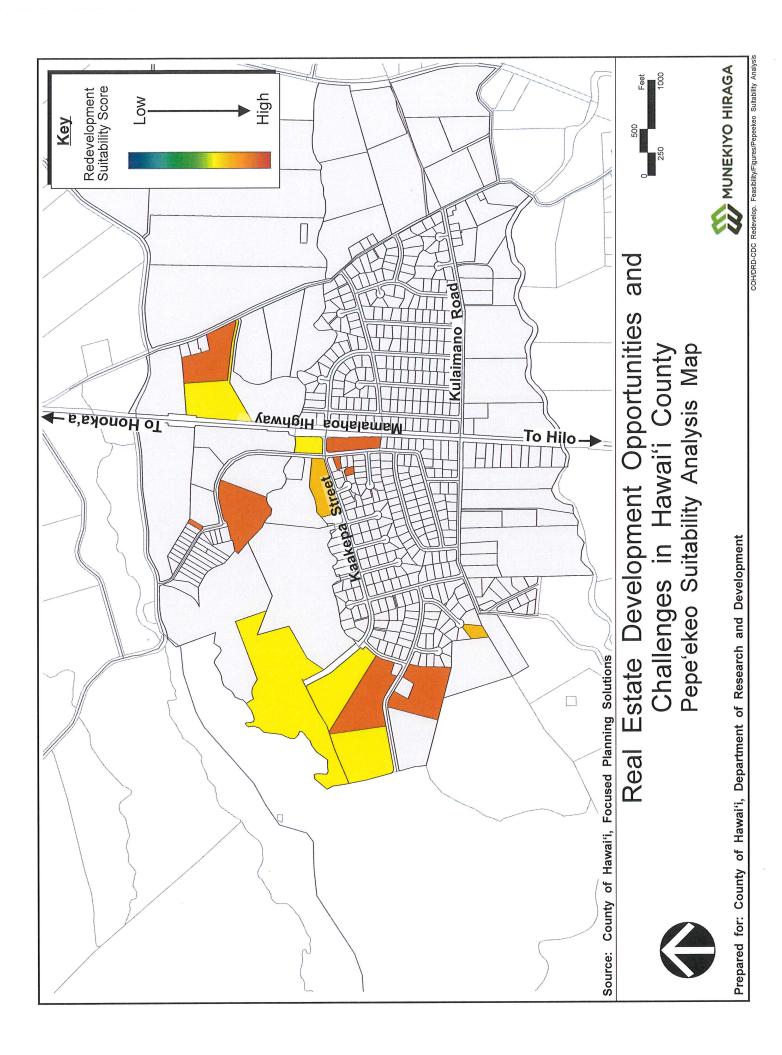
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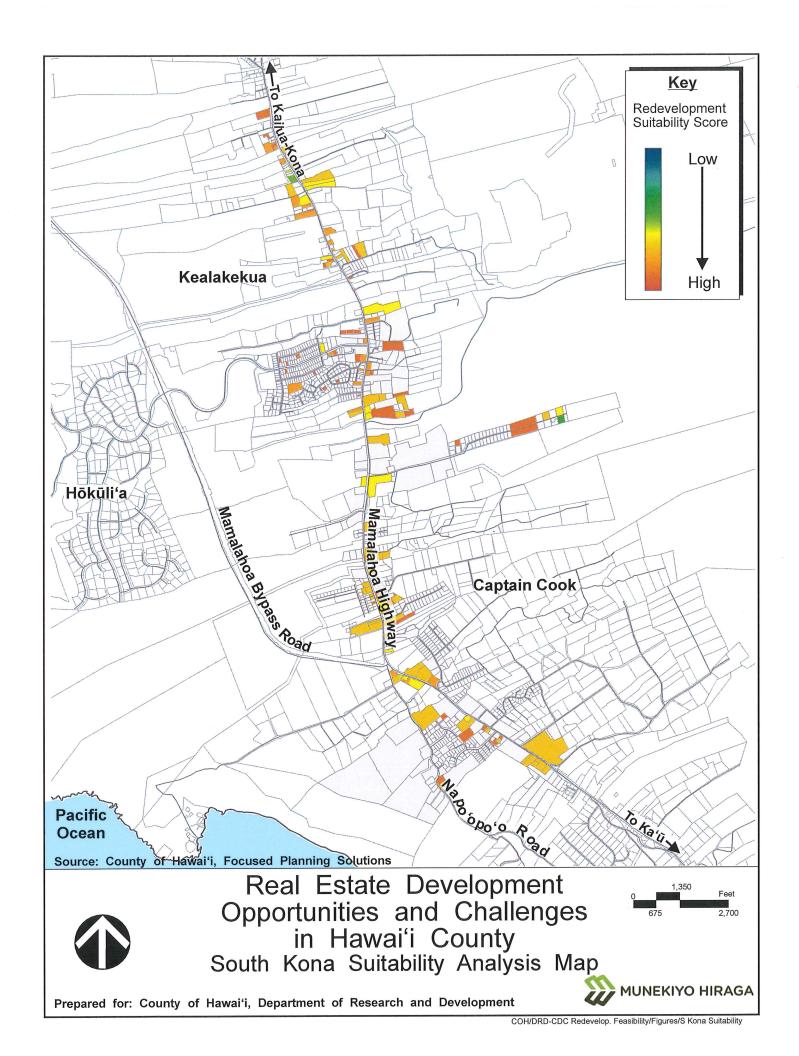


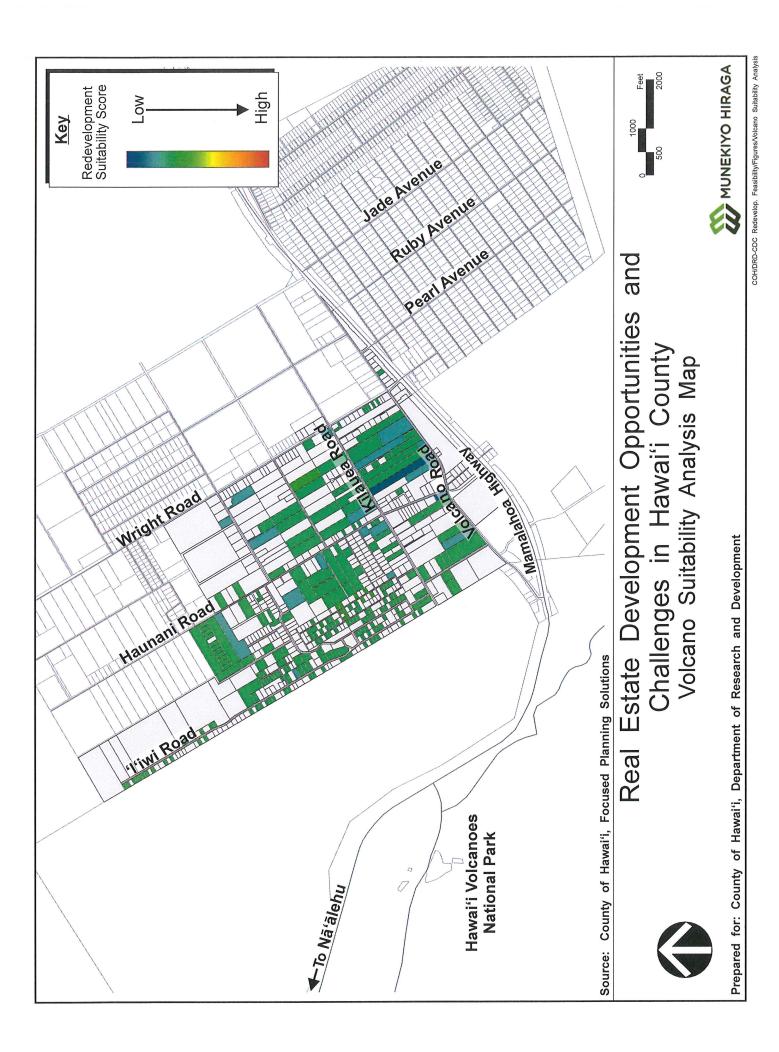


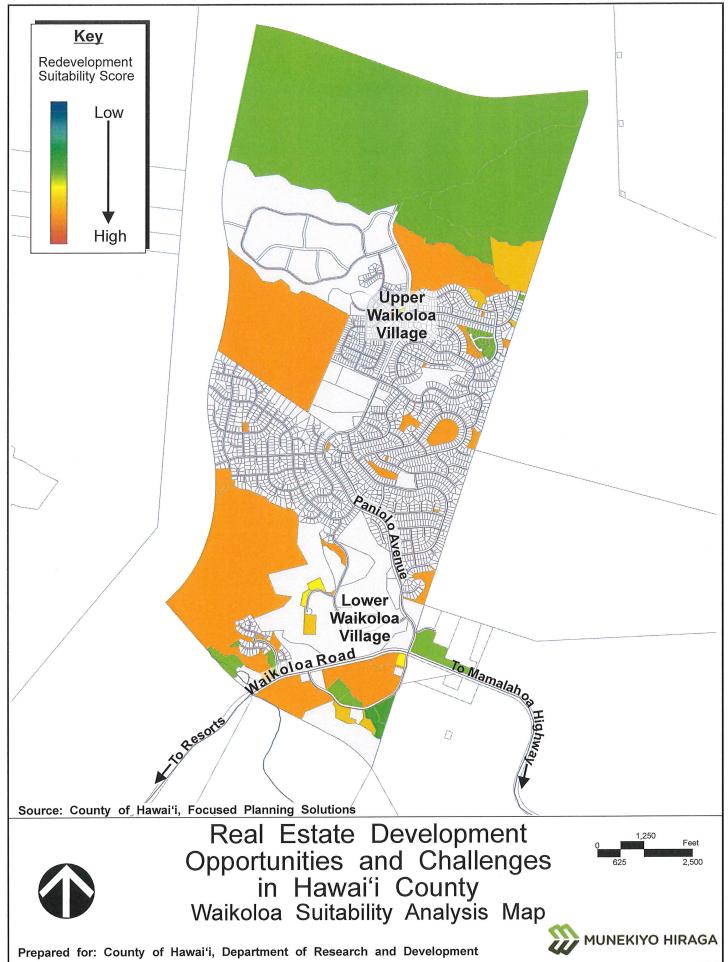


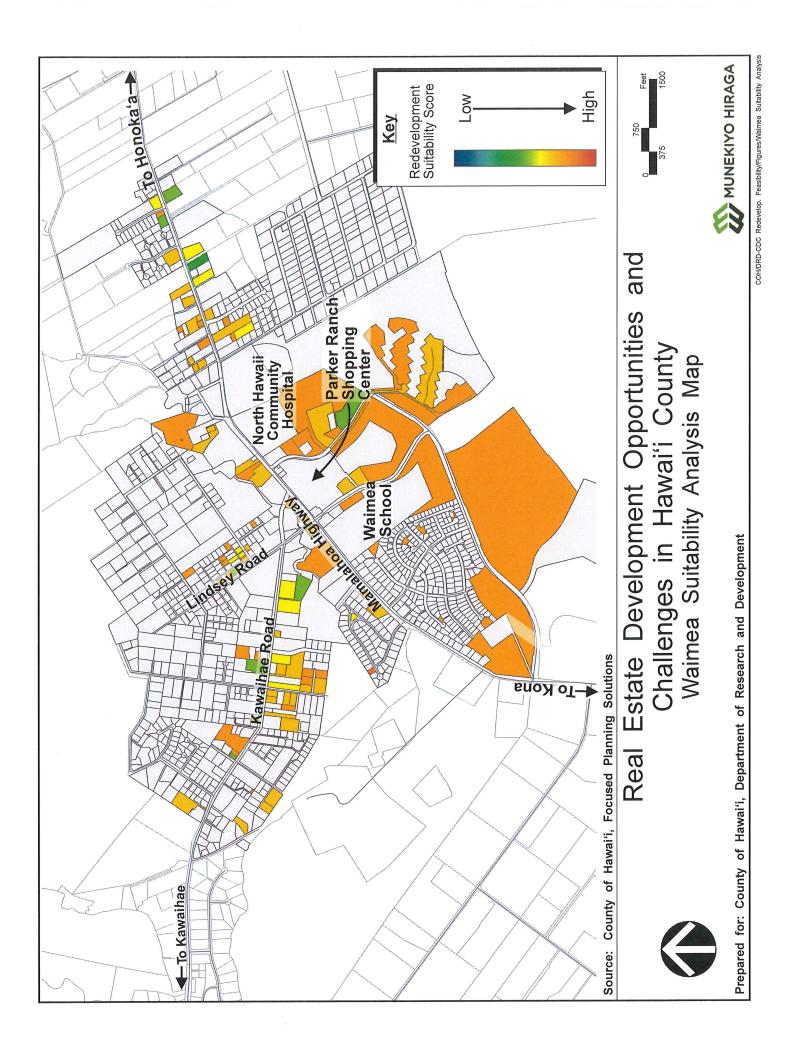












PLACE-SPECIFIC (RE)DEVELOPMENT OPPORTUNITY ANALYSIS

**APPENDIX** 

#### PLACE-SPECIFIC (RE)DEVELOPMENT OPPORTUNITY ANALYSIS

The County of Hawai'i staff and the consultant team collaborated to identify five (5) towns and villages for more detailed analysis of place-specific (re)development opportunities and barriers. The findings of the Suitability Analysis described in Chapter II were just one (1) of the factors considered in selecting the five (5) places for further analysis. The following criteria were utilized in selecting the five (5) locations:

- **Suitability Analysis** Findings of the Suitability Analysis were reviewed.
- **Opportunity Zones** Hilo and Kona were included due to their designation as Opportunity Zones and the unique (re)development opportunities that this Federal program presents.
- Geographic Diversity Consideration was given to include towns and villages
  across the island rather than simply selecting those with the highest suitability
  scores.
- **Size of town/village** Consideration was given to include a balance of urban towns and rural villages.
- Infrastructure While infrastructure availability is a key consideration for (re)development and was weighted more heavily in the Suitability Analysis, one (1) location without wastewater infrastructure was selected for the place-specific analysis to understand the particular challenges that these places may face from a (re)development perspective. This decision was made in recognition of the fact that there are numerous towns and villages across the island that do not have wastewater service.
- Landownership Several of Hawai'i island's towns and villages are characterized by a prominent landowner with significant landholdings in the particular place. Places such as Kea'au, where W.H. Shipman Limited owns a signicant amount of real estate, and Waimea, where Parker Ranch has large land holdings, were excluded because they represent unique situations and in recognition that the landowners may have existing developed visions for these areas.

Based on the above criteria, Hilo, Kona, South Kona, Honoka'a and Waikoloa were selected for more detailed place-based analysis. The analysis of these five (5) locations is presented below.

#### 1. Hilo

#### a. Overview

Hilo is a population and commerce center for Hawai'i island and the principal seat of the County of Hawai'i government. In 2018, there were approximately 45,000 people residing in Hilo, which represents 22 percent of the County's population. See **Table 1**.

Table 1. Hilo Demographic Summary

	Hilo	Hawai'i County
Population, 2000	40,304	148,680
Population, 2010	43,260	185,079
Population, 2018	44,938	201,814
Percent Change, 2000-2010	7.3%	24.5%
Percent Change, 2010-2018	3.9%	9.0%
Percent of County Population	22.3%	100.0%
Households	16,196	73,681
Average Household Size	2.64	2.64
Median Age	41.63	42.18
Median Household Income	\$39,200	\$39,800
Housing Units	17,189	87,811
Occupied Housing Units	94.2%	83.9%
Vacant Housing Units	5.8%	16.1%
Renter-Occupied	36.2%	32.8%
Owner-Occupied	63.8%	67.2%
Number of Businesses	2,278	6,843
Number of Employees	26,755	65,105
Source: Gale Business, Complete Demograph	ic Comparison Report, 2	018.

Kanoelehua Avenue is a main arterial roadway which runs from the north at its intersection with Kamehameha Avenue to the south where it turns into Māmalahoa Highway, which leads south toward Puna. Kamehameha Avenue runs along Hilo Bayfront and through downtown where it turns into Māmalahoa Highway leading towards the Hāmākua Coast. Hilo is located within the service area for the County of Hawai'i Department of Water

Supply's (DWS) service zone and is serviced by the Hilo Wastewater Treatment Plant. See **Figure 1**.

Major transportation facilities in East Hawai'i are located in Hilo, including the Hilo Harbor and Hilo International Airport. The Hilo Harbor has three (3) piers which service overseas and interisland cargo as well as cruise ships. The Hilo International Airport is located inland of Keaukaha and serves interisland flights as well as transpacific service for destinations along the west coast of the mainland United States.

Commercial uses within Hilo are concentrated in the area along Kanoelehua Avenue, including light industrial and big box retail uses, as well as smaller locally owned businesses in downtown Hilo along and mauka of Kamehameha Avenue. Hotels in Hilo are located along Banyan Drive. Residential neighborhoods are primarily located in the inland areas, with the Department of Hawaiian Home Lands' (DHHL) homestead community along the shore at Keaukaha. See **Figure 2**.

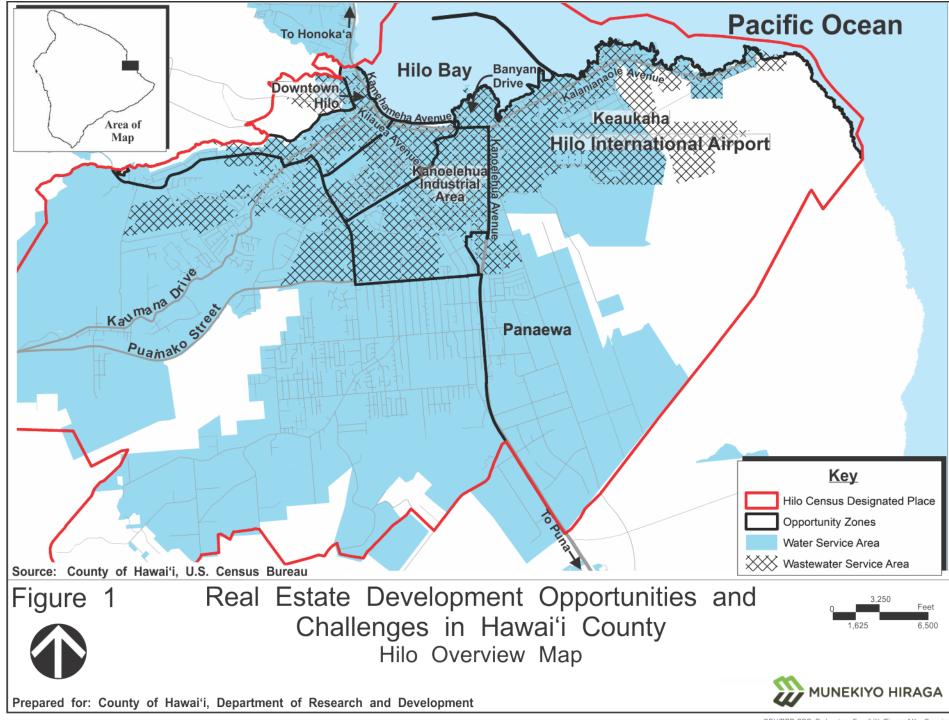
Major landowners in the Hilo region include the State of Hawai'i, Department of Land and Natural Resources (DLNR), DHHL, County of Hawai'i, and the Kamehameha Schools (State of Hawai'i, 2013).

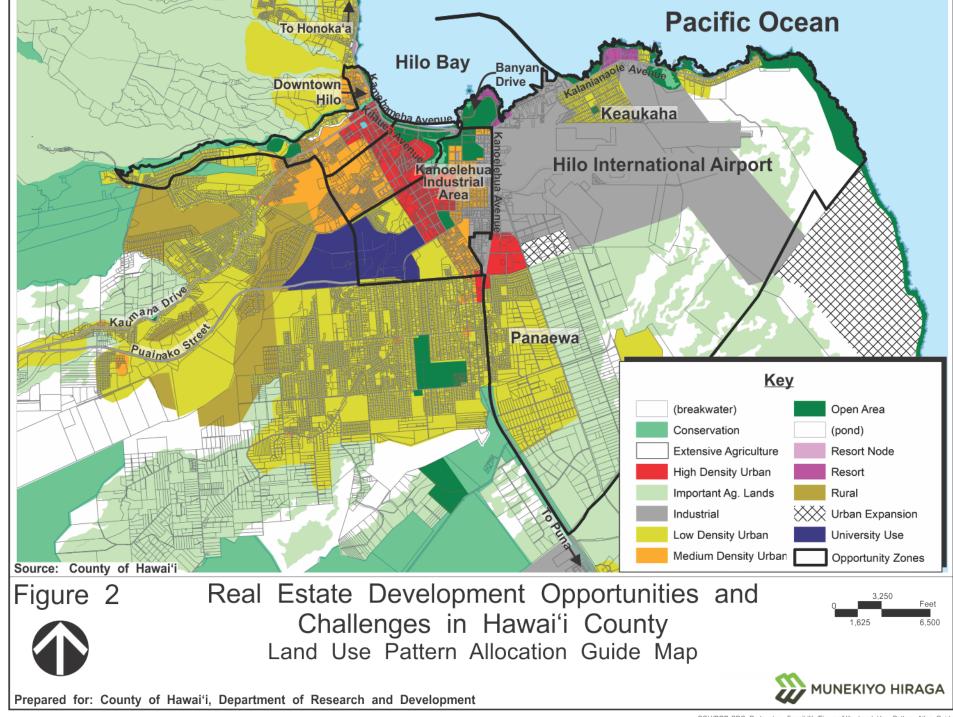
#### b. (Re)development Considerations

#### i. <u>Infrastructure</u>

#### (a) Water

Hilo is located within the service area for the DWS service zone. Although the service area is broad, it is not guaranteed that there is available capacity in the system. For any new (re)development project, coordination with the DWS to determine availability will be required. In addition, costs to develop new infrastructure systems are high. It is noted, however, that the Hilo Aquifer System Area, which is part of the Northeast Mauna Loa Aquifer Sector Area, has a sustainable yield of 347 million gallons per day (Fukunaga & Associates, 2010).





#### (b) Wastewater

The Downtown Hilo, Keaukaha, and the Waiakea areas of Hilo are serviced by the County of Hawai'i's municipal wastewater system with wastewater being collected and treated at the Hilo Wastewater Treatment Plant. The remainder of Hilo, south of Puainako Street and Panaewa, are on private individual wastewater systems.

#### (c) Transportation/Connectivity

As Hilo is the center of County government and commerce, roadways in and out of Hilo are developed to urban standards. Roads within Hilo provide connectivity and access to areas within the town. It is noted that the Keaukaha area is accessible by a single roadway, Kalanianaole Avenue. In the case of a tsunami, the evacuation route for this area is inland to the south, traversing the Hilo International Airport runway.

#### (d) Parking

Stakeholders have noted that the lack of parking in Downtown Hilo is an impediment to development, and that management of the existing parking is poor. Some stakeholders suggested that the County develop a centralized parking structure in Downtown Hilo to provide much needed parking for businesses. According to the Downtown Hilo Multimodal Master Plan, a 2009 parking analysis calculated a deficiency of 1,977 stalls, including 151 ADA stalls. The plan discussed the creation of additional public parking lots, addition of spaces to existing lots, creating long-term tenant parking options, and investigating the feasibility of developing a parking structure (SSFM, 2018).

#### ii. <u>Land Use Policies</u>

### (a) The EnVision Downtown Hilo plan encompasses the community's vision for this area of Hilo.

In 2005, a community-based vision and action plan for Downtown Hilo, called EnVision Downtown Hilo, was prepared and adopted by the County Council to document

the community's desired growth and goals for the downtown area. Specific visions that were identified as part of this planning effort include fostering economic vitality, preserving the natural environment, community resilience, enhancing education, culture, and the arts, promoting health and safety, and managing growth. The plan advances specific strategies and actions to help the community realize its vision for Downtown Hilo.

In 2010, a 5-year action plan update was prepared and adopted by the County Council to report on the implementation progress of the 2005 EnVision Downtown Hilo plan. Of the strategies and implementing actions included in the 2005 plan, a number had been initiated or completed by the time of the update including publication of Bayfront Trails conceptual master plan, development of pocket parks, updating the County's Multi-Hazard Mitigation Plan, development of a system of bike lanes and parking alternatives, development of Downtown Hilo design guidelines, review of floodplain management code to relax restrictions on renovation and construction, and explore ways to incentivize mixed-income housing in Downtown Hilo. It is also noted that in 2018, a multi-modal transportation plan was adopted, which was another specific action included in the EnVision Downtown Hilo plan.

## (b) The Downtown Hilo Multimodal Master Plan, a product of the EnVision Downtown Hilo Plan, calls for an integrated transportation network in Downtown Hilo.

A specific action of the EnVision Downtown Hilo plan called for the "development of a master plan to include traffic circulation, parking, and pedestrian streetscape". A multimodal plan for Downtown Hilo was prepared in 2018 and supports a paradigm shift in how people think about mobility in Downtown Hilo in order to accommodate all types of users, whether traveling on foot, bicycle, transit, or car. The approach presented in the plan is steeped in best practices of Complete Streets congruent with the County's adopted Complete Streets policy.

#### iii. Locational Considerations

Hilo's location in proximity to an international airport and Hilo Harbor presents advantages in terms of (re)development. Being near these transportation hubs is desireable for manufacturing and other industrial and commercial uses as they allow for fast movement of goods and people. Uses related to air travel, including lodging and other travel-related services, are also development opportunities.

While Hilo's status as a main residential, commercial, and government hub of the County serves as an advantage from the perspective of population density and market demand, the built out nature of the town presents cost considerations relative to other more rural areas of the island. (Re)development opportunities in Hilo are generally limited to infill sites. The infrastructure upgrades and denser development programs associated with these infill (re)development opportunities can often be more costly than greenfield development in rural areas, such as in the Puna district. The higher cost of developing in Hilo is a competitive disadvantage compared to other locales.

#### iv. Other Considerations

## (a) Four (4) census tracts in the Hilo area have been designated as Opportunity Zones, presenting opportunities to attract additional investment.

These include Census Tract 203 (Puʻuʻeo-Downtown), Census Tract 204 (Villa Franca-Kaikoʻo), Census Tract 205 (University-Houselots), and Census Tract 206 (Keaukaha-Panaʻewa). Opportunity Zones, as previously discussed, are federally designated areas wherein investors can reinvest realized capital gains into Opportunity Funds in exchange for temporary tax deferral and other benefits. The Opportunity Funds are then used to provide investment capital in low-income communities, i.e., Opportunity Zones. The Opportunity Zone designation makes Hilo a prime area for investment for real estate development. As previously mentioned, these areas are competing against other Opportunity Zones across the State and country, and should highlight shovel-ready projects to attract Opportunity Fund investments.

### (b) <u>Hilo town contains a number of historic structures,</u> particularly in the downtown area.

The State Historic Preservation Division (SHPD) is responsible for administering Hawai'i Revised Statutes, Chapter 6E and Section 106 of the National Historic Preservation Act. The SHPD reviews projects for impacts to Hawai'i's historic and cultural resources. In the event a project will affect a significant historic property, certain mitigative actions may be necessary to reduce the potential impacts. Buildings on the National Register of Historic Places are eligible for the Historic Rehabilitation Tax Credit Program, which provides a 20 percent income tax credit for the rehabilitation of historic, income-producing buildings that are listed.

## (c) As a low lying coastal area, Hilo is prone to flooding caused by storm surge, and as historically proven, tsunamis.

Properties located within Federal Emergency Management Area (FEMA) designated flood zones trigger flood insurance and flood hazard permitting requirements. Existing developments in flood zones may be designated as existing, nonconforming structures. However, redevelopment investment of 50 percent or more of the building value require conformance with the current flood development standards. In addition, parts of the coastal area and areas along the Wailoa River and Waiakea Pond are within the projected 3.2-foot sea level rise exposure area as designated by the Hawai'i Climate Change Mitigation and Adaptation Commission.

## (d) Many properties in the Kanoelehua Industrial Area, along Banyan Drive, and in the Panaewa area are Stateowned leasehold properties.

The majority of these properties are owned by the DLNR or the DHHL. Because these properties have term limits on their leases, and because the improvements placed upon them revert back to the State at the expiration of the lease, many lessees are deterred from making substantial improvements upon their properties, particularly towards the end of their lease terms. This results in poorly maintained structures. Further, Stakeholders have noted that for those properties under a Revocable Permit rather than a General Lease, there is no incentive to make improvements to existing structures as rent rates may be increased as a result of improvements made because Revocable Permit terms are set annually, rather than over a long-term period as is the case with General Leases.

Many State leases were issued after the 1960 tsunami in Hilo. Since there is a set maximum lease term, many leases are set to expire in the coming years. However, it is noted that Section 171-191, HRS, enacted in 2018 as Act 149, establishes the Hilo Community Economic District, an geographically defined area of Hilo wherein the Board of Land and Natural Resources (BLNR) is able to extend State leased lands by up to 40 years upon the approval of a development agreement proposed by the lessee to make substantial improvements to the existing improvements or to construct new substantial improvements. Substantial improvements are defined as any renovation, rehabilitation, reconstruction. or construction of the improvements, including minimum requirements for off-site and on-site improvements, the cost of which equals or exceeds thirty per cent of the market value of the existing improvements. As such, an opportunity does exist for State leased lands within the Hilo Community Economic District to have their leases extended if they are willing to make substantial improvements to their properties.

### (e) The real estate market is experiencing shifting demand trends

Stakeholders have indicated that there is a decrease in demand for industrial space in Hilo. In terms of uses within existing industrial areas, there has been a shift to more recreational uses and office uses instead of true industrial uses. In addition, big box stores are using less warehouses for storage of goods. As a result of these shifting trends, consideration may be given to re-evaluating zoning designations in some of Hilo's Industrial areas.

#### c. (Re)development Opportunity Areas

The Suitability Analysis identified several hotspots for potential (re)development activity within Hilo. See **Figure 3**.

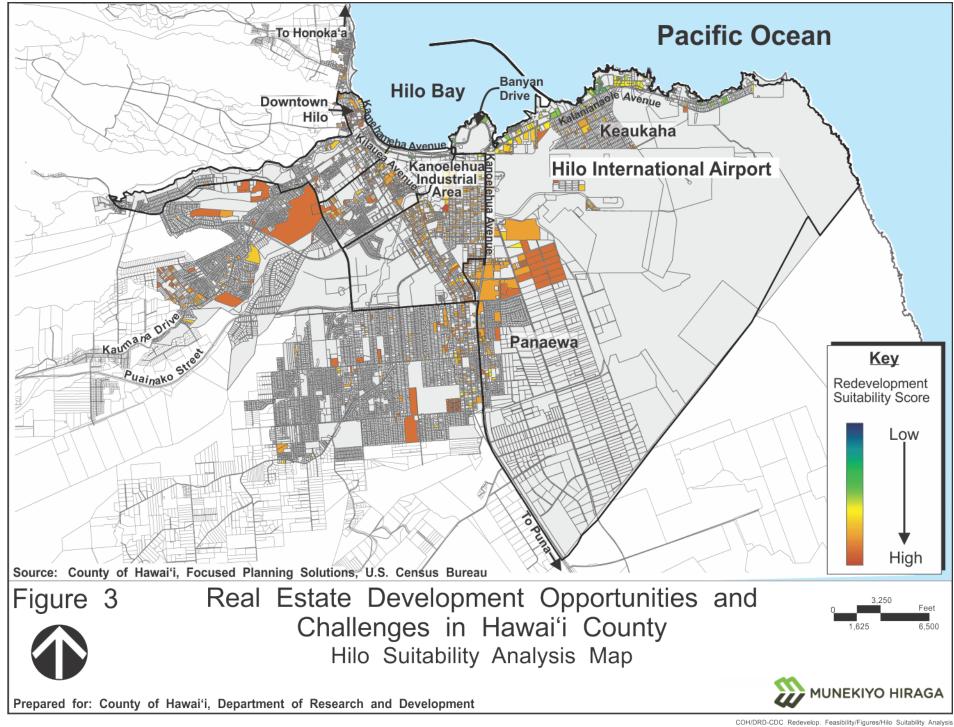
#### i. <u>Downtown Hilo</u>

Downtown Hilo is an area of Hilo town along Hilo Bay that is host to many locally owned shops and restaurants, the Hilo Farmer's Market, and many of Hilo's historic buildings. The area is zoned and designated as the Downtown Hilo Commercial District (CDH) and is geographically bound by Hilo Bayfront, Ponahawai Street, Kapiolani Street, and the Wailuku River.

The CDH zoning district is similar to the County's CV (village commercial) zoning district, wherein a number of commercial and residential uses are allowed. There are a number of vacant retail spaces and lots in Downtown Hilo, which has the potential to yield a vibrant, walkable community.

As previously noted, in 2005, a community-based vision and action plan for Downtown Hilo, called EnVision Downtown Hilo, was prepared to document the community's desired growth and goals for the downtown area. One of the resulting actions was the County's preparation of a Downtown Hilo Multimodal Master Plan. The Hilo Downtown Improvement Association, a community-led organization founded in 1962 that works to promote the history, culture, environment, and economy of Downtown Hilo, was a contributor to the creation of the EnVision plan.

The Suitability Analysis identified a number of vacant parcels and improved parcels for redevelopment. Challenges noted for Downtown Hilo include a lack of parking, a lack of housing options, and its location within the Tsunami Evacuation Zone.



#### ii. Banyan Drive

Banyan Drive is located along the peninsula which juts out into Hilo Bay to the east of downtown Hilo. Banyan Drive is home to Hilo's hotels, a number of apartment buildings, Lili'uokalani Park and Gardens, and the Naniloa Golf Course. Many of the properties along Banyan Drive are owned by the State DLNR and leased to tenants. Some of these leased lands are nearing the end of their lease terms, and, as a result, substantial improvements have not been made to the properties for some time with the exception of the Grand Naniloa Hotel, which most recently underwent a major renovation and the Hilo Hawaiian, which features recently renovated guestrooms and is scheduled to undergo a \$1.6 million renovation (Brestovansky, March 2019). Other establishments, such as the former Uncle Billy's Hilo Bay Hotel, have closed.

Pursuant to HRS, Chapter 53, the County of Hawai'i created the Banyan Drive Hawai'i Redevelopment Agency to work toward improving the Banyan Drive redevelopment area, as defined by the Hawai'i County Council, through a coordinated revitalization effort via the adoption and implementation of a master urban redevelopment plan. It is noted that the Banyan Drive Redevelopment Agency has not been able to initiate work due to lack of funding by the Legislature. Legislation proposed to fund the agency failed in both 2018 and 2019. Legislators have indicated that they will pursue funding again in 2020 (Brestovansky, 2019).

#### ii. <u>Kilauea Avenue</u>

Kilauea Avenue is a major thoroughfare which runs in a north-south direction through Hilo, terminating in Downtown Hilo. Many residences and commercial establishments are located along Kilauea Avenue.

The Suitability Analysis identified a number of parcels along the Kilauea Avenue corridor for potential (re)development. Notably, a large cluster of parcels in the vicinity of Kukuau Street, between Kilauea Avenue and Kinoole Avenue, was identified. Several of the parcels which scored highly in the Suitability Analysis are under development or proposed for development. These include:

- Kilauea Avenue and Kukuau Lane A new commercial development was under construction in summer 2019 at the corner of Kilauea Avenue and Kukuau Lane.
- Former Hilo Lanes A redevelopment proposal for the former Hilo Lanes property was approved. The project includes converting the structure into commercial spaces to include a gym and other retail establishments. A building permit for interior renovations was issued by the County in October 2018 (Burnett, 2019).

#### iii. Other Notable Developments

Other notable planned and proposed developments in Hilo include:

- **Project Kamoleao** A DHHL project, Project Kamoleao is proposed to be located within the Panaewa homestead area, and aims to provide an 11,000 square feet (sq. ft.) community center with certified kitchen; a 22,650 sq. ft. health and wellness complex; 9,600 sq. ft. of retail space; and 27,950 sq. ft. of light industrial space. The Final Environmental Assessment for Project Kamoleao, published in October 2018, notes that development of the project will occur in several phases. Development is anticipated to occur once funding can be raised and other development precursors are met. At this time. implementation of the project has not yet been initiated (PBR Hawaii, 2018).
- Kuu Papaikou is described as an agricultural community with included commercial and community use spaces in the Papaikou area just outside of Hilo. As of May 2019, Kuu Papikou was still in the conceptual phase, with the developer planning to conduct further community engagement on the project (Haag, 2019).
- Keaukaha Rehabilitation and Infill Lots Another DHHL
  project, this project entails encouraging current lessees to
  build on vacant awarded lots; improving and awarding
  vacant available lots; and rehabilitating existing older homes
  for new lessees. The estimated start for implementation of
  individual projects was summer 2019, and will persist as

long as funds and eligible applicants are available over the next 5 to 10 years (PBR Hawaii, 2018).

• Wailani Mixed-Use Project – is proposed to be a mixeduse project consisting of residential units, commercial space, and a medical campus along Komohana Street. As of March 2019, the project was still in its planning phase (Brestovansky, 2019).

#### 2. Kona

#### a. <u>Overview</u>

Kailua-Kona is a population and commerce center in West Hawai'i. In 2018, there were approximately 13,000 people residing in Kailua-Kona, which represents 6.4 percent of the County's population. See **Table 2**.

**Table 2.** Kailua-Kona Demographic Summary

	Kailua-Kona	Hawaiʻi County		
Population, 2000	9,727	148,680		
Population, 2010	11,989	185,079		
Population, 2018	12,962	201,814		
Percent Change, 2000-2010	23.3%	24.5%		
Percent Change, 2010-2018	8.1%	9.0%		
Percent of County Population	6.4%	100.0%		
Households	4,606	73,681		
Average Household Size	2.66	2.64		
Median Age	39.26	42.18		
Median Household Income	\$42,100	\$39,800		
Housing Units	5,566	87,811		
Occupied Housing Units	82.8%	83.9%		
Vacant Housing Units	17.3%	16.1%		
Renter-Occupied	47.7%	32.8%		
Owner-Occupied	52.3%	67.2%		
Number of Businesses	1,181	6,843		
Number of Employees	10,018	65,105		
Source: Gale Business, Complete Demographic Comparison Report, 2018.				

The Queen Kaʻahumanu Highway is a main arterial roadway along the West Hawaiʻi coast. The Ane Keohokālole Highway was completed in 2012 and is the first new major road built in the region in recent history, connecting neighborhoods in the region and paving the way for new development projects. Kailua-Kona is located within the service area for the County of Hawaiʻi Department of Water Supply's service zone and is serviced by the Kealakehe Wastewater Treatment Plant. See **Figure 4**.

Kailua-Kona serves as center of government for the West Hawai'i region. The West Hawai'i Civic Center, completed in 2011, serves as a centralized location for various County of Hawai'i offices. The \$98.5 million Keahuolū Courthouse, formerly known as the Kona Judiciary Complex, is slated to open later in 2019 and will serve as a centralized courthouse for the West Hawai'i community.

Tourism is a driving industry in West Hawai'i and Kailua-Kona is home to many visitor attractions. The Ellison Onizuka Kona International Airport is located at Keahole, north of Kailua-Kona. The airport serves interisland flights as well as transpacific service for destinations along the west coast of the mainland United States and Japan.

Commercial uses within Kailua-Kona are concentrated in the area in and around Kailua Village. Light industrial and big box retail uses are also found mauka of the Queen Ka'ahumanu Highway in the vicintiy of Kaloko Industrial Park. Residential neighborhoods are primarily located in the upland areas, mauka of Queen Ka'ahumanu Highway. See **Figure 5**.

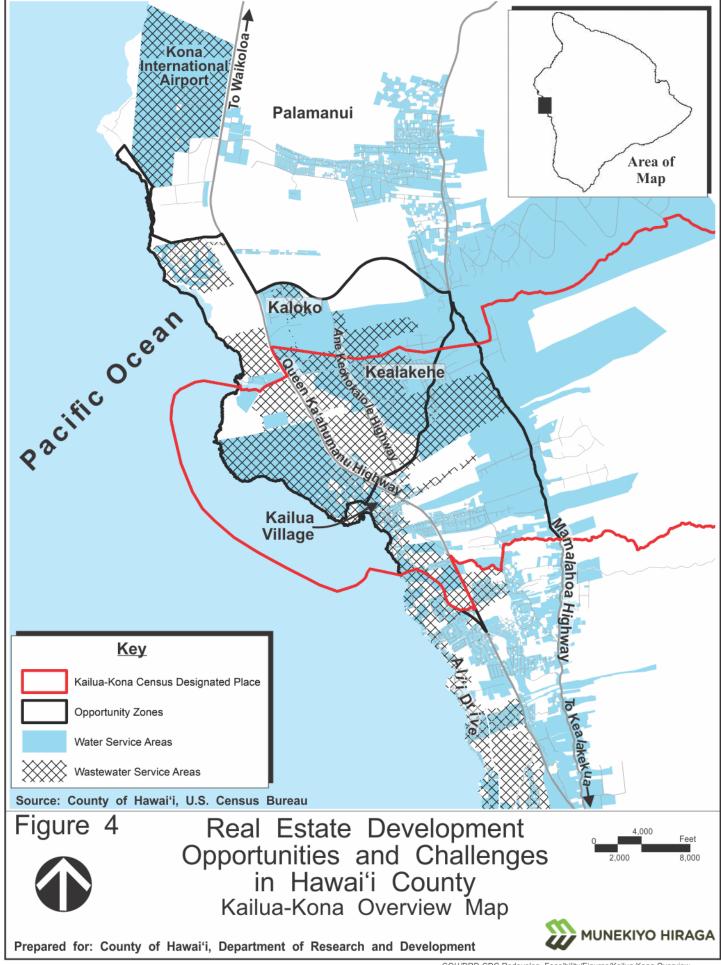
Major landowners in the Kailua-Kona region include the DHHL, Hawai'i Housing Finance and Development Corporation (HHFDC), and the Lili'uokalani Trust.

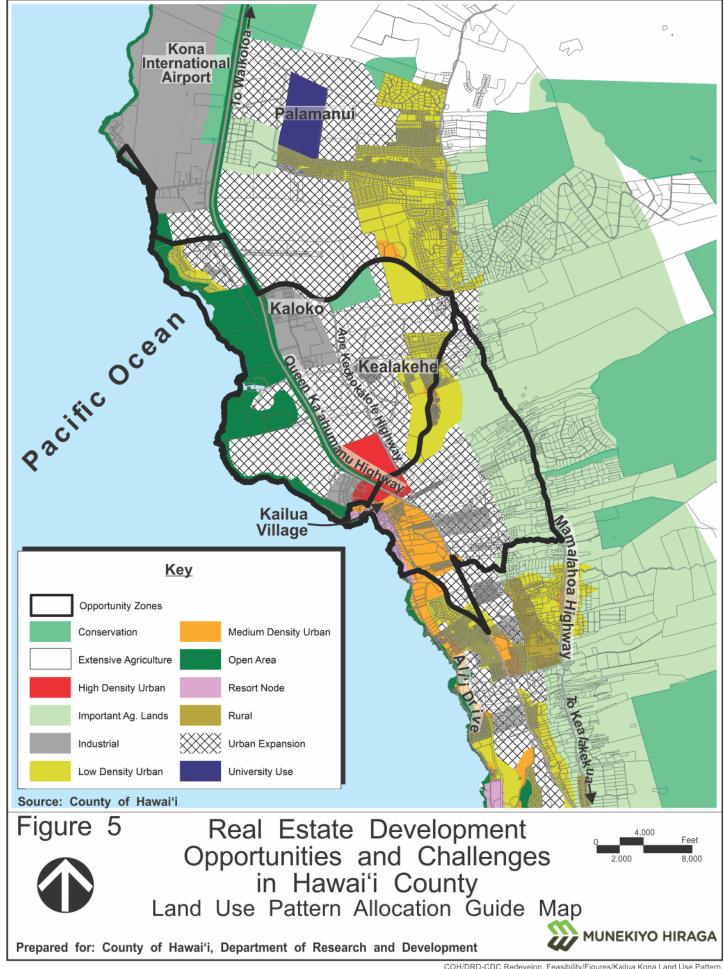
#### b. (Re)development Considerations

#### i. <u>Infrastructure</u>

#### (a) Water

Kailua-Kona is located within the Keauhou Aquifer, which the National Parks Service had sought to have designated as a groundwater management area through a petition to the Commission on Water Resource Management (CWRM). Designation as a groundwater management area





would have required water use permits to be approved by the CWRM for new water sources. In February 2017, the CWRM denied the petition to designate the Aquifer and instead directed staff to further investigate and possibly adjust sustainable yields. The CWRM's 2019 Water Resource Protection Plan stated that the sustainable yield for the Keauhou Aquifer is 38 mgd and existing water use as of December 2016 was 18.13 mgd, which represents 48 percent of the sustainable yield (CWRM, 2019).

#### (b) <u>Wastewater</u>

The majority of the Kailua-Kona area is serviced by the County's Kealakehe Wastewater Treatment Plant. Upgrades to the Kealakehe Wasetwater Treatment Plant are planned to produce R1 recycled water that can be utilized by customers for nonpotable use. However, the completion of the upgrades to the plant have been delayed due to review for National Historic Preservation Act Section 106 compliance. An Environmental Impact Statement (EIS) pursuant to Chapter 343, HRS must also be completed. Completion of the project, which was originally planned for completion in 2020, is now delayed until 2023 (Jensen, 2019).

#### (c) Transportation/Connectivity

Stakeholders noted that some older areas of Kailua-Kona have poor roadway connectivity. For example, in the Kona Industrial Subdivision, there are some multiple dead end roadways. The poor connectivity leads to increased congestion and limited accessibility.

#### ii. Land Use Policies

## (a) <u>Stakeholders report that the Kona Community</u> <u>Development Plan (CDP) is an impediment to development in the region.</u>

Numerous stakeholders have commented that the Kona CDP presents challenges to development in the region. The Kona CDP was adopted by Ordinance No. 08-131 in 2008 and covers the regions of North Kona and South Kona.

Several issues have been raised with respect to the Kona CDP. One issue is that there are conflicts between mandatory language in the Kona CDP and the Hawai'i County Code and Administrative Rules. In 2017, the Intermediate Court of Appeals ruled on the Missler Case (No. CAAP-13-0002347) and found that the Kona CDP had the force of law as an ordinance and regional implementer of the General Plan and that certain language in the Kona CDP was mandatory.

Stakeholders noted that the Concurrency Requirement (Policy TRAN-6.1) of the Kona CDP presents an impediment to development. The CDP establishes which concurrency requirements establishes segments which must be constructed concurrent with the occupancy of units as the minimum area mitigation to increase the capacity of an arterial or other major road. The Kona CDP contains a table which identifies the specific roadway improvements that must be constructed. Landowners and developers noted that the upfront infrastructure is challenging and developments are not always able to support the cost of the required infrastructure upgrades.

The Kona CDP establishes a mandatory design review process for projects that meet certain criteria, such as master planned developments. This design review process is conducted prior to the submittal of entitlement applications and adds to the lengthy entitlement process for new developments.

In response to the Missler Case, the County proposed amendments to the KCDP which are intended to alleviate conflicts between the KCDP and HCC and the Administrative Rules, commitments to provide support or funding for projects and/or actions that the County currently cannot fulfill, and policies and actions mandated by the Kona CDP which are beyond the authority of the General Plan or the CDP. The County Council adopted amendments to the Kona CDP on September 4, 2019.

## (b) Areas poised for redevelopment may not have the proper zoning designation to facilitate such redevelopment.

There are areas of Kailua-Kona that stakeholders and the Suitability Analysis have identified as opportunities for redevelopment. However, the existing zoning does not allow uses which may be desirable in redevelopment efforts. In particular, the Kona Industrial Subdivision, which is zoned MG-1a, General Industrial is primed for redevelopment as industrial uses are shifting to newer light industrial parks in other areas and more commercial uses are moving in. However, residential uses and some commercial uses are not permitted, limiting the possibility for mixed-use development under current zoning designations.

#### iii. Other Considerations

### (a) Many sites in Kailua-Kona have challenging site conditions which increase costs for site preparation.

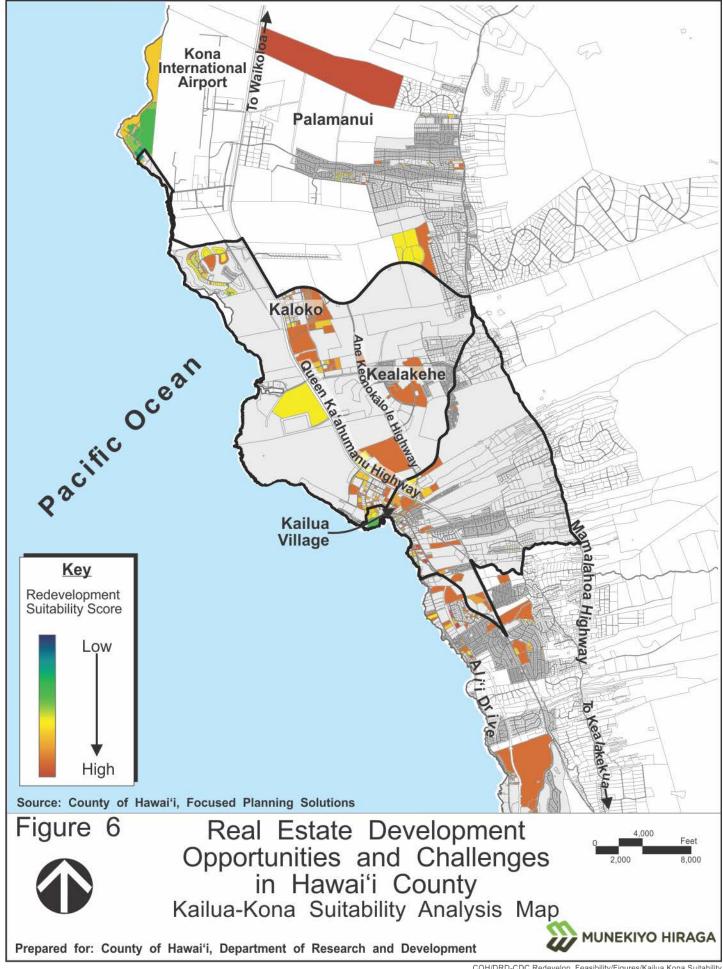
Sloping terrain and sites with lava rock are common in Kailua-Kona. These conditions present challenges from an engineering and design perspective and increase costs for site preparation.

## (b) Two census tracts in Kailua-Kona are designated as Opportunity Zones, presenting opportunities to attract additional investment.

Census Tract 215.04 (Kealakehe) and Census Tract 216.01 (Kailua) have been selected as Opportunity Zones by Governor David Ige. As previously mentioned, these areas are competing against other Opportunity Zones across the State and nation. To attract investment through the program, there should be shovel-ready projects for Opportunity Funds to invest in.

#### c. (Re)development Opportunity Areas

The Suitability Analysis identified several hotspots for potential redevelopment activity within Kailua-Kona. See **Figure 6**.



#### i. Kailua Village

Kailua Village is recognized as the cultural, retail, and visitor core of Kona. The majority of Kona's urban affordable housing is located in close proximity to Kailua Village, but much of this housing is in poor condition. The Kona CDP identifies redevelopment of Kailua Village as a high priority and has designated the area as a Regional Center Transit Oriented Development.

Within Kailua Village is the Kona Industrial Subdivision (KIS) (also sometimes referred to as the Old Kona Industrial Subdivision). The majority of the KIS area is zoned MG-1a, General Industrial. The KIS has experienced a shift from primarily true light industrial uses to a mix of industrial, commercial, retail, and restaurant uses. With respect to future redevelopment in the KIS area, it is noted that permitted uses within the MG-1a, General Industrial zoning district is primarily limited to industrial-related and limited commercial uses; residential uses are not permitted, limiting the possibility for mixed-use development under current zoning designations.

The Kailua Village Business Improvement District (KVBID) was formed by ordinance in 2007 as a collaborative effort between business, government, and area residents to develop and implement creative solutions to improve cleanliness, attractiveness, community and economic vibrancy of Historic Kailua Village. An assessment is collected from district taxpayers to fund KVBID programs and improvements.

The Suitability Analysis identified a mix of vacant parcels and parcels for redevelopment. Several of the parcels which scored highly in the Suitability Analysis are under development or proposed for development. These include the following:

• Niumalu Marketplace – The \$95-million Nimalu Marketplace broke ground in June 2018. The 180,000 square foot shopping center will be anchored by a Safeway grocery store and 18-pump gas station. The project is slated for completion in 2020. The project will create a large vacancy when Safeway relocates from its current location at the Kona Crossroads Shopping Center on Henry Street (Miculka, 2018).

- Keahuolū Courthouse The \$96 million Keahuolū Courthouse, formerly known as the Kona Judiciary Complex, was completed in 2019. The new 32,000 square foot courthouse will consolidate operations currently taking place at three (3) sites (Jensen, 2018).
- Kona Brewing Co. The Kona Brewing Company is constructing a new 30,000 square-foot brewery that is slated for completion in the first quarter of 2020 (O'Connor, 2019). The company is leasing the 2.6-acre site from the Lili'uokalani Trust (Kona Brewing Company, 2017).
- Makalapua Project District The Makalapua Project District is proposed by the Lili'uokalani Trust on 67 acres of land makai of Queen Ka'ahumanu Highway at Makala Boulevard. The project will include residential, hotel, retail, commercial, office, and civic/community uses. The Final EA for the project was published in April 2019. A State Land Use District Boundary Amendment, County Change of Zone, and Special Management Area Use Permit will be required (Munekiyo Hiraga, 2019).
- Keahuolū Keahuolū is a master planned development on lands makai of Ane Keohokalole Highway and adjacent to Kailua Village. According to a Trafifc Impact Analysis Report prepared for the Makalapua Project District, the Keahuolū project will include a mix of residential units, commercial and office space, retail space, hotel, and community space. The project will be implemented in phases and fully built out by 2044 (Austin, Tsutsumi, and Associates, Inc., 2019).

#### ii. Kealakehe Area

The Kealakehe Area is located mauka of Queen Ka'ahumanu Highway along Kealakehe Parkway. The West Hawai'i Civic Center and Kealakehe High School are located off of Kealakehe Parkway, with residential areas further mauka.

 Villages of La'iopua - The DHHL Villages of La'i'opua is located in Kealakehe, mauka of the Ane Keohokalole Highway. Village 3 was completed in 2000 and provides 225 residential units. A portion of the 117-unit Village 5 has been constructed while Village 4 has not yet been constructed. A 26.5-acre community center is also proposed (DHHL, 2019).

#### iii. Kaloko Area

Mauka of Queen Ka'ahumanu Highway, there are two (2) business parks with infill and expansion potential. The Kaloko Industrial Park is located off of Queen Ka'ahumanu Highway and Hina Lani Street. The first two (2) phases of the Kaloko Industrial Park have been developed and are anchored by Costco Wholesale and Home Depot. Phase 3 and Phase 4 of the Kaloko Industrial Park will provide 102 acres of land zoned as MCX-1a, Industrial-Commercial Mixed.

South of the Kaloko Industrial Park is the proposed West Hawai'i Business Park. The 243-acre business park is zoned MCX-20, Industrial-Commercial Mixed. The West Hawai'i Business Park was reclassified from Conservation to Urban by the State Land Use Commission and rezoned by the County Council in 2004. The rezoning included a condition that required extension of Kamanu Street before any lots could be subdivided, with the exception of a 10-acre portion of the property. This condition has presented a constraint for the development. Landowner Lanihau Properties noted that they have been trying to sell some or all of the property for the past decade but have been unsuccessful, in part due to the upfront roadway costs. In 2018, Lanihau Properties sought an amendment to the condition which would have allowed them to develop 48.4 acres prior to triggering the need to extend Kamanu Street, instead of the 10 acres originally specified in the condition.

Further mauka of the Kaloko Industrial Park and West Hawai'i Business Park is the Kaloko Heights development project and the Kaloko Affordable Housing Project. The Kaloko Affordable Housing Project will provide up to 111 2-bedroom and 3-bedroom affordable rental units and is anticipated to be completed in 2021. The adjacent Kaloko Heights project covers 207.9 acres on the north side of Hina Lani Street (Phase I) and 193.9 acres on the south side of Hina Lani Street (Phase II). The development will include 1,300 single- and multi-family residential units, parks, and some potential commercial uses (Stantec Consulting, Inc., 2019).

#### iv. Other Notable Developments

There are substantial zoned and entitled lands within the Kailua-Kona area. Other notable planned and proposed developments not discussed above include:

 Pālamanui - Pālamanui is a 725-acre proposed masterplanned community that will incorporate 1,116 new residential units for middle-income local families, a 30-acre University Village Town Center, 70-acre business park, 20 acres of regional park and smaller neighborhood parks, and 74-acre dryland forest preserve (Pālamanui, 2019).

The Hawai'i Community College—Pālamanui campus was completed and opened to students in Fall 2015. The campus includes classrooms, vocational labs, a computer lab, and a library/learning center. Pālamanui has contributed \$22 million to build the Hawai'i Community College Pālamanui Campus, including \$12 million for the design and construction of a water system for the project and college, which was dedicated to the County of Hawai'i (Pālamanui, 2019).

The Pālamanui project received land use approvals in 2005 and 2006. The State Land Use Commission granted reclassification of the land to "Urban" in June 2005 (Docket #A03-744) and the County Council adopted Ordinance 06-105 establishing a Project District for the Pālamanui development in July 2006. In 2009, the County Council adopted Ordinance 09-132, which amended the conditions of approval for the Palamanui property. Conditions of approval for the State Land Use District Boundary Amendment and County Ordinances related to various infrastructure requirements. including roadway improvements, timing of construction, open space and recreation, affordable housing, among other things. Several years ago, Palamanui Global Holdings, LLC requested amendments to conditions related to the requirements for some of the offsite roadway improvements. master planned project was affected by the Great Recession and associated drop in Hawai'i island housing market (Miller, 2013).

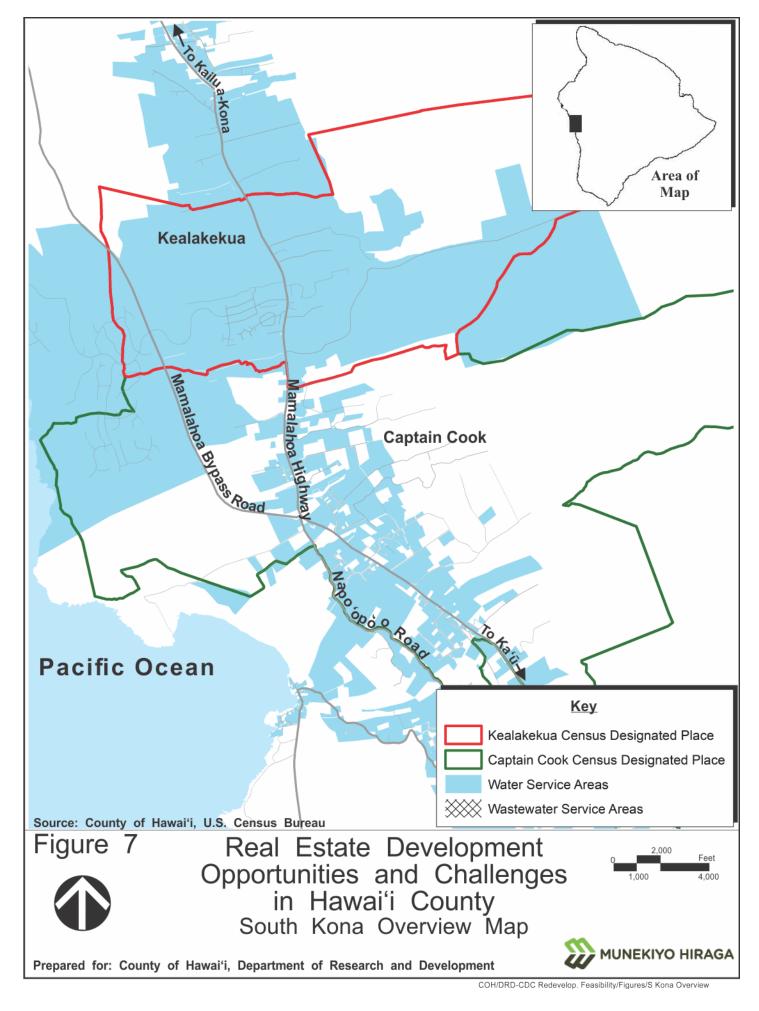
Pālamanui is designed to be completed in four (4) phases over a 20-year timeline. Only the college campus has been completed to date.

• Kamakana Villages – The Kamakana Villages is a 272-acre master-planned community owned by the HHFDC. The development calls for the construction of more than 2,000 residences. Two (2) affordable rental projects for seniors and families were completed in 2018. HHFDC has been in discussions with Stanfard Carr to transfer the development rights for Kamakana Villages from the previous master developer, Forest City Hawaii Kona LLC (Dible, 2018).

#### 3. South Kona

#### a. Area Overview

South Kona is a rural region of Hawai'i island, with population centers concentrated along Māmalahoa Highway at Kealakekua, Captain Cook, and Honaunau. There were approximately 1,800 residents living in Kealakekua and approximately 2,700 residents living in Captain Cook in 2018 representing 1.1 percent and 1.8 percent of the County's population, respectively. See **Table 3**. Agriculture is the major industry in the South Kona region, with the primary crops being coffee, macadamia nuts, and citrus fruits. Cattle ranching is also prominent in the region. The Māmalahoa Highway is the primary arterial running in a north-south direction through South Kona. See **Figure 7** and **Figure 8**.



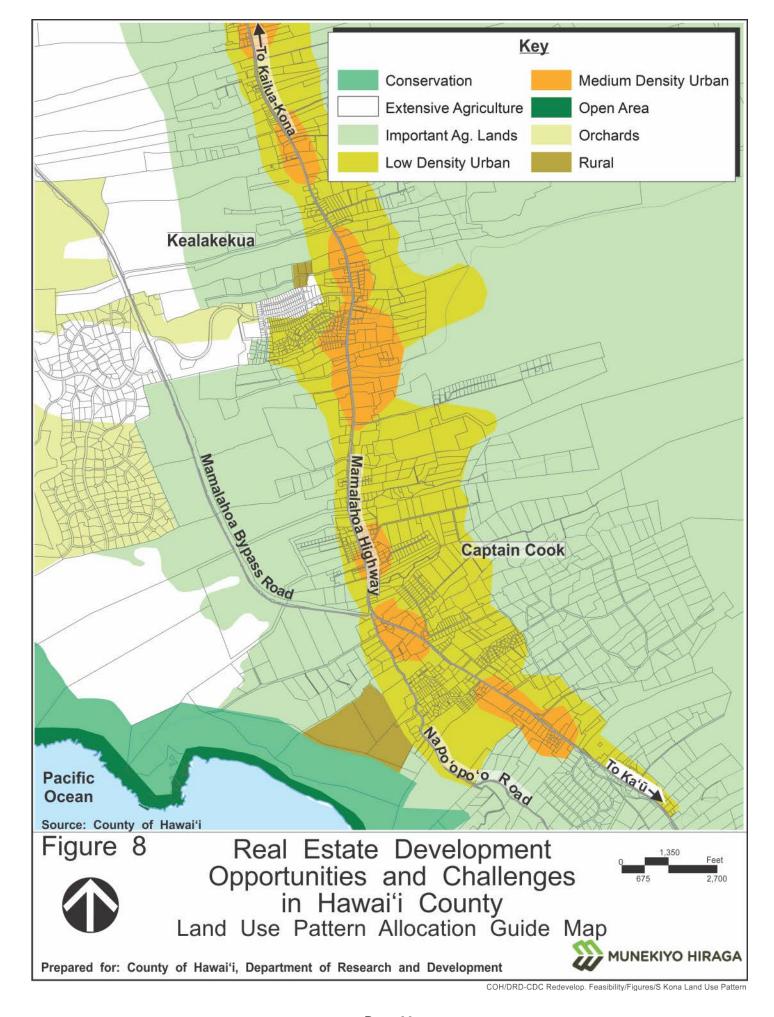


Table 3. Kealakekua and Captain Cook Demographic Summary

	Kealakekua	Captain Cook	Hawaiʻi County	
Population, 2000	1,788	2,669	148,680	
Population, 2010	2,016	3,428	185,079	
Population, 2018	2,130	3,573	201,814	
Percent Change, 2000-2010	12.8%	28.4%	24.5%	
Percent Change, 2010-2018	5.7%	4.2%	9.0%	
Percent of County Population	1.1%	1.8%	100.0%	
Households	769	1,313	73,681	
Average Household Size	2.57	2.72	2.64	
Median Age	46.75	45.9	42.18	
Median Household Income	\$44,400	\$61,717	\$39,800	
Housing Units	838	1,420	87,811	
Occupied Housing Units	91.8%	92.5%	83.9%	
Vacant Housing Units	8.2%	7.5%	16.1%	
Renter-Occupied	48.1%	36.3%	32.8%	
Owner-Occupied	52.0%	63.7%	67.2%	
Number of Businesses	81	78	6,843	
Number of Employees	760	435	65,105	
Source: Gale Business, Complete Demographic Comparison Report, 2018.				

#### b. (Re)development Considerations

#### i. <u>Infrastructure</u>

#### **Wastewater**

Properties in the South Kona Region are serviced by individual wastewater systems (IWS) regulated by the State Department of Health (DOH), such as septic systems or cesspools. Cesspools dispose of waste underground without treatment, while septic systems include some sort of treatment process. Cesspools can contaminate ground water, drinking water sources, streams and oceans with disease-causing pathogens, algae-causing nutrients, and other harmful substances. There are nearly 50,000 cesspools on Hawai'i island, most of which do not meet the Federal criteria of "large capacity". The State legislature passed Act 125 in 2017,

which requires all cesspools in Hawai'i to be upgraded or converted or the property must be connected to a sewer system before January 1, 2050 (State of Hawai'i, Department of Health).

#### ii. Land Use Policies

# (a) The Kona CDP encourages the redevelopment of rural towns along Māmalahoa Highway as Transit Oriented Developments (TODs) or Traditional Neighborhood Developments (TNDs).

The Kona CDP encourages the redevelopment of rural towns along Māmalahoa Highway, including Hōlualoa, Honalo, Kainaliu, Kealakekua, and Captain Cook, to be redeveloped as Transit Oriented Developments (TODs) or Traditional Neighborhood Developments (TNDs), which are compact, mixed-use villages characterized by a village center with a higher-density core. Despite this policy, widescale redevelopment has not occured.

As previously mentioned, stakeholders report that the Kona CDP can be an impediment to development due to conflicts between mandatory language in the Kona CDP and the Hawai'i County Code and Administrative Rules as well as concurrency requirements and the design review process. Amendments to the Kona CDP were recently adopted to address some of the challenges associated with the original language of the CDP.

#### iii. Other Considerations

### (a) Challenging site conditions increase costs for site preparation.

Similar to Kailua-Kona, sloping terrain and lava rock are common in South Kona. These conditions present challenges from an engineering and design perspective and increase costs for site preparation.

### (b) The rural towns along Māmalahoa Highway contain a number of historic structures.

The SHPD is responsible for administering HRS, Chapter 6E and Section 106 of the National Historic Preservation

Act. The SHPD reviews projects for impacts to Hawai'i's historic places. In the event a project will affect a significant historic property, certain mitigative actions are necessary to reduce the potential impacts. Buildings on the National Register of Historic Places are eligible for the Historic Rehabilitation Tax Credit Program, which provides a 20 percent income tax credit for the rehabilitation of historic, income-producing buildings that are listed.

#### c. (Re)development Opportunity Areas

The Suitability Analysis identified several hotspots for potential redevelopment activity within South Kona. See **Figure 9**. The opportunity areas are concentrated in the towns of Kealakekua and Captain Cook, which are located along Māmalahoa Highway.

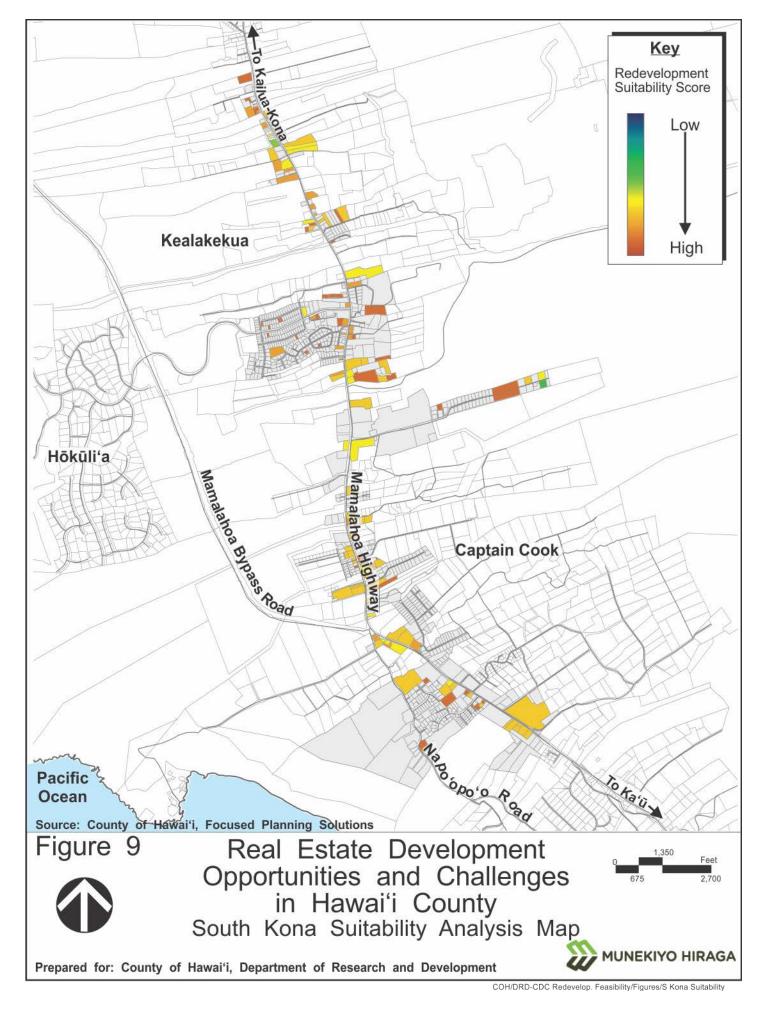
#### i. Kealakekua

Kealakekua has many community facilities and amenities, including the Kona Community Hospital, Konawaena High School, and many businesses and commercial uses such as banks, local restaurants, and other services. The majority of opportunity sites identified in Kealakekua are located along or in close proximity to Māmalahoa Highway.

The long-delayed, master-planned luxury golf course community of Hōkūli'a is located south of Kealakekua. The 730-lot subdivision will cater to primariliy second homebuyers.

#### ii. Captain Cook

A local landmark in Captain Cook is the Manago Hotel, which was opened in 1917 and the only hotel in the region. Similar to Kealakekua, the majority of opportunity sites identified in Captain Cook are located along or in close proximity to Māmalahoa Highway.



#### 4. Honoka'a

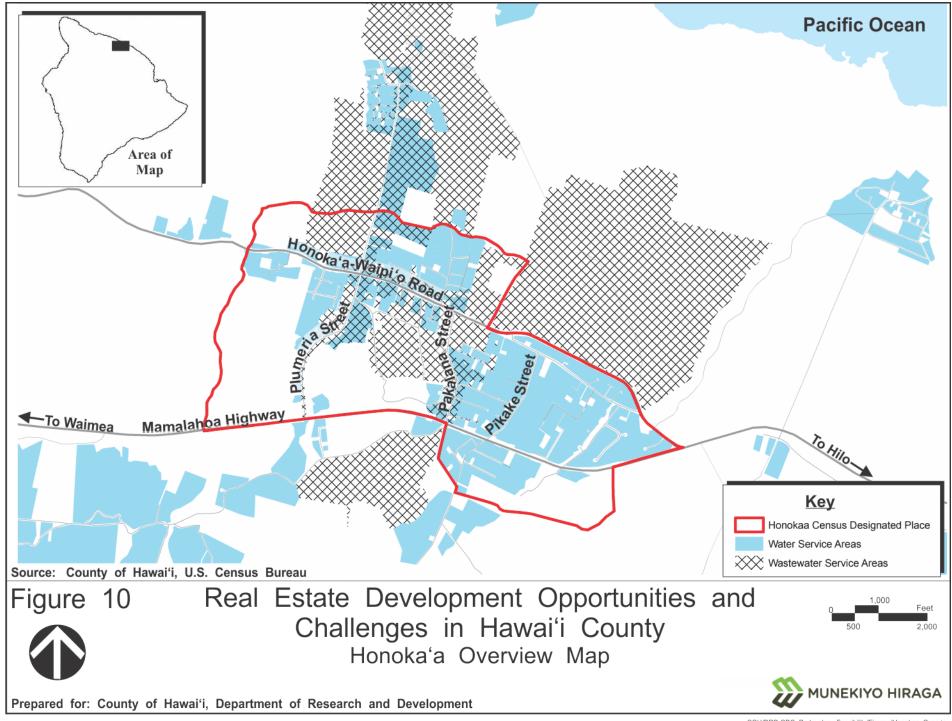
#### a. Overview

Honoka'a town boomed in the early 1900s during the height of the sugar industry on Hawai'i island. During this time, many of the towns along the Hāmākua Coast were established around a working sugar plantation. In 2018, there were approximately 2,300 people residing in Honoka'a, which represents approximately one percent of the County's population. See **Table 4**.

Table 4. Honoka'a Demographic Summary

	Honoka'a	Hawai'i County	
Population, 2000	2,218	148,680	
Population, 2010	2,258	185,079	
Population, 2018	2,303	201,814	
Percent Change, 2000-2010	1.8%	24.5%	
Percent Change, 2010-2018	2.0%	9.0%	
Percent of County Population	1.1%	100.0%	
Households	768	73,681	
Average Household Size	2.82	2.64	
Median Age	40.94	42.18	
Median Household Income	\$40,900	\$39,800	
Housing Units	842	87,811	
Occupied Housing Units	91.2%	83.9%	
Vacant Housing Units	8.8%	16.1%	
Renter-Occupied	36.7%	32.8%	
Owner-Occupied	63.3%	67.2%	
Number of Businesses	66	6,843	
Number of Employees	535	65,105	
Source: Gale Business, Complete Demographic Comparison Report, 2018.			

Honoka'a is located approximately 14 miles northeast of Waimea and adjacent to Māmalahoa Highway which circles the Island of Hawai'i. Honoka'a is located within the service area for the County of Hawai'i Department of Water Supply's service zone and is within the wastewater service area. See **Figure 10**.



The majority of jobs in the Honoka'a area are in the agriculture industry with many small and large farm operations nearby. Honoka'a also has a vibrant downtown with many locally owned small businesses. The North Hawai'i Education and Research Center of the University of Hawai'i at Hilo is also located in Honoka'a.

Commercial uses within Honoka'a are located along the main street of Honoka'a-Waipi'o Road. Residential uses are primarily located mauka of Honoka'a-Waipi'o Road. See **Figure 11**.

In Honoka'a town, a volunteer organization called the Historic Honoka'a Town Project was formed and has worked to get several of Honoka'a's historic buildings listed on the National Register of Historic Places. As of December 2018, ten (10) structures have been listed. The most recent additions to the register were Honoka'a's M.S. Botelho Building, Bank of Hawai'i, and the International Longshore and Warehouse Union Hall (Fuller, 2018).

#### b. (Re)development Considerations

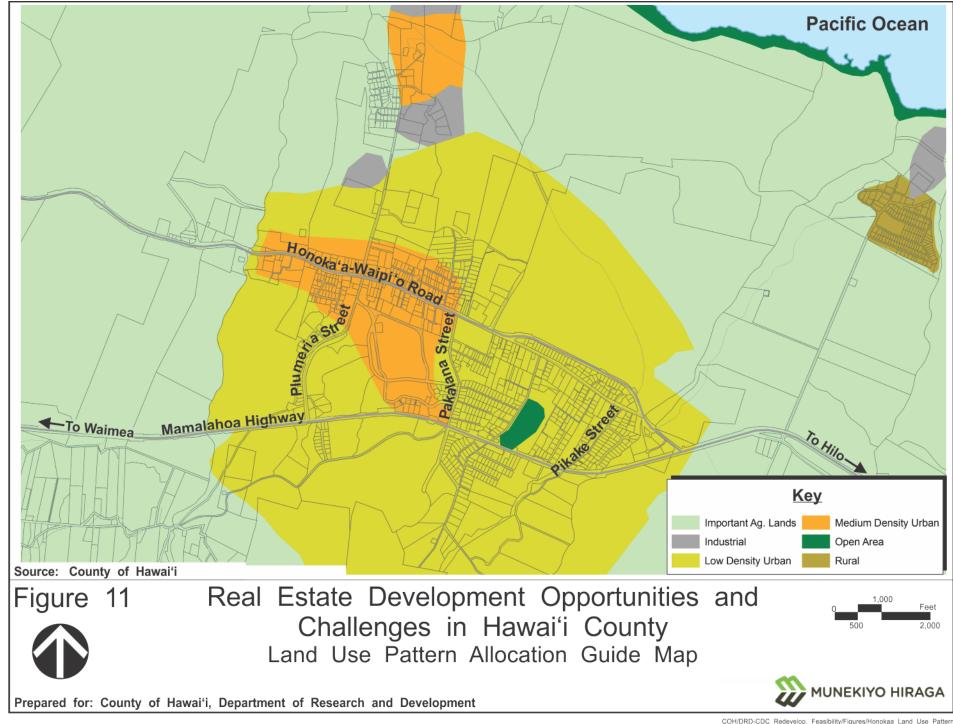
#### i. <u>Infrastructure</u>

#### (a) Water

While Honoka'a is located within the service area for the DWS service zone, the Hamakua CDP identified Honoka'a as a place where water availability may be inhibiting infill growth. Specifically, the lack of water in certain areas of the town does not encourage developers or landowners to develop. In terms of action steps, the CDP recommends that growth conditions be evaluated in order to coordinate improvements as required to the existing water systems to accommodate growth.

#### (b) Wastewater

The majority of properties along Honoka'a-Waipi'o Road and public owned properties within Honoka'a are serviced by the County of Hawai'i's municipal wastewater system. The remainder of properties in Honoka'a are on private wastewater systems. The Hāmākua CDP included Honoka'a in a list of towns and villages of priorirty areas for wastewater service. This is reflective of the community's desire to have increased wastewater services in Honoka'a. These designated towns were noted as lacking core



infrastructure, thus hindering redevelopment options, including the renovation of historic structures.

#### (c) <u>Transportation/Connectivity</u>

Honoka'a is located adjacent to Māmalahoa Highway, a major roadway which travels around the Island of Hawai'i. Honoka'a town is accessed via Pakalana Street, Plumeria Street, and Pikake Street, which also travels to mauka residential areas above Māmalahoa Highway.

#### ii. Land Use Policies

#### (a) <u>The Hamakua CDP envisions a revitalization of</u> Honoka'a into a vibrant small town.

The Hāmākua CDP was adopted in 2018 and encompasses Honoka'a within its geographical jurisdiction. The Hāmākua CDP lists within it goals specific to Honoka'a, including establishing a new Honoka'a town bus route, improving the Honoka'a town transfer and recycling station, undertaking roadway improvements, creating alternative accesses, and replacing and relocating the Honoka'a fire station. Specific strategies for maintaining the vibrancy of Honoka'a include centralizing commercial activities, undertaking complete streets improvements, repurposing the old courthouse for community use, and encouraging small businesses to promote and enhance sugar and culture of paniolo and former sugar plantation.

#### iii. Other Considerations

# (a) <u>Historic Structures in Honoka'a pay homage to its rich</u> plantation past.

Honoka'a town contains a number of historic structures, particularly in the area along Honoka'a-Waipi'o Road. As previously discussed, the SHPD is responsible for administering HRS, Chapter 6E and Section 106 of the National Historic Preservation Act and reviews projects for impacts to Hawai'i's historic and cultural resources. Buildings on the National Register of Historic Places, such as those in Honoka'a, are eligible for the Historic Rehabilitation Tax Credit Program, which provides a 20

percent income tax credit for the rehabilitation of historic, income-producing buildings that are listed.

#### c. (Re)development Opportunity Areas

The Suitability Analysis identified several hotspots for potential redevelopment activity within Honoka'a. See **Figure 12**.

#### i. Honoka'a-Waipi'o Road

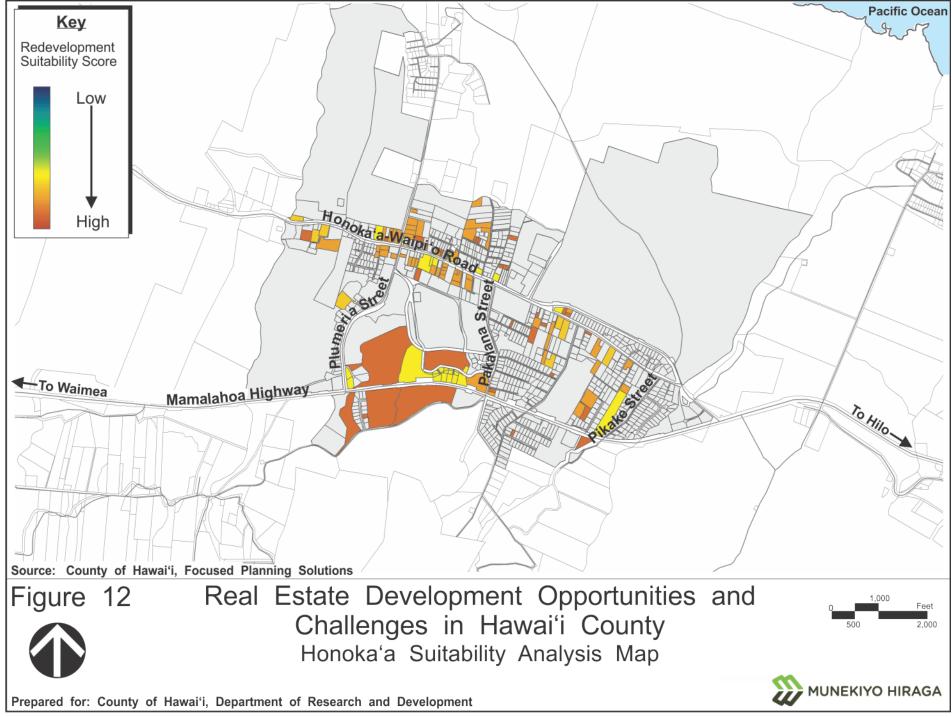
Honoka'a-Waipi'o Road is the main street in the downtown area of Honoka'a, with many locally owned small businesses lining the road. As previously discussed, many of the structures along this roadway were constructed during the sugar plantation era. As such, many of the structures are candidates for some sort of rehabilitation and/or restoration action.

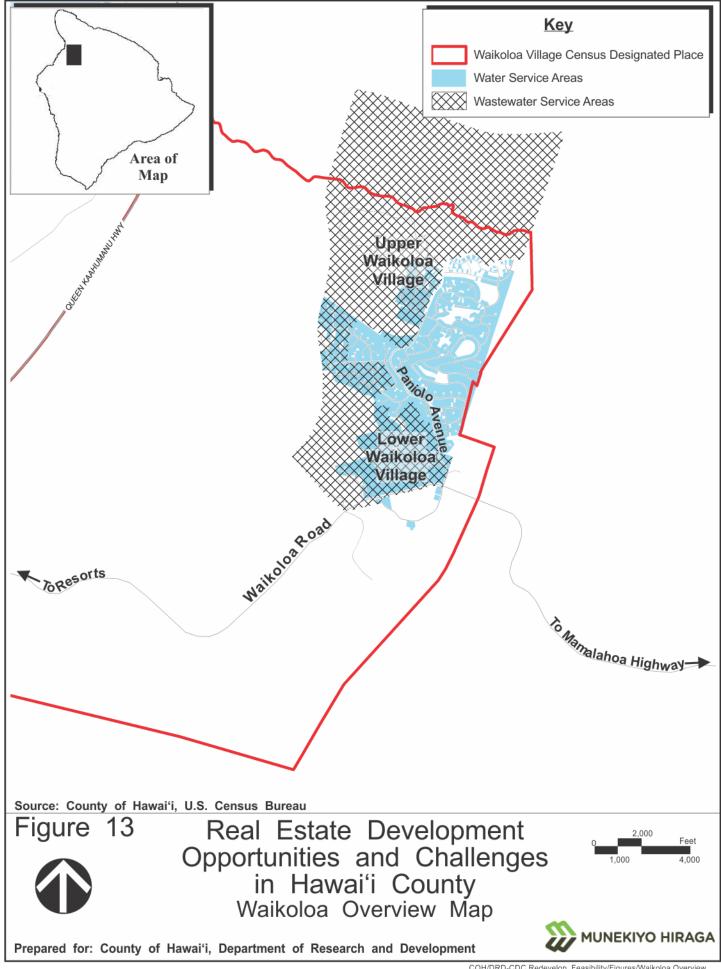
Walking through Honoka'a town, one can see that rehabilitation of certain buildings has been undertaken. Through the work of the Historic Honoka'a Town Project, there are opportunities to obtain funding for rehabilitation of those structures that have been listed on the National register.

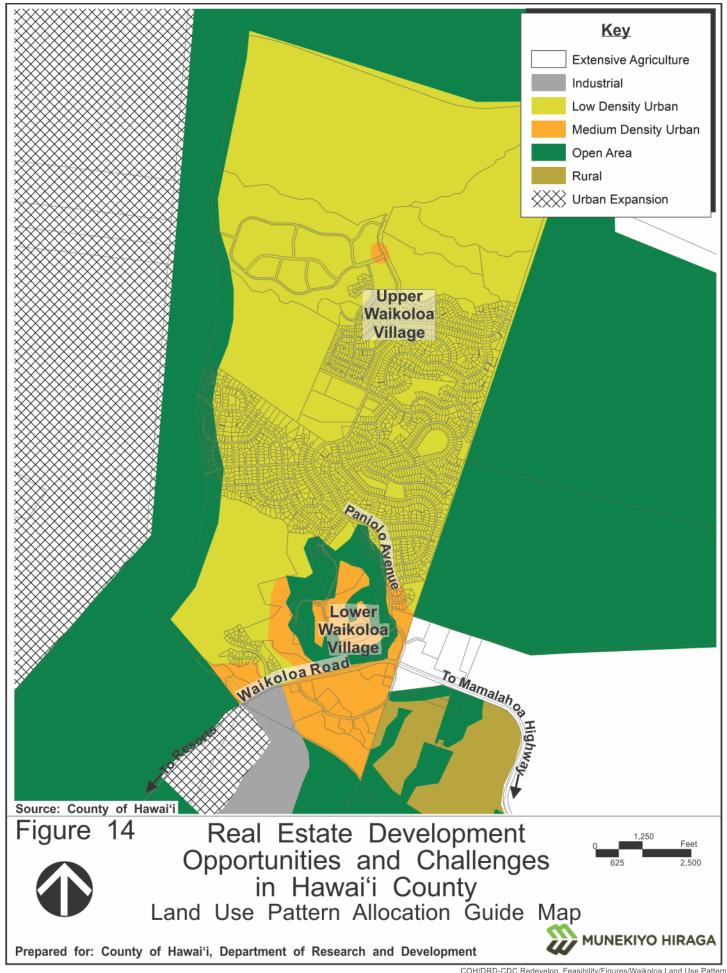
#### 5. Waikoloa Village

#### a. Area Overview

Waikoloa Village is located in the South Kohala region in close proximity to many of the island's major resorts. Waikoloa Village is a master planned community originally established in the 1970s. The largely residential community includes housing for employees for coastal resort developments. In 2018, there were approximately 6,500 people residing in Waikoloa Village, which represents 3.3 percent of the County's population. The median household income for Waikoloa Village is notably higher than the County as a whole; households in Waikoloa Village had a median income of \$50,700 in 2018, compared to \$39,800 for the County. There is also a higher proportion of vacant residential units in Waikoloa Village, 22.6 percent compared to 16.1 percent for the County as a whole. This may be attributable to a higher proportion of second homeowners in Waikoloa Village. See **Table5**. See **Figure 13** and **Figure 14**.







**Table 5.** Waikoloa Village Demographic Summary

	Waikoloa Village	Hawaiʻi County
Population, 2000	4,528	148,680
Population, 2010	6,336	185,079
Population, 2018	6,563	201,814
Percent Change, 2000-2010	39.9%	24.5%
Percent Change, 2010-2018	3.6%	9.0%
Percent of County Population	3.3%	100.0%
Households	2,383	73,681
Average Household Size	2.65	2.64
Median Age	40.07	42.18
Median Household Income	\$50,700	\$39,800
Housing Units	3,080	87,811
Occupied Housing Units	77.4%	83.9%
Vacant Housing Units	22.6%	16.1%
Renter-Occupied	32.4%	32.8%
Owner-Occupied	67.5%	67.2%
Number of Businesses	86	6,843
Number of Employees	722	65,105
Source: Gale Business, Complete Demograph	nic Comparison Report, 2	018.

Waikoloa Village is located mauka of Waikoloa Beach Resort and Mauna Lani Resort on Waikoloa Road. Waikoloa Village Golf Club is located north of Waikoloa Road, with single-family development beyond. Commercial uses within Waikoloa Village are concentrated near the intersection of Waikoloa Road and Paniolo Avenue and lands along Pua Melia Street, while currently mostly vacant, are zoned for commercial use.

#### b. (Re)development Considerations

#### i. <u>Infrastructure</u>

#### (a) Water

While infrastructure and water availability in particular has been noted as a constraint for development in Hawai'i County, Waikoloa Village is distinguished by being serviced by a private water company. Hawai'i Water Service

manages the water systems that serves Waikoloa Village and Waikoloa Beach Resort, as well as systems in Keauhou and Kukio. There are seven (7) existing wells with a capacity of 10 million gallons per day (mgd). An eighth well is anticipated to be completed soon, which would increase capacity to 11.4 mgd, with an associated effective production of 8.3 mgd. Current production is between 5.0 and 6.0 mgd.

The private water system in Waikoloa draws water from the Waimea Aquifer System and the 'Anaeho'omalu Aquifer System, which have sustainable yields of 17 mgd and 30 mgd, respectively. Existing water use as a percent of the sustainable yield is 86.4 percent and 18.2 percent, respectively (State of Hawai'i, Commission on Water Resource Management, 2019).

#### (b) Wastewater

Hawai'i Water Service also provides wastewater utility services for Waikoloa Village and Waikoloa Beach Resort.

#### (c) <u>Transportation/Connectivity</u>

Waikoloa Village is located off of Waikoloa Road, which connects Queen Ka'ahumanu Highway to Hawai'i Belt Road and Saddle Road and the Daniel K. Inouye Highway further east. Waikoloa Village is in close proximity to the resort areas along the Kohala coast.

#### ii. Land Use

## Waikoloa Village has a sizable amount of undeveloped, residential and commercial zoned lands.

There are more than 100 acres of vacant land zoned for single-family and multi-family residential uses in addition to other vacant commercially zoned lands. The abundance of zoned land is not prevalent in many other areas on Hawai'i island. Given the lengthy time frame for entitlements, the availability of zoned land with available infrastructure presents a significant opportunity.

#### iii. Other Considerations

# (a) <u>Waikoloa's locational advantages create stronger</u> market demand in the area.

With its close proximity to many of South Kohala's resort areas, Waikoloa Village has a locational advantage with respect to distance to employment centers. Due to the vast expanse of Hawai'i island, residents spend a larger proportion of their income on transportation costs compared to residents in other counties. In 2017, Hawai'i County residents spent 28 percent of their income on transportation, compared to 24 percent, 23 percent, and 19 percent for Kaua'i, Maui, and O'ahu, respectively. Refer to **Figure 1**. With tourism as the primary economy on the island and the proximity to the major resort employment centers, development in Waikoloa Village is well located to take advantage of demand for workforce housing.

#### c. (Re)development Opportunity Areas

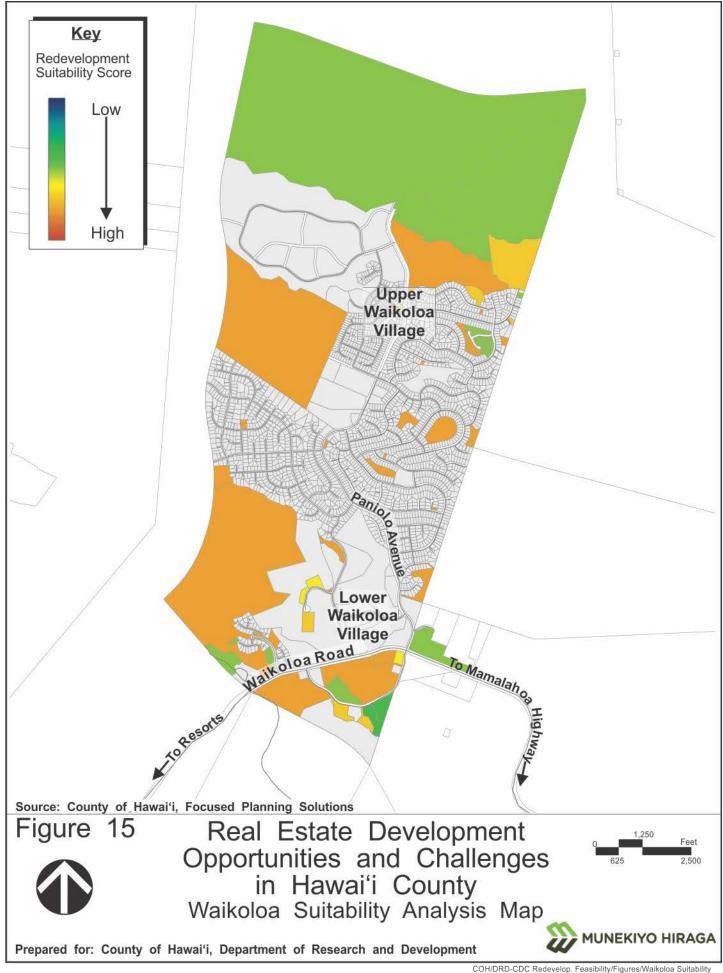
The Suitability Analysis identified potential redevelopment areas in the commercial and multi-family zoned areas of Lower Waikoloa Village and the single-family residential zoned areas of Upper Waikoloa Village. See **Figure 15**.

#### i. Lower Waikoloa Village

The area of Lower Waikoloa Village around Pua Melia Street are largely vacant with "CV-10, Village Commercial" and "RM-2.5 Multifamily Residential" zoning. Two (2) of the parcels identified as opportunities in the Suitability Analysis are under development or proposed for development. These include:

#### • Waikoloa Plaza

Waikoloa Plaza is a new 11.89-acre shopping center that is currently under construction by Meridian Pacific, Ltd. The center, located on Pua Melia Street and Waikoloa Road, will have 110,700 square feet of gross leasable area. Future tenants include Foodland grocery store, Ace hardware store, a State public library, Aloha Petroleum Gas Station, Holiday Inn Express, along with other retail and dining establishments (Waikoloa Plaza, 2019).



#### • Kaiaulu O Waikoloa

Affordable housing developer Ikaika Ohana is proposing to develop a 60-unit affordable multi-family rental project on a 4.6-acre parcel on Pua Melia Street. The proposed project is anticipated to be completed in 2021 (Environmental Risk Analysis, 2019).

#### ii. Upper Waikoloa Village

There are large parcels of undeveloped lands zoned as "RS-10, Single-Family Residential" at the outskirts of Waikoloa Village. Over 70 acres of land at the northern extent of Waikoloa Village remain undeveloped.

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# DESCRIPTION OF ENTITLEMENTS AND PERMITS

**APPENDIX** 

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#### **DESCRIPTION OF ENTITLEMENTS AND PERMITS**

The entitlements and permits required for a particular (re)development project can have a significant impact on the project development schedule and feasibility. Fully entitled properties with no special regulatory considerations will be able to proceed directly to construction permits. If a site requires other land use entitlement approvals or permits, additional time and cost must be factored into the project schedule and budget. In certain instances, land use approvals are sequential rather than concurrent, resulting in a lengthy entitlement process. Discretionary approvals introduce more risk to projects compared to ministerial/administrative approvals involving little or no judgement by the reviewing official/agency. Sites with little or no regulatory requirements beyond construction permits present the developers with less risk and reduce predevelopment time and costs. A summary of various federal, state and county regulatory requirements is discussed below.

#### a. Federal

#### i. National Environmental Policy Act (NEPA)

Projects utilizing Federal funds or lands or triggering a Federal permit must comply with NEPA. Through the NEPA process, Federal agencies evaluate the environmental and related social and economic effects of their proposed actions through the preparation of a NEPA Environmental Assessment (EA) or Environmental Impact Statement (EIS) documents. A Categorical Exclusion may be issued for certain classes of actions that have been determined to not individually or cumulatively have a significant impact and, therefore, neither an EA nor EIS is required.

## ii. <u>Department of Army Permit (Section 404, Clean Water Act and Section 10, Rivers and Harbors Act)</u>

Any project which plans to discharge dredged or fill material into a water of the U.S., which includes oceans, rivers, streams, or wetlands, must comply with Section 404, Clean Water Act. Actions may include discharging dredged or fill material, site development fill, construction of breakwaters, levees, dams, or dikes, or placement of riprap and certain roadway improvement actions. This process requires permitting through the U.S. Army Corps of Engineers (USACE).

In addition to the above, any project which seeks to complete any work in, over or under navigable waters of the U.S., or which affects the course, location, condition or capacity of such waters, are subject to permitting requirements of Section 10, Rivers and Harbors Act, under the jurisdiction of the USACE. Such actions include the construction of bridges, piers, wharves, breakwaters, and cable or pipeline crossings, dredging, excavation, or filling.

#### iii. Section 106, National Historic Presrvation Act (NHPA)

Section 106 of the NHPA requires Federal agencies to take into account the effects of their undertakings on historic properties and afford local historic preservation offices the opportunity to comment on proposed actions. Any projects utilizing Federal lands or funds or requiring a Federal permit, such as a Department of Army Permit, are subject to this process. The Section 106 process seeks to accommodate historic preservation concerns through consultation among agencies and other parties with an interest in the effect of the action on historic resources. The goal of this process is to identify historic resources, assess the effects of the undertaking, and seek ways to avoid, minimize, or mitigate these effects.

#### iv. <u>Section 7, Endangered Species Act (ESA)</u>

Section 7 of the ESA of 1973, as codified in 50 Code of Federal Regulations Part 18, requires Federal agencies to take into account the effects of their undertakings on endangered and threatened species. Any projects utilizing Federal lands or funds or requiring a Federal permit are subject to this process. The Section 7 process seeks to accommodate potential threats to endangered or threatened species through consultation with the U.S. Fish and Wildlife Service. The goal of this process is to identify species that may be present in the area of the proposed project, assess the effects of the undertaking, and seek ways to avoid, minimize, or mitigate these effects.

#### b. State

#### i. State Land Use Districts

The Hawai'i State Land Use Law (codified in Chapter 205, Hawai'i Revised Statutes (HRS)) was adopted in 1961, establishing a framework of land use management and regulation, in which all lands in the State of Hawai'i are classified into one (1) of four (4) land use districts – Urban, Rural, Agriculture, and Conservation. Uses proposed on lands must be in compliance with the underlying designation, otherwise a Special Use Permit (SUP) or District Boundary Amendment (DBA) must be pursued. Projects that are 15 acres or more in size must obtain a DBA or SUP through the State Land Use Commission, while projects less than 15 acres are processed by the respective County Councils.

#### ii. Chapter 343, Hawai'i Revised Statutes (HRS) Environmental Review

Chapter 343, HRS is the guiding legislation for environmental review in Hawai'i. EA or EIS documents are prepared to evaluate the technical characteristics,

environmental impacts, and alternatives of a project, as well as to advance findings and mitigative measures relative to the proposed project.

Projects are required to comply with Chapter 343, HRS when they meet one (1) of the nine (9) established triggers, which include, among other things, use of State or County funds or lands, use within a shoreline area, use within a historic site designated in the State or National register, or an amendment to County general plans. A common trigger for development projects is the use of State or County lands when offsite infrastructure improvements are required.

#### iii. Chapter 6E, HRS Historic Preservation Review

The State's historic preservation review process is codified in Chapter 6E, HRS and is administered by the State Historic Preservation Division (SHPD). Historic preservation review under Chapter 6E, HRS is required for State or County projects (HRS 6E-8) before any State or County agency issues a permit, land use change, or other entitlement approval (HRS 6E-42). The Chapter 6E, HRS review process is a multi-step process involving 1) identification and inventory, 2) evaluation of significance, 3) determining effects to significant historic properties, 4) mitigation commitments, 5) development of mitigation plans, and 6) verification of mitigation completion. Review times are codified in Hawai'i Administrative Rules (HAR) Chapter 13-275 and 13-284, and provides for 30 days from time of initial submittal to SHPD and their written acceptance of the submittal, 45 days for review of the information for adequacy, and an additional 45 days to render a concurrence or non-concurrence with the proposed determination and mitigation. However, in practice, SHPD review frequently extends well beyond the statutorily established timeframes.

#### c. County Land Use Permits

#### i. General Plan and Land Use Pattern Allocation Guide

The current Hawai'i County General Plan, approved in 2005, is the overall planning document for Hawai'i Island. It discusses broad land use goals and objectives which seeks to guide long-term development in the County. The General Plan also established a Land Use Pattern Allocation Guide (LUPAG), which broadly designates all lands in the County for certain uses. Amendments to a property's LUPAG designation would need to be initiated by the Planning Director or County Council on behalf of the landowner, and requires approval by Council. It is noted that the County General Plan is currently in the process of being updated and is targeted for completion in late summer 2020.

#### ii. Community Development Plan

The General Plan also outlines the process for adopting Community Development Plans (CDPs), which serve as the forum for translating community input into County policy at the regional level and coordinating the delivery of County services to the community. The CDPs translate the broad General Plan statements into actions as they apply to specific geographical areas. The CDPs direct physical development and public improvements and may contain detailed land use information on matters relating to the planning area. Projects planned in the County must be in line with goals and objectives of the regional CDP. The CDPs also contain general land use maps which aim to direct development to certain areas. Similar to LUPAG amendments, CDP map amendments also must be initiated by the Planning Director or County Council on behalf of the landowner, and requires approval by Council.

#### iii. Zoning

Zoning of properties in the County is regulated by the zoning code, Chapter 25 of the Hawai'i County Code (HCC). Designations of properties are depicted on zoning maps for each district in the County. Zoning designations dictate the specific uses and development standards that are allowable on a specific property. In addition, zoning designations also dictate accessory uses, which are accessory to a primary permitted use and which may be allowable on a property if a Use Permit is obtained. If a proposed use is not permitted due to the underlying zoning designation, a Change of Zone must be sought, which requires approval by the County Council. Change of Zones are subject to conditions of approval.

#### iv. Special Districts

The County's Zoning Code identifies a number of special zoning districts including the Downtown Hilo Commercial District (CDH), University District (UNV), Pāhoa Village Design District (PVD), and the Kailua Village Design Commission. These districts require additional levels of design review for proposed projects.

#### v. Variances

Variances from provisions of the County zoning code may be allowed if the requested variance will not allow the introduction of a use not otherwise permitted within the existing zoning designation, or if the variance will not effectuate relief from density limitations. Variance requests must meet certain criteria including demonstrating that there are special or unusual circumstances on the property which deprives the owner of substantial property rights or that interferes with the best use of the property, that there are no other reasonable alternatives that would resolve the difficulty, and that the variance request is consistent with the general

purpose of the zoning designation and the General Plan, and that there will be no detriment to the public welfare or cause adverse impacts to the surrounding area. Variance requests are administratively reviewed and approved by the Planning Director.

#### vi. Special Management Area (SMA)

HRS, Chapter 205A, establishes the Coastal Zone Management Program for the State of Hawai'i, which is administered by the different Counties through the Special Management Area (SMA) permitting process. On top of land use entitlements, projects that are proposed within the SMA must obtain an SMA permit. The level of SMA permitting required depends on the valuation of a project, and if a project is anticipated to have a substantial adverse effect on the SMA. If a project has a valuation less than \$500,000.00 and will not result in substantial adverse effects, a Minor Permit may be issued. However, if the project valuation is in excess of \$500,000.00, or if it is anticipated to result in substantial adverse effects, a Use Permit must be obtained. A SMA Use Permit is reviewed and approved by the appropriate Planning Commission and is subject to conditions of approval.

It is noted that among the allowable exemptions from SMA permits are construction or reconstruction of single-family residences less than 7,500 square feet in size; repair, maintenance, or interior alterations to existing structures or relating to existing uses; demolition or removal of structures not located on a historic site or listed on the State or National registers; structural and non-structural improvements to existing single-family residences; and non-structural improvements to existing commercial structures. These exemptions can be beneficial for home and business owners located in the SMA.

#### vii. Flood Hazard Areas

To promote the public health, safety, and general welfare, and to minimize public and private losses due to flooding in flood hazard areas as designated on the Flood Insurance Maps produced by the Federal Emergency Management Agency, the County Department of Public Works (DPW) reviews all building permits, certificates of occupancy, grading permits, and development of subdivision proposals to ensure that all proposed developments are in compliance with flood development standards outlined in HCC, Chapter 27, Floodplain Management. A Special Flood Hazard Certification form, Floodproofing Certificate, and Elevation Certificate completed by a licensed structural engineer or architect must be submitted with building plans for developments within a flood hazard area.

#### viii. Site Plan Approval

The Plan Approval process is intended for the Planning Department to closely inspect certain development actions and all development within certain zoning designations in order to ensure conformance with the General Plan, zoning ordinance, and to ensure that pertinent conditions of previous approvals related to the proposed development have been satisfied. Plan Approval is triggered by eight (8) actions as listed in HCC, Section 25-2-71 which include development in all zoning districts except for RS, RA, FA, A, and IA and not including construction of single-family dwellings; change of uses from residential to commercial and warehouse/manufacturing to retail in all districts; prior to the development of public uses, telecommunication equipment, temporary real estate offices and homes, and utility substations in all districts; any construction of minor agricultural products processing in the RA and FA districts; development of any trailer park or major agricultural products processing facility in the A district; as a condition of approval for any use permit, variance, or other action relating to a specific use; establishment of any agricultural tourism activity; and any construction or alteration of any structures within a special district that has adopted design standards. If triggered, an application for Plan Approval must be filed with the Planning Department for review and action by the Planning Director.

#### ix. Special Permits and Use Permits

Special Permits are granted to allow for other non-agricultural uses on State Agricultural lands. Use Permits are granted for uses that are generally allowable on non-agricultural lands, but require careful consideration, such as churches, schools or golf courses. Within the zoning code, each zoning designation lists uses that would be permissible with the approval of a Use Permit. The appropriate County Planning Commission (Leeward or Windward) serves as the approving body for both Special Permits and Use Permits.

#### d. <u>County Construction Permits</u>

#### i. Grading permits

Grading permits are required for any earth moving activity. In addition, grubbing of lands and stockpiling of excavated material also require permits (HCC, Chapter 10). Applications are filed with the DPW for review and approval. Grading permit applications are also reviewed by the County Planning Department and the SHPD. The Engineering Division of the DPW noted that until SHPD has signed off, grading permits will not be approved. For State or County projects, or projects requiring a discretionary approval such as a Special Management Area permit, efficiency can be gained by first completing the HRS, 6E process with SHPD, and then submitting SHPD's 6E determination letter in with the grading permit application. Once a

grading permit submittal has been deemed complete, issuance of the permit can occur within approximately two (2) weeks.

#### ii. **Building permits**

Building permits are required for the construction or alteration of new or existing buildings and structures. Building permit applications and building plans are submitted via the County's online portal, and are subject to review by a number of County and State agencies. After review of an application is complete, the Building Division of the DPW will contact the applicant regarding issuance of the permit. If submittals are complete and plans have no errors, the DPW notes that building permits can be issued in approximately 90 days. As discussed previously, stakeholders have noted that the building permit process can be lengthy and extend over several months or longer (HCC, Chapter 5).

#### iii. <u>Electrical permits</u>

Electrical permits are required for any type of electrical work with the exception of installation of a portable motor or appliance by means of an approved cord, repairs of existing appliances or replacement of the same, replacing receptacles or switches, maintenance work, or emergency work that will be permitted (HCC, Chapter 9). Plans are reviewed concurrently with building permit plans. Once the building permit is approved, the electrical subcontractor applies for the electrical permit with the DPW. Because some efficiency was gained with plan review occurring concurrently with building plan review, the DPW notes that electrical permits may be issued in approximately two (2) weeks.

#### iv. Plumbing permits

Plumbing permits are required for any installation, removal, alteration, repair, or replacement of any plumbing, gas, or drainage piping work or any fixture, water heating, or treating equipment with the exception of repair work of existing piping involving the replacement of the same or clearing stoppages, repair work, or replacement of fixtures that does not involve replacement of parts (HCC, Chapter 17). Plans are reviewed concurrently with building permit plans. Once the building permit is approved, the plumbing subcontractor applies for the plumbing permit with the DPW. Because some efficiency was gained with plan review occurring concurrently with building plan review, the DPW notes that plumbing permits may be issued in approximately two (2) weeks.

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# FUNDING AND FINANCING SOURCES

### **APPENDIX**



#### **FUNDING AND FINANCING SOURCES**

Community development finance includes varied sources of funding that support stronger and more resilient communities around the country. The most effective community development finance projects require working collaboratively with financial institutions, community development organizations, nonprofits, foundations, research and policy centers, and government agencies. Key to encouraging (re)development will be to unveil new forms of equity such as long-term, patient and flexible capital, where yield will balance social and financial returns in balance to effectuate community development impact.

Also central to the (re)development success is leveraging the collective resources of public, private cross-sector partnerships including conventional and non-traditional lenders, investors, and markets to provide low-income and disinvested communities with increased access to capital and financial services.

The intent of the (re)development efforts is to incentivize and leverage precious resources in Hawai'i County. This means approaching (re)development efforts from a new perspective by joining new public/private partnerships to underwrite economic activities that neither banks nor the public sector can do alone. Using government loan guarantees, interest rate subsides, philanthropic sources and blended-rate loans in partnership with local lenders, all will benefit from sharing the costs and risks associated with community (re)development projects in the County.

While programs like the low-income housing tax credit program are heavily used and are only limited by the availability of tax credits, other programs such as community development block grants and philanthropic initiatives such as credit guarantees and PRIs are still underutilized and in some cases, still not understood in the Hawai'i market. Innovative public, private partnerships remain the most underutilized but most needed community development tool available to developers and municipalities alike.

A summary of potential funding and finance sources is provided in **Table 1** and discussed in greater detail below.

Table 1. Funding and Financing Sources

Туре	Private	Public	Philanthropic
Land Acquisition	Landowner, Developer, Equity, Crowdfunding	Grants, Returnable Grants, Equity	Grants, Returnable Grants, Program Related Investments, Credit Guaranty
Pre-Development Infrastructure	Community Development Financial Institutions (CDFI) financing Conventional with Credit Enhancement, Crowdfunding	Urban Renewal Law HRS 53-2 Redevelopment Agency <sup>1</sup> CDFI financing	Grants, Returnable Grants, Program Related Investments, Credit Guaranty
Residential: Market-Single Family	Conventional <sup>2</sup> Opportunity Zone Program <sup>3</sup>	Conventional	
Residential: Market-Multi- Family	Conventional Opportunity Zone Program	Conventional	
Residential: Affordable-Single Family	Conventional Opportunity Zone Program	Federal Home Loan Bank (FHLB) Community Development Block Grant (CDBG) HOME Investments Partnership Program (HOME)	
Residential: Affordable-Multi- Family Rental	Low Income Housing Tax Credits Opportunity Zone Program Conventional with Credit Enhancement	Hawai'i Housing Finance and Development Corporation (HHFDC), Rental Housing Revolving Fund (RHRF) Low Income Housing Tax Credits Federal: Affordable Rental Housing Preservation Funds CDFI subordinated financing	
Commercial Real Estate	Conventional New Market Tax Credit (NMTC), Equity Source Opportunity Zone Program Conventional with Credit Enhancement Crowdfunding	Conventional Federal Program: NMTC Opportunity Zone Program CDFI subordinated financing	
Mixed Use	Opportunity Zone Program Conventional with Credit Enhancement Crowdfunding	County: Hilo Preservation Grant Program Federal: New Markets Tax Credits CDFI subordinated financing	Grants, Returnable Grants, Program Related Investments, Credit Guaranty
Special Use: Historic Preservation	Opportunity Zone Program Conventional with Credit Enhancement Crowdfunding	Federal: Historic Tax Credits	Grants, Returnable Grants, Program Related Investments, Credit Guaranty

Hawaii Revised Statues 53-2, Enabling Statute.
 Conventional: Financial Institutions, Conventional Bank Financing.
 Federal Program; Individual Investor Capital; subject to location and OZ program requirements. Source: Ezuka Law Offices, LLC.

(Re)development projects will vary in terms of project, size, development complexity, partners, entitlements and infrastructure considerations. Residential, commercial and mixed-use project types are variables for redevelopment in key areas. Funding types will vary based on the type of (re)development.

Key to this work will be determining the specific and unique financing challenges and gaps on Hawai'i island. The following will outline a list of major funding tools that are available in the market and some funding and financing tools that can be considered to enhance sustainable and inclusive equitable developments on the island.

#### A. FUNDING AND FINANCING TOOLS

This section of the assessment is based on a variety of datasets, both public and private. Where published data was not readily available, the team attempted to assemble information that would provide a range of capital available –though these results may not represent all of the capital available in a particular segment or in a particular location (State, City or County).

New stakeholders and new tools continue to emerge in our community and economic development spaces such as a new awareness and focus on impact investing, the resurgence of community development financial institutions and loan funds, and more focused collaborative research such as the ALICE Report and the Community Health Needs Assessment published December 2018 by the Healthcare Association of Hawai'i and produced by the Islander Institute. The Community Health Needs Assessment identified Hawai'i island's foundational goal to provide individuals with the control over their own health including addressing their own financial insecurity as a key determinant of health. For more information access the comprehensive assessment online http://www.islanderinstitute.com/health.

ALICE is an acronym for Asset Limited, Income Constrained, Employed. In the State of Hawai'i, there are 165,013 ALICE households (37 percent), while another 47,066 households (11 percent) live below the poverty level. In total, 48 percent of Hawai'i households are ALICE and below. The Aloha United Way collaborated with generous sponsors to bring the first United Way ALICE Report - Hawai'i to better understand and raise awareness about the economic challenges faced by hardworking Hawai'i families and individuals. The ALICE Report for Hawai'i provides a range of research-based information, including Federal, State, County and district-level data, to assist in identifying challenges and root causes of financial hardship. This report can be a vital tool to address complex and challenging policy, budgetary and planning issue that can be applied to (re)development projects in the County of Hawai'i (Aloha United Way, 2017). For more information access the comprehensive report online https://www.unitedforalice.org/hawaii.

#### 1. Private

#### **Financial Institutions**

The banking industry is one of the most highly regulated industries in the nation. Although some level of regulatory controls are necessary to ensure consumer confidence and to maintain functioning financial markets, banks are often restricted by these regulations to make certain type of loans integral to economic and community development projects. (Re)development project financing works optimally when conventional bank financing is layered and/or leveraged with additional sources of capital and equity to close unique financing gaps. Essentially, conventional bank loans are a foundational layer to any project's capital stack.

There are 13 financial institutions authorized by the FDIC and active to do business in the State of Hawai'i. See **Table 2**.

Table 2. Financial Institutions in the State of Hawai'i

Bank Name	FDIC #	Status	Headquarters
American Savings Bank, FSB	32526	Active	Honolulu, HI
Bank of Hawaii	18053	Active	Honolulu, HI
Bank of the Orient	20387	Active	San Francisco, CA
Central Pacific Bank	17308	Active	Honolulu, HI
Finance Factors, Ltd.	25158	Active	Honolulu, HI
First American Trust, FSB	26312	Active	Santa Ana, CA
First Foundation Bank	58647	Active	Irvine, CA
First Hawaiian Bank	17985	Active	Honolulu, HI
Hawaii National Bank	18296	Active	Honolulu, HI
HomeStreet Bank	32489	Active	Seattle, WA
Mutual of Omaha Bank	32325	Active	Omaha, NE
Ohana Pacific Bank	58231	Active	Honolulu, HI
Territorial Savings Bank	30836	Active	Honolulu, HI
Source: Federal Deposit Insuran	ce Corporation (	FDIC.gov/bank	find).

Bringing bankers into the economic and community (re)development partnership adds another level of expertise and imposes another level of discipline to the business plan or project.

#### **Credit Unions**

Credit Unions are another source of capital for (re)development projects. As of December 31, 2018, 51 credit unions were associated with the Hawaii Credit Union Association totaling \$10,486,827,902 in assets with \$5,494,195,789 in loans

outstanding. In the County of Hawai'i, there are 9 associated credit unions with assets totaling \$1,712,424,167 with \$847,665,274 loans outstanding in 2018 (Hawaii Credit Union Association, 2018).

#### Community Development Loan Funds and Financial Institutions

Community Development Financial Institutions—or CDFIs—emerged in response to a lack of access to responsible and affordable credit and capital in minority and economically distressed communities.

The CDFI "movement" took shape in the 1970s with the passage of the Community Reinvestment Act, which encourages financial institutions to meet the needs of all sectors of the communities they serve. Amid growing concerns about the social consequences of investment decisions made by the financial services industry on the nation's low-income communities, early CDFIs began filling a niche by providing capital and credit in areas that are often difficult for traditional financial institutions to serve.

Community development loan funds (CDLFs) provide financing and development services to businesses, organizations, and individuals in low-income communities. See **Table 3**.

**Table 3.** State of Hawai'i, Community Development Loan Funds

Organization	Focus of Fund
American Ag Credit formerly Farm Credit Services	Agriculture
Council for Native Hawaiian Advancement	Native Hawaiian Consumer, Housing and Small Business
Enterprise	National CDFI with a limited # of projects in Hawaii
Feed the Hunger Foundation	Small Food Entrepreneurs
Hawaii Community Assets, Inc.	Native Hawaiian Consumer and Housing
Hawaii Community Reinvestment Corporation	Affordable Housing, Community Development, and Nonprofit Organizations (LISC HCRC Hawaii Loan Fund, Hawaii Loan Funds)
Hawaii Habitat for Humanity Statewide Assoc.	Loan Fund for Hawaii Habitat Affiliates
Hawaii HomeOwnership Center (Mortgage)	Residential Mortgage and Down- payment Assistance
HEDCO	SBA 504 Loans for Businesses
Homestead Community Development Corporation	Native Hawaiian Housing, Ag and Small Business
KIVA	Hawaii Food Producers Fund
Kauai Island Utility Corporation	Low Income Home Energy Assistance Program

Organization	Focus of Fund
The Kohala Center	Kaiau Microloans – Hawaii Island
Lei Hoolaha	Native Hawaiian Charter Schools
LISC	National CDFI with a limited # of projects in Hawaii.
Maui Economic Opportunity (MEO)	Small Business Microloans – Maui Island
Pacific Gateway Center	Small Business Microloans – Immigrants
RSF Social Finance	Food System Transformation Fund
Rural Community Assistance Corporation	Regional CDFI with a limited # of projects in Hawaii.
Slow Money Hawaii	Food System Microloans (Kiva platform)
Whole Foods Market	Local Producer Loan Fund
Waianae Community Development Council	Emerging CDFI Loan Fund

Government Sponsored Loan Programs/Loan Funds also provide financing and development services to businesses, organizations, and individuals in low-income communities. See **Table 4**.

**Table 4.** Governmental Sponsored Loan Programs

Department/Program	Fund Type
Small Business Administration	Small Business Loans & Guarantees via Financial Intermediaries
USDA Farm Service Agency	Agriculture and Farm Loans & Guarantees for Direct and via Financial Intermediaries
USDA Rural Development	Rural Development Loans & Guarantees Direct and via Financial Intermediaries
Department of Agriculture	Agriculture Loans
Department of Business Economic Development	CBED Revolving Loan Program for Small Business Entrepreneurship
Hawaii Green Infrastructure Authority	Loans for Solar and Photovoltaic Projects

There are four (4) main types of loan funds: microenterprise, small business, housing, and community service organizations. Each is defined by the client served, though many loan funds serve more than one type of client in a single institution. CDLFs tend to be nonprofit and governed by boards of directors with community representation.

Community development loan funds and/or community development financial institutions, given their relative neutral position, often are engaged as the local

convener to facilitate community (re)development with key stakeholders over the life of the project if properly resourced and formally engaged in this contract work.

Hawai'i Community Reinvestment Corporation (HCRC) was one of the first community development loan funds that was founded by a private public initiative between Hawai'i based financial institutions and the Federal Reserve Bank of San Francisco's Community Affairs Department with the sole intent to expand the continuum of credit available in the local market. Both HCRC and the Local Initiatives Support Corporation (LISC), a relative newcomer to the Hawai'i market, are leveraging expertise and capital to meet systemic economic and community development financing gaps in Hawai'i. Both bring their unique strength to the community development marketplace and together, can be powerful allies in community (re)development projects going forward.

#### **Hawaii Community Reinvestment Corporation**

HCRC is a 501(c)3 community-based non-profit corporation founded in 1990. HCRC is designated a CDFI and Community Development Entity (CDE) by the U.S. Department of Treasury. The mission of HCRC is to facilitate affordable housing, community development, and economic development throughout the State of Hawai'i by providing innovative financing, training and consulting services.

HCRC has facilitated over \$200 million in financing to support the development of over 3,500 affordable housing units in the State of Hawai'i, \$3.6 million in financing for small businesses through the SBA 504 Loan Program, and over \$4.8 million in energy efficiency loans through the DBEDT Greensun loan loss reserve program.

HCRC has forged an affiliation with LISC to form the LISC HCRC Hawai'i Loan Fund as a pilot project to serve the statewide footprint of the Hawaiian islands.

#### **Local Initiatives Support Corporation**

LISC was founded in 1980 and has since invested over \$20 billion leading to over \$60 billion in total development to enable 400,500 affordable homes and apartments, and 66.8 million square feet of commercial, retail and community space across the nation.

LISC receives funding from banks, corporations, foundations and government agencies and uses that funding to provide financing and technical and management assistance to local partners and developers. Through its 35 local offices, its rural program reaches nearly 2,100 counties in 44 states, and LISC-founded affiliates and entities they work with a vast network of community-based partners to make investments in housing, businesses, jobs, education, safety and health.

#### **Federal Home Loan Bank of Des Moines**

Hawai'i banks are members of the Federal Home Loan Bank (FHLB) of Des Moines and the FHLB of Des Moines is one of 11 regional Banks that make up the Federal Home Loan Bank (FHLBank) System. Established by Congress in 1932 to support mortgage lending, the FHLBanks are a stable source of funding for more than 7,300 federally insured depository institutions of all sizes and types. FHLB programs provide equity sources that help diversity and support financing gaps for community (re)development projects.

#### **FHLB Affordable Housing Program Grant Program**

FHLB of Des Moines offers a variety of products to support the purchase, construction or rehabilitation of affordable housing. Since the inception of the Affordable Housing Program in 1990, FHLB of Des Moines has awarded \$635 million to provide affordable housing opportunities to more than 106,000 families and individuals within their Western region.

#### **FHLB Downpayment Programs**

Although downpayment projects are targeted to individual homebuyers, Home\$tart and Native American downpayment programs are administered through local banks and are key to ensuring that qualified borrowers are "mortgage" ready which is a key piece of project underwriting as a take-out source.

Home\$tart® is a down payment and closing cost assistance program offered by FHLB of Des Moines to qualifying first time home buyers through member financial institutions. Since 1990, FHLB of Des Moines has awarded \$123.5 million in down payment and closing cost assistance to help more than 28,000 families with the purchase of a home. Home\$tart participants may receive up to \$7,500 in grant funds.

The Native American Homeownership Initiative is a down payment and closing cost assistance program offered by FHLB of Des Moines to qualifying Native American, Native Alaskan and Native Hawaiian home buyers through member financial institutions. Qualifying participants may receive up to \$15,000 in grant funds.

#### 2. Public

#### a. COUNTY

#### **Hilo Preservation Grant Program**

Through a partnership with preservation funders, Historic Hawai'i Foundation has established a new grant program to support preservation and beautification project in historic Downtown Hilo on Hawai'i Island. The overall goal is to support projects that improve the appearance and longevity of Hilo's historic waterfront and downtown area. The inaugural grant cycle opened on June 1, 2019 and grant applications were due August 5, 2019. For more information and to apply for the grant, visit the Historic Hawai'i Foundation website (https://historichawaii.org/).

#### **Nonprofit Grant Program**

The County of Hawai'i, Department of Finance administers a nonprofit grant program. More information is available online at http://www.hawaiicounty.gov/rd-funding-and-grant-resources/.

#### **Contingency Relief Funds (CRF)**

CRF are awarded by the County Council. Contact information along with records of the funds each Councilmember has awarded during the fiscal year is available on the County Council's website.

#### <u>Department of Research and Development Innovation Grants</u> <u>Program</u>

The grant program supports research, programs, or projects that advance innovation in economic development, tourism agriculture, creative economy, energy, and sustainable development in Hawai'i County.

#### **Community Development Block Grants**

The U.S. Department of Housing and Urban Development administers the Community Development Block Grant (CDBG) Program which provides annual grants on a formula basis to states, cities, and counties to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low-and moderate-income persons. The CDBG program in Hawaii island is administered by the County Office of Housing and Community Development.

#### b. <u>STATE/COUNTY</u>

#### Hawai'i Rental Housing Revolving Fund (RHRF)

The Hawai'i Housing Finance and Development Corporation (HHFDC), within the Department of Business, Economic Development and Tourism (DBEDT), operates the RHRF to provide gap financing for affordable rental projects. Low interest loans and grants support projects with allocated low income housing tax credits (LIHTC) that meet affordability metrics.

#### **Community Development Block Grant**

Community Development Block Grants (CDBG) provide housing, economic development, neighborhood revitalization and community development funds to different jurisdictions. The design of these grants enables them to work in combination with other government subsidies. CDBG funds are generally used for small special-needs housing projects, public service and economic development programs such as microenterprise training and community-based economic development efforts, and the renovation of existing housing units.

#### **HOME**

The HOME Investment Partnership Program provides Federal assistance and incentives to jurisdictions to develop and support rental housing and homeownership for very low and low income families through construction, acquisition and rehabilitation of housing units (including real property acquisition and site improvements, and rental and homebuyer assistance programs). Permanent housing for disabled homeless persons, transitional housing, and group homes are eligible for HOME assistance. HOME Program funds may also be used for administrative and planning costs, and operating expensive of community housing development organizations. The HOME Program requires that all HOME funds be utilized to assist households earning 80 percent or below of the area median income (AMI).

#### c. <u>FEDERAL</u>

#### **Community Development Financial Institutions Fund (CDFI Fund)**

The Community Development Financial Institutions Fund (CDFI Fund) plays an important role in generating economic growth and opportunity in some of our nation's most distressed communities. By offering tailored resources and innovative programs that invest federal dollars alongside

private sector capital, the CDFI Fund serves mission-driven financial institutions that take a market-based approach to supporting economically disadvantaged communities. These mission-driven organizations are encouraged to apply for CDFI Certification and participate in CDFI Fund programs that inject new sources of capital into neighborhoods that lack access to financing. This approach represents a thriving model of public-private partnership where federal resources are used to attract private sector investment into low-income communities.

#### CDFI Fund's New Markets Tax Credit (NMTC) Program

Through the NMTC Program, the CDFI Fund allocates tax credit authority to Community Development Entities (CDEs) through a competitive application process. CDEs are financial intermediaries through which private capital flows from an investor to a qualified business located in a low-income community. CDEs use their authority to offer tax credits to investors in exchange for equity in the CDE. Using the capital from these equity investments, CDEs can make loans and investments to businesses operating in low-income communities with better rates and terms, and more flexible terms than what currently exists in the market.

The NMTC Program has supported a wide range of businesses including manufacturing, food, retail, housing, health, technology, energy, education, and childcare. Communities benefit from the jobs associated with these investments, as well as greater access to community facilities and commercial goods and services.

The NMTC Program helps businesses with access to financing that is flexible and affordable. Investment decisions are made at the community level, and typically 94 to 96 percent of NMTC investments into businesses involve more favorable terms and conditions than the market typically offers. Terms can include lower interest rates, flexible provisions such as subordinated debt, lower origination fees, higher loan-to-values, lower debt coverage ratios and longer maturities.

#### The Federal Historic Rehabilitation Tax Credit Program

The Historic Tax Credit program is an indirect federal subsidy to finance the rehabilitation of historic buildings with a 20 percent tax credit for qualified expenditures. This program provides equity capital that incentivizes developers to preserve our historic structures and return them to productive use. To qualify for the 20 percent credit, a building must be a certified historic structure listed on the National Register of Historic Places.

#### **USDA Housing Preservation Grants**

Nonprofits, state and local governmental entities can apply for grants for the repair or rehabilitation of housing owned or occupied by low- and verylow-income rural citizens.

Affordable rental housing preservation funds are used to acquire affordable housing properties throughout the United States with the intent to preserve and extend long-term affordability of projects that used Low Income Housing Tax Credits to build properties but are reaching the end of their affordability compliance period.

#### **Opportunity Zones (OZ) Program**

The recently passed Federal Tax Cuts and Jobs Act of 2017 authorized a community economic development program called the Opportunity Zones Program. This initiative provides incentives for investors to re-invest realized capital gains into Opportunity Funds in exchange for temporary tax deferral and other benefits. The Opportunity Funds are then used to provide investment capital in certain low-income communities, i.e., Opportunity Zones.

Almost all the opportunity zones in Hawai'i overlay with other economic development initiatives such as New Market Tax Credits, Enterprise Zones and Transit Orient Development (TOD)Zones. There are also many other non-census tract-based programs that can be applied such as Low-Income Housing Tax Credits. Additionally, there may be synergies between investors and their missions and the major property holders and businesses in an opportunity zone. There are six (6) census tracts in Hawai'i County that have been designated as Opportunity Zones.

East Hawai'i: The Pu'u'eo-Downtown Opportunity Zone (Census Tract 203) encompasses downtown Hilo and is the historic business center of East Hawai'i. The Villa Franca-Kaiko'o Opportunity Zone (Census Tract 204) is part of the Hilo urban area and encompasses the administrative center of East Hawai'i. The University-Houselots Opportunity Zone (Census Tract 205) is part of the Hilo urban area and encompasses one of Hawai'i's major research centers. The Keaukaha- Pana'ewa (Census Tract 206) is part of the Hilo urban area and in many respects the gateway to East Hawai'i.

West Hawai'i: The Kailua Opportunity Zone (Census Tract 216.01) and Kealakehe Opportunity Zone (Census Tract 215.04) are part of the Kailua-Kona urban area in West Hawai'i (State of Hawaii, Department of Business, Economic Development, and Tourism, 2019).

#### **Opportunity Zone Funds**

Opportunity Funds are expected to start to emerge in Hawai'i in Q4 2019 and gain momentum in 2020. Opportunity Funds can be organized in various ways to raise capital from a wide array of investors. Opportunity Funds must be certified by U.S. Department of the Treasury and are required to hold at least 90 percent of their assets in qualified opportunity zone businesses and/or business property. If an Opportunity Fund fails to meet the 90 percent requirement, then the fund must pay a penalty for each month it fails to meet the investment requirement. The penalty equals the amount of the short fall, times the underpayment rate under Section 6621(a)(2), which is currently 6 percent.

Opportunity Zone/Funds investors are more likely to be high-net-worth individuals, managed investments funds, life insurance companies and mutual funds that will offset their capital gains with this tax incentive program.

#### Low Income Housing Tax Credit (LIHTC) Program

The Low Income Housing Tax Credit (LIHTC) is a Federal tax credit created by President Reagan and Congress in the Tax Reform Act of 1986 designed to encourage private sector investment in the new construction, acquisition, and rehabilitation of rental housing affordable to low-income households. Over the last three (3) decades, the Housing Credit has become the most successful affordable rental housing production program in history. The Hawai'i Housing Finance and Development Corporation is responsible for the administration of the LIHTC program for the State of Hawai'i. A state LIHTC equal to 50 percent of the Federal LIHTC is also available to qualified applicants.

The Housing Credit offers a dollar-for-dollar reduction in a taxpayer's income tax liability in return for making a long-term investment in affordable rental housing. State agencies award Housing Credits to developers, who then sell the Credits to private investors in exchange for funding for the construction and rehabilitation of affordable housing. These funds allow developers to borrow less money and pass through the savings in lower rents for low-income tenants. Investors, in turn, receive a 10-year tax credit

based on the cost of constructing or rehabilitating apartments that cannot be rented to anyone whose income exceeds 60 percent of area median income (AMI).

There are two (2) components of the Housing Credit program: the "9 percent" Credit and the "4 percent Credit." Each State's nine (9) percent Housing Credit allocation is subject to a volume cap based on its population that limits the availability of the Credit in each State. In 2018, the state Credit cap is \$2.70 times the state's population, with a State minimum of \$3,105,000. Volume cap figures are published by the IRS on an annual basis.

The four (4) percent component of the program can only be triggered by the use of tax-exempt private activity multifamily Housing Bonds. Housing Bonds and the four (4) percent Housing Credit finance approximately 50 percent of Housing Credit rental homes every year. Because multifamily Housing Bonds are limited by the Private Activity Bond volume cap, the four (4) percent Credit is not subject to the Housing Credit volume cap. Not only do Housing Bonds make possible the production of substantial numbers of new Housing Credit properties, but they are essential to State efforts to preserve affordable housing (National Council of State Housing Agencies, 2019).

#### **USDA Housing Preservation Grants**

Nonprofits, State and local governmental entities can apply for grants for the repair or rehabilitation of housing owned or occupied by low- and very-low-income rural citizens. Affordable rental housing preservation funds are used to acquire affordable housing properties throughout the United States with the intent to preserve and extend long-term affordability of projects that used Low Income Housing Tax Credits to build properties but are reaching the end of their affordability compliance period.

# Housing and Urban Development (HUD), USDA, and SBA Grant Programs

Many of these programs can be used to (re)development programs to fill financing gaps and are important sources of equity that without, (re)development projects wouldn't be possible. Program details are outlined http://www.hawaiicounty.gov/rd-funding-and-grant-resources/.

#### **Philanthropic**

Hawai'i's foundations (and mainland foundations) continue to play a large role in traditional grant-making. They are also increasing the role they play in statewide economic development and providing mission related investments (MRIs) and program-related investments (PRIs). Essentially MRIs and PRIs are a strategy that builds wealth in low-income communities by depositing money in community development financial institutions or loan funds to redeploy more flexible capital into (re)development capital stacks.

Philanthropic entities in Hawaii and across the nation can also support community development projects by providing community based bank deposits and direct loan guarantees as lending enhancements to projects that may have funding difficulty and/or gaps.

#### <u>CrowdFunding</u>

Investment crowdfunding is a way to source money for a company by asking a large number of backers to each invest a relatively small amount in it. In return, backers receive equity shares of the company. Normally restricted to accredited investors, the 2015 Jobs Act in the United States allows for a greater scope of investors to invest via crowdfunding once better infrastructure is in place to do so.

Investment crowdfunding may also entail obtaining debt as well as equity stakes. Micro-loan providers are a source of debt investment whereby a large group of individuals may invest in a small piece of a larger loan. Lenders typically know the purpose of the loan and the terms including interest rate, length of the loan, and estimated credit rating of the borrower. Lenders receive an interest rate typically higher than other debt instruments due to the credit risk associated with borrowers; however, they can spread a large amount of money incrementally across a large number of loans. Borrowers may seek this sort of financing when traditional borrowing is too costly, or is not an option for them (Investopedia, 2019).

An example of crowdfunding used locally is the Hawai'i Island Food Producers Fund, a new peer-to-peer online lending program for Hawai'i Island farmers and Hawai'i Island food processors utilizing at least one Hawai'i Island-grown ingredient. This microloan program established by The Kohala Center uses the Kiva Zip platform. For more information please visit The Kohala Center's Kiva Zip Loan website (<a href="http://kohalacenter.org/business/microloan-kiva">http://kohalacenter.org/business/microloan-kiva</a>).

#### **Community Land Trusts**

Community Land Trusts (CLTs) are entities or programs that hold land and govern the terms around which owners or tenants can use it. In most cases, CLTs use a "ground lease" to achieve permanent affordability by putting resale restrictions into place and setting guidelines about income eligibility. CLTs are lauded for creating permanently affordable housing, and for building a neighborhood-wide constituency for its sustained community ownership. Since affordable housing remains a crisis in Hawai'i, (re)development projects should consider new partnerships with community development entities and community land trusts for the prospect of sustainable scale. Achieving scale means identifying new pipelines and resources to secure land and properties, and to rehabilitate them as needed (Greenberg, 2019).

It is noted that the sources described above are not an exhaustive list of capital sources but will present a fair representation of the breadth of sources and provide entrepreneurs, business owners, community leaders, and policymakers with a greater awareness of the scope and scale of capital in various areas throughout the Hawaiian islands.

#### Cooperatives (Co-Ops)

Cooperatives are businesses governed on the principle of one member, one vote. There are several common types of co-ops (as well as hybrids—which combine more than one type), including cooperatives owned and operated by:

- The people working there (worker cooperatives);
- The people buying the co-op's goods or services (consumer cooperatives);
- The people collaborating to process and market their products (producer cooperatives); and
- Groups uniting to enhance their purchasing power (purchasing cooperatives). Groups uniting to enhance their purchasing power (purchasing cooperatives).

Demonstrating this strategy's vast scope and scale, there are 64,017 cooperatives across the U.S. operating within a range of diverse industries including banking (credit unions), agriculture, utilities, and child care.<sup>1</sup>

<sup>1</sup> Source: <a href="https://community-wealth.org/strategies/panel/coops/index.html">https://community-wealth.org/strategies/panel/coops/index.html</a>

# PROTOTYPICAL PROFORMA ANALYSES

**APPENDIX** 



County of Hawaii (Re)development-Priority Parcel: Kona Sample Multi-Family Residential (Re)Development Pro Forma	Total Sources of Income (For Asset Acquisition Only)  Total Uses of Income (For Asset Acquisition Only)  Gap/Excess	ome (For Asset , e (For Asset Acq	Acquisition Only)  uisition Only)	\$ 10,100,000.00 \$(10,175,000.00) \$ (75,000.00)						
Sources of Income-Purchase (ASSET)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Commercial Real Estate Mortgage Loan: Bank-Construction (24 months)	\$ 8,000,000.00									
Commercial Real Estate Mortgage Loan: Bank-Permanent (Take Out)										
Subordinated Commercial Mortgage: CDFI/Loan Fund	\$ 100,000.00									
Tax Credit Equity-Low Income Housing Tax Credits	· \$	₩.		7,000,000.00 (Takes out commercial loan, remainder gets refinanced to permanent (Row 7))	cial Ioan, remai	nder gets refina	anced to perma	inent (Row 7))		
. Tax Credit Equity-New Market Tax Credits										
Owner/Developer Equity	\$ 150,000.00									
Governmental Program Equity	\$ 100,000.00									
Grant Equity -FHLB Grant	\$ 750,000.00									
Grant Equity -County Grant (County Source to Fill Gap? For Example)										
Opportunity Zone Investment	\$ 1,000,000.00									
Total Income Sources	\$10,100,000.00									
Uses of Income-Purchase (ASSET)										
Land Acquisition	\$ 500,000.00 \$	\$	ť	· · · · · · · · · · · · · · · · · · ·	۰ ۶	· \$	· •	\$	\$	\$
Construction	\$ 7,500,000.00									
Contingency-5% of construction expense	\$ 375,000.00									
Architectural & Engineering	\$ 350,000.00									
Financing and Syndication	\$ 250,000.00									
Construction Interest Reserve	\$ 350,000.00					,				
Developer Fee	\$ 750,000.00									
Project Reserves and Other Expenses	\$ 100,000.00									
Total Expenses	\$10,175,000.00 \$	\$ -	•	· •	· \$	· \$	· \$	\$	٠,	' \$
Estimated Appraised Amount	nt				×					

Multi-Family Business Cash Flow (NOI)												
Residential Rent Roll Revenue (Multi-Family Rental Housing)	\$ 8(	\$ 00.000.00 \$ 00.000.00	\$ 80,000	\$ 00.0	\$ 00.000,08	\$ \$ 00.000,08	\$ 00.000.00 \$ 80,000.00 \$ 80,000.00 \$ 80,000.00 \$	80,000.00	ς,	\$ 00.000,08	80,000.00	\$ 80,000.00
Operating Expense (including mgmt fee, utilities, CAPEX, Depreciation etc)	\$ 2.	25,000.00	\$ 25,000.00	\$ 00.0	25,000.00	\$ \$ 00.000,52	25,000.00 \$ 25,000.00 \$ 25,000.00 \$ 25,000.00 \$ 25,000.00	25,000.00	\$	\$ 00.000,52	25,000.00	\$ 25,000.00
Debt Service-Commercial Real Estate Mortgage-Construction	\$ 4(	40,000.00 \$ 40,000.00 \$	\$ 40,000	\$ 00.0	40,000.00	\$ \$ 00.000,04	0,000.00 \$ 40,000.00 \$ 40,000.00 \$ 40,000.00 \$ 40,000.00	40,000.00	\$	40,000,00\$	40,000.00	\$ 40,000.00
Debt Service-Commercial Real Estate Mortgage-Permanent												
Debt Service-Subordinated Commercial Mortgage	\$ 10	10,000.00 \$ 10,000.00 \$	\$ 10,000	\$ 00.0	10,000.00	\$ \$ 00.000,01	10,000.00 \$ 10,000.00 \$ 10,000.00 \$ 10,000.00 \$ 10,000.00 \$ 10,000.00	10,000.00	ς,	10,000,00	10,000.00	\$ 10,000.00
Total Operating Expense	\$ 7.	75,000.00 \$ 75,000.00 \$	\$ 75,000	\$ 00.0	75,000.00	\$ \$ 00:000,57	75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00	75,000.00	\$	\$ 00.000,57	75,000.00	\$ 75,000.00
Net Operating Income (NOI)	\$	2,000.00	\$ 5,000	5,000.00 \$ 5,000.00 \$	5,000.00	\$ 5,000.000,5	5,000.00 \$ 5,000.00 \$ 5,000.00 \$ 5,000.00 \$ 5,000.00 \$ 5,000.00	5,000.00	❖	5,000.000,5	5,000.00	\$ 5,000.00

\$ 75,000.00

\$ 10,000.00

\$ 80,000.00 \$ 25,000.00 \$ 40,000.00

Assumptions: Purchase Land and Improvements, Infrastructure Included

Commerical Real Estate Mortgage-Construction

Commerical Real Estate Mortgage-Construction

Commercial Real Estate Mortgage-Permanent (SAMPLE TERMS: 10 year term, 25 year amortization, 1st position collateral, 75% Loan to Value (LTV)-Interest only for a period of time, then P&I, with balloon at maturity)

Subordinated Commercial Mortgage (SAMPLE TERMS: 10 year term, 30 year amortization, 2nd position collateral, interest only)

All equity sources stated above are not factored into the commercial business cash flow.

Operating Cash Flow and Net Operating Income Over-Generalized Due to Unidentified Project Particulars

All dollar amounts are estimated for proforma purposes.

Project located within Opportunity Zone

County of Hawaii (Re)development-Priority Parcel: Honoka'a	Total Sources of Income (For Asset Acquisition Only) \$ 1,275,000.00	me (For Asset	Acquisition Only)	\$ 1,275,000.00							
Sample Commercial (re)Development for rolling	Gap/Excess	roi Acquisit	oli Olliy)	\$(1,230,000.00)							
Sources of Income-Purchase (ASSET)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9		Year 10
Commercial Mortgage Loan: Bank	\$ 750,000.00	No.									
Subordinated Commercial Mortgage: CDFI	\$ 100,000.00										
Tax Credit Equity (NMTC, Historic)	\$ 100,000.00										
Owner/Developer Equity	\$ 150,000.00			,							
Governmental Program Equity	\$ 100,000.00										
Grant Equity	\$ 75,000.00										
Total Income Sources	\$ 1,275,000.00										
Uses of Income-Purchase (ASSET)											
Purchase Commercial Property (includes closing costs etc)	\$ 1,000,000.00	- \$	· \$	· \$	- \$	\$	· \$	\$	\$	\$	,
Tenant Improvements (Redevelopment)	\$ 250,000.00										
Total Expenses	\$ 1,250,000.00 \$	•	· \$	· •	٠ \$	· •	· \$	\$	⋄	٠,	
											1

Commercial Business Cash Flow (NOI)									
Commercial Rent Roll Revenue	\$	80,000.00 \$ 80,000.00 \$ 80,000.00 \$ 80,000.00 \$ 80,000.00 \$ 80,000.00 \$ 80,000.00 \$ 80,000.00 \$ 80,000.00	\$ 00.000,08	80,000,000 \$	\$ 00.000,08	\$ 00.000,08	\$ 00.000,08	80,000.00 \$ 80,000.00	\$ 80,000.00
Operating Expense (including mgmt fee, utilities, CAPEX, Depreciation etc)	⟨>	25,000.00 \$ 25,000.00 \$	25,000.00 \$	25,000.00 \$	\$ 00.000,5	25,000.00 \$	25,000.000 \$	25,000.00 \$ 25,000.00 \$ 25,000.00 \$ 25,000.00 \$ 25,000.00 \$ 25,000.00 \$ 25,000.00	\$ 25,000.00
Debt Service-Commercial Mortgage	\$	40,000.00 \$ 40,000.00 \$ 40,000.00 \$ 40,000.00 \$ 40,000.00 \$ 40,000.00 \$ 40,000.00 \$ 40,000.00 \$ 40,000.00	40,000.00 \$	40,000.00 \$	\$ 00.000,01	40,000.00 \$	40,000.00	40,000.00 \$ 40,000.00	\$ 40,000.00
Debt Service-Subordinated Commercial Mortgage	\$	$10,000.00 \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \$	10,000.00 \$	10,000.00 \$	\$ 00.000,01	10,000.00 \$	10,000,01	10,000.00 \$ 10,000.00	\$ 10,000.00
Total Operating Expense	\$	75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00	75,000.000 \$	\$ 00.000.7	\$ 00.000,5	\$ 00.000,5	\$ 00.000,27	75,000.00 \$ 75,000.00	\$ 75,000.00
Net Operating Income (NOI)	\$	5,000.00 \$ 5,000.00 \$ 5,000.00 \$ 5,000.00 \$ 5,000.00 \$ 5,000.00 \$ 5,000.00 \$ 5,000.00 \$ 5,000.00	\$ 00.000.3	5,000.000 \$	5,000.000,5	\$,000.000 \$	5,000.000 \$	5,000.00 \$ 5,000.00	\$ 5,000.00

Assumptions: Purchase Land and Improvements, Infrastructure Included
Commercial Mortgage (SAMPLE TERMS: 10 year term, 25 year amortization, 1st position collateral, 75% Loan to Value (LTV)-Interest only for a period of time, then P&I, with balloon at maturity)
Subordinated Commercial Mortgage (SAMPLE TERMS: 10 year term, 30 year amortization, 2nd position collateral, interest only)
All equity sources stated above are not factored into the commercial business cash flow.
Operating Cash Flow and Net Operating Income Over-Generalized Due to Unidentified Project Particulars
All dollar amounts are estimated for proforma purposes.

County of Hawaii (Re)development-Priority Parcel: Hilo	Total Sources of In	come (For Asse	otal Sources of Income (For Asset Acquisition Only) \$ 11,375,000.00	\$ 11,375,000.00						
Sample Mixed Use (Re)Development Pro Forma	Total Uses of Income (For Asset Acquisition Only)  Gap/Excess	ne (For Asset A	cquisition Only)	\$ (11,425,000.00)						
Sources of Income-Purchase (ASSET)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
MF Commercial Real Estate Mortgage Loan: Bank-Construction (24 months)	\$ 8,000,000.00									
MF Commercial Real Estate Mortgage Loan: Bank-Permanent (Take Out)										
MF Subordinated Commercial Mortgage: CDFI	\$ 100,000.00									
MF Tax Credit Equity-Low Income Housing Tax Credits	- \$		\$ 7,000,000.00	7,000,000.00 (Takes out commercial loan, remainder gets refinanced to permanent (Row 7))	al loan, remaind	ier gets refinar	iced to permane	ent (Row 7))		
MF Tax Credit Equity-New Market Tax Credits										
MF Owner/Developer Equity	\$ 150,000.00									
MF Governmental Program Equity	\$ 100,000.00									
MF Grant Equity -FHLB Grant	\$ 750,000.00									
MF Grant Equity -County Grant (County Source to Fill Gap? For Example)										
MF Opportunity Zone Investment	\$ 1,000,000.00									
CO Commercial Mortgage Loan: Bank	\$ 750,000.00									
CO Subordinated Commercial Mortgage: CDFII	\$ 100,000.00									
CO Tax Credit Equity (NMTC, Historic)	\$ 100,000.00									
CO Owner/Developer Equity	\$ 150,000.00									
CO Governmental Program Equity	\$ 100,000.00									
CO Grant Equity	\$ 75,000.00									
Total Income Sources	\$11,375,000.00									
Uses of Income-Purchase (ASSET)										
ML Land Acquisition	\$ 500,000.00	•	•	•	,		•	•	\$	•
ML Construction	\$ 7,500,000.00									
ML Contingency-5% of construction expense	\$ 375,000.00									
ML Architectural & Engineering	\$ 350,000.00									
ML Financing and Syndication	\$ 250,000.00									
ML Construction Interest Reserve	\$ 350,000.00									
ML Developer Fee	\$ 750,000.00									
ML Project Reserves and Other Expenses	\$ 100,000.00									
CO Purchase Commercial Property (includes closing costs etc)	\$ 1,000,000.00	- \$	. \$		,	,	· \$	\$	s	•
CO Tenant Improvements (Redevelopment)	\$ 250,000.00									
				,						,

	Commercial Business Cash Flow (NOI)															
8	CO Commercial Rent Roll Revenue	\$ 80,	80,000,00	\$ 80,000,00 \$	\$	\$ 00.000,08		\$ 00.000,00	80,000,00 \$ 80,000,00 \$ 80,000,00 \$ 80,000,00 \$ 80,000,00 \$ 80,000,00	\$ 80,00	\$ 00.00	80,000,00	\$ 80,000	\$ 00.0	80,000,00	\$ 80,000.0
8	CO Operating Expense (including mgmt fee, utilities, CAPEX, Depreciation etc) \$		25,000.00	\$ 25,000.00	٠,	25,000.00	\$ 2	25,000.00 \$	\$ 25,000.00 \$ 25,000.00 \$ 25,000.00 \$ 25,000.00	\$ 25,00	\$ 00.00	25,000.00	\$ 25,000	\$ 00.0	\$ 25,000.00	\$ 25,000.00
8	Debt Service-Commercial Mortgage	\$ 40,	40,000,00	\$ 40,000.00	\$	40,000.00	\$	40,000,00 \$	\$ 40,000.00 \$ 40,000.00 \$ 40,000.00 \$ 40,000.00	\$ 40,00	\$ 00.00	40,000.00	\$ 40,000	\$ 00.0	40,000.00	\$ 40,000.00
8	CO Debt Service-Subordinated Commercial Mortgage	\$ 10,	000000	10,000.00 \$ 10,000.00 \$	<∧	10,000.00 \$		0,000,0	10,000.00 \$ 10,000.00 \$ 10,000.00 \$ 10,000.00 \$ 10,000.00 \$ 10,000.00	\$ 10,00	\$ 00.00	10,000,00	\$ 10,000	0.00 \$	10,000,00	\$ 10,000.1
8	CO Total Operating Expense	\$ 75,	00.000	\$ 00:000,27 \$ 00:000,27	\$	\$ 00:000'52	\$ 7	5,000.000,5	75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$	\$ 75,00	\$ 00.00	75,000.00	\$ 75,000	\$ 00.0	75,000.00	\$ 75,000.00
	Net Operating Income (NOI)	\$ 2,	00.000	\$ 00:000 \$ 0:0000'5	\$		\$	5,000.000 \$	2,000,000 \$ 5,000,000 \$ 5,000,000 \$ 5,000,000 \$ 5,000,000 \$ 5,000,000 \$	\$ 5,00	\$ 00.00	5,000.00	\$ 5,000	\$ 00.0	5,000.00	\$ 5,000.
	Multi-Family Business Cash Flow (NOI)															
ž	ML Residential Rent Roll Revenue (Multi-family Rental Housing)	\$ 80,	80,000,00	\$ 80,000,00 \$	s	\$ 00.000,08		\$ 00.000,00	80,000,00 \$ 80,000,00 \$ 80,000,00 \$ 80,000,00 \$ 80,000,00 \$ 80,000,00	\$ 80,01	\$ 00.00	80,000,00	\$ 80,000	\$ 00.0	80,000,00	\$ 80,000.
ž	ML Operating Expense (including mgmt fee, utilities, CAPEX, Depreciation etc) \$		25,000.00	\$ 25,000.00	\$	25,000.00	\$ 2	25,000.00	\$ 25,000.00 \$ 25,000.00 \$ 25,000.00 \$ 25,000.00	\$ 25,0	\$ 00.00	25,000.00	\$ 25,000	\$ 00.00	\$ 25,000.00	\$ 25,000.00
M	Debt Service-Commercial Real Estate Mortgage-Construction	\$ 40,	40,000.00	\$ 40,000.00	\$	40,000.00	s	00.000,00	40,000.00 \$ 40,000.00 \$ 40,000.00 \$ 40,000.00 \$ 40,000.00	\$ 40,01	\$ 00.00	40,000.00	\$ 40,000	\$ 00.00	40,000.00	\$ 40,000.00

\$11,425,000.00

Estimated Appraised Amount

Total Expenses

~	Multi-Family Business Cash Flow (NOI)												
MLR	Residential Rent Roll Revenue (Multi-family Rental Housing)	s	\$ 00.000,08	\$ 00.000,08	\$ 00.000,08	80,000.00	\$ 80,000.00 \$ 80,000.00 \$	\$ 80,000.0		80,000,00	\$ 00.000,08 \$	\$ 80,000.00	\$ 80,000.00
ž	Operating Expense (including mgmt fee, utilities, CAPEX, Depreciation etc) \$ 25,000.00 \$	\$	\$ 00.000,52	25,000.00 \$	25,000.00 \$	25,000.00	\$ 25,000.00	\$ 25,000.00 \$	00 \$ 2	5,000.00	\$ 25,000.00	25,000.00 \$ 25,000.00 \$ 25,000.00	\$ 25,000.00
ž	Debt Service-Commercial Real Estate Mortgage-Construction	\$	40,000,00 \$	40,000.00 \$	40,000.00 \$	40,000.00	40,000.00 \$ 40,000.00 \$	\$ 40,000.0	4 \$ 00	\$ 40,000.00 \$ 40,000.00	\$ 40,000.00 \$	\$ 40,000.00	\$ 40,000.00
ž	Debt Service-Commercial Real Estate Mortgage-Permanent												
ž	Debt Service-Subordinated Commercial Mortgage	\$	\$ 00.000,01	10,000.00 \$ 10,000.00 \$		10,000.00 \$ 10,000.00 \$ 10,000.00 \$ 10,000.00 \$ 10,000.00 \$ 10,000.00 \$ 10,000.00	\$ 10,000.00	\$ 10,000.0	00 \$ 1	00'000'0	\$ 10,000.00	\$ 10,000.00	\$ 10,000.00
ML	L Total Operating Expense	\$	\$ 00:000,27	\$ 75,000.00 \$ 75,000.00 \$		75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$ 75,000.00 \$	\$ 75,000.00	\$ 75,000.0	7 \$ 00	5,000.00	\$ 75,000.00	\$ 75,000.00	\$ 75,000.00
2	Net Operating Income (NOI)	\$	5,000.000 \$	\$ 00:000'5 \$ 00:000'5	00'000'\$ \$ 00'000'\$ \$ 00'000'\$ \$ 00'000'\$ \$ 00'000'\$ \$ 00'000'\$ \$ 00'000'\$	5,000.00	\$ 5,000.00	\$ 5,000.0	\$ 00	5,000.00	\$ 5,000.00	\$ 5,000.00	\$ 5,000.00

Assumptions: Purchase Land and Improvements, Infrastructure Included

Commerical Real Estate Mortgage-Construction

Commerical Real Estate Mortgage-Permanent (SAMPLE TRANS: 10 year term, 25 year amortization, 1st position collateral, 75% Loan to Value (LTV)-interest only for a period of time, then P&I, with balloon at maturity)

Commercial Mortgage (SAMPLE TRANS: 10 year term, 30 year amortization, 2nd position collateral, interest only)

Operating cash flow and Net Operating Income Over-Generalized Due to Unidentified Project Particulars

All equity sources as stated above are not factored into the commercial business cash flow.

All equity amounts are estimated for proforma purposes.

Project located within Opportunity Zone

ML Multi-Family Sources and Uses

# AFFORDABLE RENTAL HOUSING REPORT AND TENYEAR PLAN; COUNTY OF HAWAI'I PRIORITY PROJECTS

**APPENDIX** 



## AFFORDABLE RENTAL HOUSING REPORT AND TEN-YEAR PLAN; COUNTY OF HAWAI'I PRIORITY PROJECTS

A Special Action Team on Affordable Rental Housing, led by the State Office of Planning, prepared the Affordable Rental Housing Report and Ten-Year Plan in July 2018. The Ten-Year Plan included a suitability mapping exercise for affordable rental housing in each County. The study analyzed public and private lands and categorized them into three (3) tiers of suitability and readiness for affordable housing development. Within Hawai'i County, 4,211 acres of lands were identified as "Tier 1" lands that are most suitable for near-term development, including 557 acres owned by the State and 96 acres owned by the County. The County identified a short list of parcels with the most potential to produce the greatest number of affordable rental units in the shortest amount of time. The County of Hawai'i short list included nine (9) publicly owned parcels and one (1) parcel owned by HICDC.

TMK	Owner	Project	Area	Acres	Min	Max		
2-4-1:24	State of Hawai'i	Kapiʻolani Street Extension	South Hilo	26.17				
2-4-1:122	State of Hawai'i	UH Hilo	South Hilo	32.65				
2-4-1:158	State of Hawai'i	Adjacent to County Park and Res. Areas	South Hilo	3.70				
2-4-1:184	County of Hawaiʻi/HICDC	Mohouli Phase 3	South Hilo	6.72	92	92		
2-4-57:30	State of Hawai'i	West Kawili Street Senior Project	South Hilo	5.57	70	75		
6-8-42:22	County of Hawaiʻi	Kamakoa Project	South Kohala	10.32				
6-8-42:47	HPHA	Adjacent to Kekumu Ekolu	South Kohala	6.30				
7-4-21:19	HPHA	Kealakehe Area	North Kona	4.16				
7-4-20:4	State of Hawai'i/HHFDC	Village 9, Laiopua	North Kona	10.77				
7-3-09:060	HICDC	Kaloko Heights	North Kona	10.75	80	80		
Total				117.11	242	247		
Source: State of Hawai'i, Office of Planning 2018								

A copy of the full report and more information on the priority projects is available at: <a href="http://files.hawaii.gov/dbedt/op/spb/AffordableRentalHousingReport\_10YearPlan.pdf">http://files.hawaii.gov/dbedt/op/spb/AffordableRentalHousingReport\_10YearPlan.pdf</a>.

