Measuring the Burden of Housing Regulation in Hawaii

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UHERO

May 5, 2022
We show how Hawaii counties compare to the nation in terms of regulatory barriers to housing
Median Home Value Across States
Source: 2020 American Community Survey 5-year estimates. Data includes all owner-occupied housing units, including those in both single-family and multi-family buildings.
Home Price Trends, Hawaii vs USA
Determinants of Housing Costs

- **Demand**
  - Local buyers (age profile, local income, interest rates...)
  - Foreign/Mainland buyers
  - Transient Vacation Rentals
  - Second homes/Empty homes

- **Supply**
  - Land costs
  - Construction costs
  - Infrastructure constraints
  - **Regulation**
Housing is a Highly Regulated Good

- When the price of a typical good goes up, the market responds by creating more, and the price falls.
- When new supply is tightly regulated, the market cannot respond to high prices and prices will remain high.
- If we required Safeway to apply for a permit before selling a new banana, prices for bananas would be very high.
Are Housing Regulations in Hawaii Unique?

- Restrictive regulation of the housing industry is an national (even global) issue
  - 50% of Manhattan’s housing costs are from regulation ▶ Glaeser et al, 2005
  - Constraining new housing supply prevents people from living where they want
  - If the most productive cities in the US had average levels of housing regulation over the past 50 years, US GDP would be 9% higher, average US wages would be $9,000 higher ▶ Hsieh and Moretti, 2019

- How does Hawaii compare to other places in the US?
Wharton Residential Land Use Regulatory Index (Wharton Index)

- The Wharton Index is the main metric to evaluate regulatory burden in housing markets across the US
- Conducted by Joseph Gyourko (University of Pennsylvania)
- Surveyed 2,800 planning organizations across the US
- Survey asks ~70 questions related to local housing regulation
Example Questions

3. In your community, how involved are the following in affecting residential building activities and/or growth management procedures?

<table>
<thead>
<tr>
<th>Organization</th>
<th>No involvement</th>
<th>Less involvement</th>
<th>Moderate involvement</th>
<th>More involved</th>
<th>Very involved</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Local Council, Managers,</td>
<td>☐ 1</td>
<td>☐ 2</td>
<td>☐ 3</td>
<td>☐ 4</td>
<td>☐ 5</td>
</tr>
<tr>
<td>Commissioners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Community pressure</td>
<td>☐ 1</td>
<td>☐ 2</td>
<td>☐ 3</td>
<td>☐ 4</td>
<td>☐ 5</td>
</tr>
<tr>
<td>c. State legislature</td>
<td>☐ 1</td>
<td>☐ 2</td>
<td>☐ 3</td>
<td>☐ 4</td>
<td>☐ 5</td>
</tr>
<tr>
<td>d. Local courts</td>
<td>☐ 1</td>
<td>☐ 2</td>
<td>☐ 3</td>
<td>☐ 4</td>
<td>☐ 5</td>
</tr>
<tr>
<td>e. State courts</td>
<td>☐ 1</td>
<td>☐ 2</td>
<td>☐ 3</td>
<td>☐ 4</td>
<td>☐ 5</td>
</tr>
<tr>
<td>f. Other</td>
<td>☐ 1</td>
<td>☐ 2</td>
<td>☐ 3</td>
<td>☐ 4</td>
<td>☐ 5</td>
</tr>
</tbody>
</table>

9. Do developers have to comply with any of the following requirements to build in your jurisdiction?

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Include affordable housing, however defined, in their projects</td>
<td>☐ 1</td>
<td>☐ 2</td>
</tr>
<tr>
<td>b. Supply mandatory dedication of space or open space (or fee in lieu of dedication)</td>
<td>☐ 1</td>
<td>☐ 2</td>
</tr>
<tr>
<td>c. Pay impact fees (allocable share of costs of infrastructure improvement)</td>
<td>☐ 1</td>
<td>☐ 2</td>
</tr>
</tbody>
</table>
Wharton Index

- Responses are collapsed to calculate an index
- Scaled so that an index value of 0 = average regulatory burden
- A 1 point increase = a 1 standard deviation increase in regulatory burden
- Can be used to compare jurisdictions
Wharton Index

- Hawaii counties were excluded from the past surveys
- This means Hawaii has been excluded from many national studies on housing costs
- The data from other locations and the survey itself are publicly available
- We sent surveys to county planning offices, then combined Hawaii data with existing national data
Average Wharton Index by State

The figure shows the Wharton Index of each state, calculated by taking the average of all reporting jurisdictions within that state.
Wharton Index in High Priced Counties
The figure includes the 30 counties in the US with the highest median home prices, as well as Hawaii County.
Ratios of Hawaii Sub-indices to National Average Sub-indices

Ratios are calculated by dividing the Hawaii sub-index by the average national sub-index. For example a value of three means Hawaii's sub-index is triple the national level.
## Sub-index Scores

<table>
<thead>
<tr>
<th>Sub-index</th>
<th>Kauai</th>
<th>Maui</th>
<th>Hawaii</th>
<th>Honolulu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Political Pressure Index</td>
<td>9</td>
<td>13</td>
<td>16</td>
<td>8</td>
</tr>
<tr>
<td>State Political Involvement Index</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>Court Involvement Index</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Local Project Approval Index</td>
<td>2</td>
<td>3</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Local Zoning Approval Index</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Local Assembly Index</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Supply Restrictions Index</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Density Restriction Index</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Open Space Index</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Exactions Index</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Affordable Housing Index</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Approval Delay Index</td>
<td>18.3</td>
<td>15.9</td>
<td>14.4</td>
<td>17.1</td>
</tr>
</tbody>
</table>

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**Correlation of Wharton Index and Home Prices**

The figure shows the 1,043 counties where survey data is available. Home price data is from the 2020 American Community Survey 5-year estimates.
Expanding As-of-right Development

- Converting a single-family home to a duplex currently involves navigating rezonings and complex regulation
- The regulatory costs are likely prohibitive
- Change zoning to allow more development to take place *as-of-right*
- While construction of housing or providing housing subsidies is expensive, removing regulatory barriers is “free” in a financial sense
- Would allow smaller developers (who are not equipped to navigate a rezoning) to build smaller multi-family housing
- Implementing new incentives or “expedited” approvals could be helpful, but also runs the risk of adding new levels of bureaucracy and delay
Examples of As-of-right Reforms

▶ Minneapolis
  ▶ 2018 law converted all single-family zoned areas to allow up to threeplexes

▶ Oregon
  ▶ Ended single family zoning in large cities

▶ California
  ▶ Allows duplexes in most single-family zoned areas

▶ Legalize Apartments
  ▶ Making multifamily housing illegal artificially reduces housing supply and increases prices
The Housing Ladder

- The market price of new housing is going to be more expensive than older housing (holding characteristics constant).
- The fact that new housing is expensive is not proof that its construction is lowering affordability.
- Used Cars Analogy:
  - The price of used cars recently spiked.
  - Low and mid-income workers couldn’t afford cars.
  - Federal government response: Build more new cars as quickly as possible.
  - Gov’t could have said: All new cars must be affordable to those making under 80% AMI.
  - That probably would have been counterproductive.
Setting smart property taxes/regulatory policy is an important complement to new supply. If new supply ends up as vacation rentals, empty second-homes, etc., this undermines the housing ladder. Taxing empty homes specifically is a targeted way to ensure housing ends up benefiting the local market. If a foreign investor wants to help finance new housing and then sell it/rent it out, that expands supply.
Conclusion

- Regulatory barriers to new housing are particularly high in Hawaii
- Reforming the regulatory process could help contribute significant new housing supply
- Expanding as-of-right development could be achieved relatively quickly and easily
- Other jurisdictions provide some examples of how to accomplish as-of-right regulatory reform
Future Projects

- State of Hawai’i
- Big Island
- Kauai
- Maui
- Oahu
- Chicago
- Los Angeles
- New York City
- Portland
- San Francisco
- Seattle

Airbnb Listings as Percentage of Housing Stock
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