Report Summarizing Recommendations for an

Affordable Housing Funding Strategy

Prepared for

HAU'OLI MAU LOA FOUNDATION

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October 2021

EXECUTIVE SUMMARY

Using a combination of stakeholder conversations, in-depth interviews with recipient families, a detailed literature review, and secondary data analysis, this report summarizes learnings relevant to an affordable housing grant making strategy focused on housing stability for households with children in Hawai`i.

The affordable housing crisis in Hawai`i is complex and it is important to understand the challenges facing various sub-populations. Those higher up on the income spectrum—including the vast majority of current homeowners—are extremely well served by the existing system, which prioritizes wealth accumulation through extremely low property taxes, distortionary Federal subsidies, and the capture of economic rents due to a politically maintained housing shortage. At the other end of the spectrum, houseless families and those earning below the federal poverty line are best served by programs that allow them to get or remain housed without incurring the risks associated with homeownership. Thus, we recommend an investment strategy focused on low-income demographics for whom unsubsidized homeownership is permanently out of reach but not financially irresponsible.

Our discussions with families in this demographic reinforced the need for increased programming. Families described struggling to afford housing and facing constant threats to housing security. The families that we spoke to faced multiple overlapping barriers to homeownership and often spent years working to become credit worthy and secure a down payment. Importantly, families also recognized that homeownership is an important investment and were willing to defer opportunities until one emerged that fit their specific needs.

Based on the stakeholder engagement we make two sets of recommendations. The first comprise general principles to drive grant making. They include: (1) Given the Foundations priorities, we recommend focusing on housing subsidies rather than investing in the political advocacy related to the supply crisis; (2) The Foundation should focus its investment to low-income families where it can have the greatest impact in terms of stability and security; (3) While the administrative challenges should not be ignored, we recommend the Foundation pursue opportunities to invest in development on Hawaiian home lands; (4) Although some level of stability will be lost, we recommend the foundation also consider rental property investments, assuming they have mission driven management with rent tied to income; and (5) Rigorous evaluation should be built into all investments.

In terms of specific programmatic investments, we suggest the following as potentially impactful targets: (1) Supporting the expansion of down-payment assistance programs; (2) Creating a pre-development loan fund managed by a local Community Development Financial Institution (CDFI); (3) Investing in organizing and training designed to increase expertise within the local development community, specifically developers with a genealogical connection to the Hawaiian archipelago; and (4) Incentivizing more investment in Project-Based Section 8 development via the creation of a loan fund.

INTRODUCTION

In early 2021, Hauʻoli Mau Loa Foundation requested our team collect data to inform their grantmaking around affordable housing in Hawaiʻi. Specifically, the Foundation requested recommendations regarding its primary goal to provide sustainable and affordable housing to families with children. In response to this request, we conducted interviews with two groups of individuals: stakeholders with expertise around various aspects of housing in Hawaiʻi; and program participants who were able to articulate their needs, desires, aspirations, and struggles as related to housing. This report is the summarization of those findings.

In the next section, we describe our data and methods in more depth, recognizing those who took the time to speak with us. We then describe, in general terms, the full breadth of the affordable housing crisis in Hawaiʻi. In the third section, we look at low-income homeownership broadly, helping to understand its benefits and risks. We then turn to our empirical findings, first describing the experiences of poor and low-income families in a self-help homeownership program, and second looking at tools that can help bridge the gap to homeownership. We conclude with recommendations.

DATA & METHODS:

This report is based on 1) a detailed review of literature related to programs designed to promote low-income housing sustainability; 2) 32 interviews with housing stakeholders across Hawaiʻi, including developers, nonprofit leaders, and community advocates; and 3) 18 interviews with families involved in a self-help housing community in Hawaiʻi County.

Literature Review

Our first step was to conduct a thorough literature review related to low-income housing programs in the United States. In particular, we privileged studies that we consider rigorous evaluations, meaning they endeavored to compare outcomes for households participating in a program with similar households who did not (using either experimental or statistical techniques). Generally speaking, we found the literature on low-income homeownership programs remarkably thin, particularly when compared to studies of low-cost rental housing. Nevertheless, we were able to extract core principles for program effectiveness and have presented them throughout this report.

Of course, Hawaiʻi is an extremely atypical housing market. Not only is it a small archipelago with limited developable land, but its international reputation produces high levels of exogenous demand for housing. Unfortunately, as far as we know, there are no rigorous evaluations of low-income homeownership programs in Hawaiʻi. This does not mean that nothing has been written on the topic, only that the existing literature is entirely descriptive. For example, the Consuelo Foundation conducted an evaluation of their self-help project in 2001 followed by a review of the evaluation in 2019. These documents provide rich descriptive accounts that can inform program design, but they make no rigorous attempt to answer the first-order question of whether the program helped or harmed participants. Because there is no attempt to estimate what would have happened in the absence of a program, it is difficult to argue definitively that any particular approach is worth the funding put into it. Indeed, some programs could even be harmful to poor and low-income families, and we would have no way of assessing that. In our report, we have attempted to take what is useful from these descriptive data, while being transparent regarding the lack of available information. Indeed, one of our key recommendations is that the philanthropic community fund such evaluations going forward (described in detail below).

Stakeholder Engagement

During the spring of 2021, the team conducted 32 informational interviews with a wide range of stakeholders with expertise relevant to affordable housing in Hawai‘i. To collect this sample, we first brainstormed a list of likely respondents from our personal and professional networks. We then used a snowball sampling approach, asking each respondent to recommend two or three people to whom we should speak. By the end of the six-month process, we had largely reached saturation, with the vast majority of referrals already having been added to our list. Importantly, this should not be interpreted as meaning that all viewpoints are represented in this draft. Networks can be highly insular and there are certainly “unknown unknowns” – groups of people who are working on these topics but who are outside the purview of our respondents’ networks.

Interviews were conducted with the following stakeholders:

Cassandra Abdul, Nā Hale o Maui
Paul Brewbaker, TZ Economics
Bob Bruhl, DR Horton
Christine Camp, Avalon HI
Andrew Choy, Department of Hawaiian Home Lands
Sam Church, Family Promise Hawai‘i
Robin Danner, Homestead Community Development Corporation
Jim Edmonds, Permanently Affordable Living Kaua‘i

Stan Franco, Stand Up Maui
Jeff Gilbreath, Hawaiian Community Assets
Tyler Iokepa Gomes, Department of Hawaiian Home Lands
Pete Hoffmann, Hale o Hawaiʻi
Patrick Hurney, Habitat for Humanity, Hawaiʻi Island
Janice Ikeda, Vibrant Hawaiʻi
Darrel Ing, Department of Hawaiian Home Lands
Denise Iseri-Matsubara, Hawaiʻi Housing Finance & Development Corporation
Cynthia Jackson, USDA Rural Development
Doug Johnstone, Howard Hughes Corporation
Cathy Kawano-Ching, Affordable Hawaiʻi for All Fellows program
Nancy King, Council for Native Hawaiian Advancement
Quentin Machida, Gentry Homes
Jeremy McComber, Hawaiʻi Island Community Development Corporation
Richard Medeiros, Council for Native Hawaiian Advancement
Michael Moran, Kihei Community Association
Jim Murphy, Honolulu Habitat for Humanity
David Nakamura, Mutual Housing Association of Hawaiʻi
Harry Saunders, Castle and Cooke
Stephen Spears, Kauai Habitat for Humanity
Claudia Shay, Self-help Housing Corporation of Hawaiʻi
Milo Spindt, Formerly with the Kauaʻi Housing Development Corporation
Tracy Tonaki, DR Horton
Chuck Wathen, Hawaii Housing Alliance
Kali Watson, Hawaiian Community Development Board
Michael Williams, Stand Up Maui

For each stakeholder, the research team prepared a dossier of publicly available information prior to the interview. Using these documents, we customized our interview guide in areas specific to the respondents' expertise. Interviews were nonetheless free flowing allowing the respondent to direct the conversation. At the end of each interview, all stakeholders were asked how they would recommend the Foundation direct its investments. Interviews were not recorded, but detailed field notes were captured during and after the conversations. We have anonymized quotes and paraphrases from stakeholders throughout the document to encourage candor.

Participant Interviews

While professional expertise is valuable, it is also essential to understand the experiences of individuals who might benefit from the Foundation's investments. To achieve this goal, we conducted 18 interviews with families who participated in the self-help housing project in Pepeʻekeo on Hawaiʻi Island. The project—coordinated between Hawaiʻi Island Community Development Corporation (HICDC) and Hauʻoli Mau Loa Foundation (HMLF)—was completed in three phases, each consisting of 10 families. At the time of interviewing, Phase I families had been living in their self-help home for about a year, Phase II had just finished construction and moved in recently, and Phase III was in the construction phase and residents were not currently living in the self-help unit. Our sample includes in-depth interviews from 18 households across all three phases.

The self-help housing program was headed by HICDC and families who were interested needed to submit an application through their organization. Most respondents had learned about the program through word of mouth, either by friends, family members, or coworkers. Some families also noted that they had learned about the program through a coworker or family member who had previously participated in a self-help project.

Respondents were recruited from the full list of 30 households for a response rate of 60%. Interviews were in-depth and semi-structured. Fieldworkers utilized an interview guide that identified the substantive areas to be discussed, including program participation, housing history, and impact on children, but allowed the interviews to be free flowing and responsive. Information was also collected on each respondents' demographics, their process leading up to their participation in self-help housing, and their experience with the program.

THE BREADTH OF THE AFFORDABLE HOUSING CRISIS IN HAWAIʻI

Prior to a deep examination of programs to support low-income housing stability, it is important to look at the state's housing crisis as a whole. Too often in Hawaiʻi we speak of "affordability" without any clarity regarding what precisely we mean. All homes are, of course, affordable to some families and unaffordable to others, so what exactly is meant when we say we have an affordable housing crisis?

As a simplifying heuristic, it is possible to divide the housing crisis into two categories: an income crisis and a supply crisis. The first is evidenced by individuals for whom no market-rate housing is (or will ever be) accessible; essentially, the amount they can afford to pay for housing falls below what it costs to produce that housing. In other words, producing unsubsidized housing for this group is not only financially unattractive, but also literally impossible given current housing quality requirements.[1] Although labor market participation and wages in Hawaiʻi have historically been quite robust, so too is the cost of housing, leading to a meaningful portion of the local population falling into this category. The causes of this portion of the crisis are varied, ranging from historical marginalization and oppression; to a sustained failure of public systems to provide opportunity for human capital development; to a lack of access to preventative, physical and mental healthcare; and, to idiosyncratic and sometimes arbitrary personal circumstance. Regardless of the origins, the only housing solution for these families is some form of subsidized housing, including emergency shelters, public housing, housing vouchers, self-help housing, homeownership grants or below-market loans, or tax credit developments.

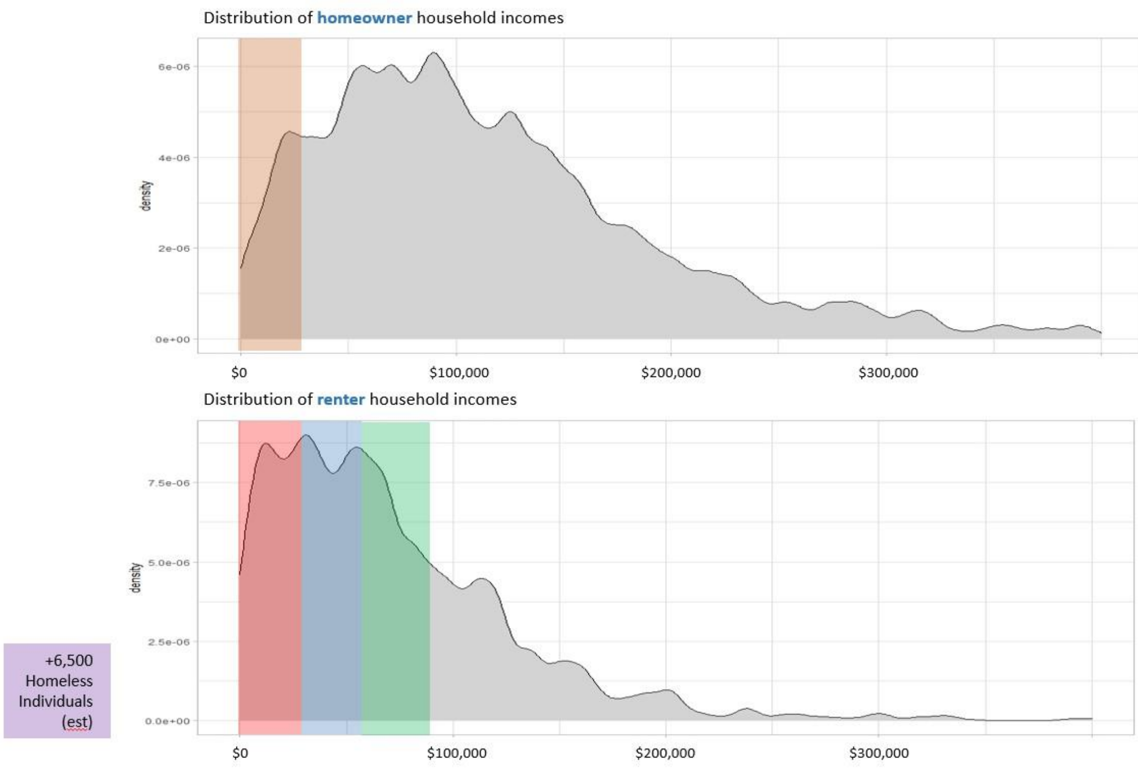
[1] In much of the world, this population is served by slums. In the US (and other advanced economies) slum housing is appropriately illegal, necessitating housing and income subsidies.

The second crisis, the supply crisis, is evidenced by the steady increase of housing prices above inflation. This crisis primarily impacts moderate income families who, in previous decades, could have found a moderately priced home that fit their needs without suffering a significant burden to their financial well-being. The causes of the supply crisis are somewhat less varied than the poverty crisis and consist primarily of a failure to keep up with demand for housing via the development of new homes. One should not, of course, underestimate the challenges with keeping up with demand in a place like Hawaiʻi; not only is the state an immensely desirable place to live, but there are also real barriers to development, including minimal developable land, preservation of historical or culture sites, and robust environmental concerns, among issues. But, other aspects of this crisis are self-inflicted, particularly the perennial failure to utilize the developed portions of the state in ways that maximize housing density.

These two crises are, of course, not entirely independent. As the supply crisis raises housing costs, it becomes increasingly more expensive to serve individuals affected by the income crisis. Moreover, increased housing costs create unbalanced competition for limited resources, so that we now see proposals to utilize state resources to subsidize the housing of middle- and even upper middle-income families. However, it is important to distinguish between the two because proponents of each side (including many of the stakeholders that we interviewed) attempt to obfuscate the other crisis into obscurity. Those who (rightly) believe that Hawaiʻi needs more housing, will often (wrongly) claim that allowing for market-rate development is all that's necessary to address the affordability problem. Similarly, those who are (rightly) focused on subsidies for poor and low-income families will often (wrongly) claim that the supply crisis is a myth and that increasing market-rate housing will not make a meaningful difference in the lives of local families.

The Components of the Crisis

A host of demographics experience the income- and supply-induced housing crisis in Hawai'i. As illustrated in the figure below, there are five dominant categories: 1) homeless families and individuals (purple); 2) poor renters (red); 3) very low-income renters (blue); 4) low- to middle-income renters unable to make the jump to homeownership (green); and 5) poor homeowners (brown). Groups that should not be the focus of public or philanthropic support are nearly all existing homeowners (who benefit enormously from Hawai'i's price appreciation and generous federal subsidies) and high-income renters, who are able to make the jump to homeownership but choose not to for a variety of idiosyncratic reasons (such as the expectation of a second move in the near future).



1) Homeless Families and Individuals (purple)

Hawai‘i has one the highest rates of homelessness in the country with roughly 6,500 homeless individuals (both sheltered and unsheltered) on any given night (HUD 2020). Research repeatedly documents that high housing costs have the strongest correlation with rates of homelessness (far more so than labor market factors or weather) (Honig and Filer 1993). Fortunately, homelessness has been one of the most scrutinized by rigorous research, all of which leads to the overwhelming conclusion that “housing first / permanent supportive housing” programs are by far the most effective remedy (Tsemberis 2010; Woodhall-Melnik and Dunn 2016). Although such programs take many forms, the basic idea is that the first service offered to homeless families should be non-conditional permanent housing. Once a family is housed, they are much more likely to reliably participate in other forms of assistance, such as drug and alcohol counseling or job training (Shinn and Khadduri 2020). Hawai‘i in general, and Honolulu in specific, have woefully underfunded such support systems, and many that do exist do not follow best practices of “permanent” and “unconditional” support. In many places, the mechanism for permanent supportive housing is a housing voucher, although the challenges faced by many families in using their vouchers in Hawai‘i requires investment on the supply-side as well (Darrah-Okike et al. 2021).

2) Poor Renters (red): 35,000 households (19% of Renters)[2]

Poor renters in Hawai‘i generally consist of households with fragile connections to the labor market, generally working a variety of service-based jobs that fail to offer meaningful income security or opportunities for upward mobility. For this reason, while they are sometimes able to achieve market rate rental housing, the situation can be short-lived, and they are

[2] All figures are approximate based on IPUMS microdata from the American Community Survey. Due to data limitations, represent county prior to the COVID-19 pandemic.

particularly vulnerable to involuntary relocation and eviction (Desmond and Gershenson 2017). For this reason, these families require deep subsidies, generally housing that requires them to pay only 30% of their income in rent, which adjusts should they lose (or gain) income. The weight of the evidence suggests that Housing Choice Vouchers (more commonly referred to as Section 8) are the most efficient way of housing these families while allowing them to retain some degree of residential choice, but the shortages of voucher-accepting landlords in Hawai‘i requires us to pursue supply-side options as well (similar to the homelessness policies described above). The supply-side programs that serve this group are funded via the Department of Housing and Urban Development. They consist of public housing – a legacy program that is generally underfunded with respect to maintenance, and unfunded with respect to growth – and the Project Based Section 8 program. The Project Based Voucher program is massively underutilized in Hawai‘i and allows the state to apportion a modest percentage of their Housing Choice Vouchers towards specific privately-owned units, essentially guaranteeing a deep subsidy (and eligibility) on particular-units for the foreseeable future.

3) Very Low-income Renters (blue): 29,000 households (16% of Renters)

The next rung up on the ladder are more stably employed households, but whose human capital is not valued on the labor market to the degree necessary to provide a stable living situation. While families earning close to the minimum wage should, in a normative sense, be able to identify market housing that they can afford, the reality of Hawai‘i's housing market is that this is unlikely (at least at current minimum wage levels). The market supplies no new rental housing outside of the conversion of single family homes, which are priced well above the means of most low-income families. To serve this gap, the Low-Income Housing Tax Credit program (LIHTC) provides development subsidies to produce modestly priced rental housing. The LIHTC program is massively inefficient and woefully underfunded, but it is *sine qua non* of developments that serve this group. Other sources of gap financing exist (as described below) but those are nearly always in addition to LIHTC funds. The core difference between LIHTC and, for example, public housing or project-based vouchers is that: 1) LIHTC has higher income eligibility criteria; 2) LIHTC rents are fixed, meaning that should a family's income fluctuate while in a LIHTC unit, there is no mechanism to reduce their portion of the rent. Some members of this group could also be responsibly served by low-income homeownership programs, as described in detail below.

4) Low- to Middle-income Renters (green): 38,000 households (21% of all renters)

The final group of renters are largely suffering from both the income and the supply crisis, particularly a lack of intergenerational wealth and ever increasing housing prices. Generally speaking, these are households with good managerial or white collar jobs that in a normal housing market would almost certainly be homeowners. In Hawai'i, however, the high cost of housing (and, thus, high down payment requirements) can push some households to delay homeownership. In contrast to those in Group 3, the help necessary for this group to achieve homeownership is significantly more modest, often a subsidized loan or modest down payment assistance. More importantly, the rental situation for these households is fairly-stable, meaning the benefits of promoting this group into homeownership are nearly all related to wealth creation and, of course, decreasing competition for the state's rental housing stock.

5) Poor Homeowners (brown): 15,000 households (6% of all homeowners)

And finally, we have poor homeowners whose incomes are so low that they struggle to keep up with routine maintenance and property taxes. For these households, the potentially hundreds of thousands in equity they hold in their homes can be overshadowed by routine struggles to maintain quality of life in the home. In some cases, this pushes these families either to sell their homes or into predatory lending arrangements to extract equity.

Summary: Targets of Foundation Support

Given the Foundation's focus on sustainable housing options for families with children, the most likely target is the upper half of Group 3 and perhaps the bottom 50% of Group 4. Generally speaking, it is not a worthwhile endeavor to promote low-income homeownership for the other groups, as it can often backfire leading to additional residential insecurity and a loss of wealth. Models for stable rental housing, appropriate for Group 2, certainly exist, although the stabilizing effects are modest. These programs are discussed in detail below.

UNDERSTANDING THE EXPERIENCES OF LOW-INCOME HOMEOWNERS

In this section, we summarize findings from our 18 interviews with low-income families participating in a self-help housing project on Hawaiʻi Island. The goal is not to evaluate the specific program (which was by all accounts a positive experience), but to help the Foundation understand experiences of low-income families: their needs, wants, aspirations, and struggles in pursuing home ownership. Thus, we highlight only findings that would apply to the majority of low-income housing programs.

Housing Trajectories Prior to Program Participation

Our data suggest that most respondents struggled with housing stability and affordability prior to their acceptance to the self-help housing program. For example, a number of respondents discussed receiving some sort of subsidized housing prior to the program, primarily in the form of a Housing Choice Voucher (often referred to as "County Housing" by respondents, but more generally referred to as "Section 8"). Respondents also noted how difficult it was to find housing as voucher holders. For example, Max, a 39-year-old Hawaiian father of two children, stated that he experienced various challenges when trying to find housing as a voucher holder. For example, as he searched for rental listings online, he would often see "No Section 8" on rental advertisements. Max explained that he would opt to just avoid these listings altogether, making housing options scarce for him and his family.

Another respondent, Mary, a 32-year-old mother of two, told us about a tumultuous childhood with periods of homelessness and foster care. At the age of 18 years old, Mary received a housing voucher, but struggled to find housing with it. As she explained, everything was stacked up against her: she had no references or housing history, and she was young and pregnant. Finally, Mary found a landlord whom she described as "sympathetic," and rented her a unit one-month before her daughter was born. Without this opportunity, Mary worried that she may have ended up homeless again.

Similarly, Craig, a 40-year-old Pacific Islander father of five children, received a Housing Choice Voucher (HCV) prior to his acceptance to the self-help housing program. Craig detailed a shaky and unstable housing trajectory dating back to his teenage years. Craig was born and raised on the westside of O‘ahu and grew up with a single mother and three siblings. Craig explained that growing up as a teenager, he and his family were homeless; they lived on the beach on different occasions, such as at Hau Bush in ‘Ewa and Mākua in Mākaha. In his junior year of high school, Craig had his first child, and ended up leaving the island to work in Alaska with his father. He traveled back and forth between Alaska and Hawai‘i until he resettled on Hawai‘i Island with his wife in 2008. Before they received their HCV in 2015—after 7 years on the waitlist—they lived in various places including "off the grid" in Waimea and Puna, though they lived in an apartment while constructing their self-help home.

The Waiting Game: Tradeoffs and Sacrifices

Some respondents described waiting many years to get accepted into the program. Reasons for such lengthy waiting times varied, but the most common reasons were having to build or repair credit for program eligibility, or waiting for a site in a desirable location. As with any affordable homeownership program, many applicants will need to invest substantial time in becoming "mortgage ready." More surprisingly, many households also expressed a desire to wait for a project in a desired location, perhaps because they recognized the importance of making a move that did not jeopardize other sources of support, including family, childcare, and work. In this section, we more thoroughly explore residents' reasons for postponing the submission of their self-help housing application, as well as delaying the construction start times.

Program Eligibility: Building and Repairing Credit, Paying Off Loans, Repairing Debt

Although most respondents described the application process as a relatively smooth one, a barrier for some respondents was poor or nonexistent credit. Sparkles, a 41-year-old Hawaiian man, explained that in order to be eligible for the program, applicants had to have a 725 credit score and a low debt to income ratio. Respondents with poor credit fell into two categories: 1) they had to repair their credit due to unpaid credit cards, debts, or outstanding payments, and 2) they had nonexistent credit and therefore needed to build credit.

For example, John, a 54-year-old father to three sons, explained that when his family was first offered the opportunity to participate in the self-help housing project in 2007, they had to repair their credit, thus postponing their participation. It wasn't until 2019—about 10 years later—that they were offered a project. For John and his family, their poor credit score and the time required to repair it postponed their participation time by approximately 12 years.

Like John, other respondents struggled to build or repair their credit to qualify for the required USDA loan. As such, many respondents expressed gratitude for the mandatory homeownership and financial literacy course provided by Hawaiian Community Assets (HCA), which covered credit repair, budgeting, savings planning, and more. For example, Craig, a 40-year-old Pacific Islander father of five children, originally applied to the self-help housing program in 2012, but said that his application was rejected due to his nonexistent credit. Thus, Craig and his family worked to build their credit by paying off outstanding car payments, as well as opening and paying off credit cards. Craig stated that the financial literacy program offered by HCA really "opened [his] eyes" in regard to his family's spending habits, including money spent on eating out. With the help of the program, Craig's application was approved in 2018, 6 years later. At the time of the interview, Craig and his family were nearing the end of the construction process for their home, and were looking forward to moving in and having a place to call their own.

Similarly, Daisy, a 38-year old mother of two teenagers of Latin American descent, explained that her finances suffered from the 2008 recession, which caused her to lose her home and declare bankruptcy. Afterwards, Daisy moved in with her parents and divorced her then-husband. During this time, she successfully paid off all of her debt, but her career goals required more schooling; as such, Daisy acquired an additional $20,000 in debt paying for schooling, work-related training, supplies, and more. Due to her credit history, Daisy did not qualify for the self-help program when she initially applied. However, through the homeownership class provided by HCA, Daisy learned that she could qualify if she sold her car, leading her to sell her car and going without one for 10 months. Daisy's case is exemplary of the sacrifices respondents made to improve their credit and qualify for self-help housing, as well as their perseverance and determination.

While some respondents had to fix their credit score *after* applying for the program, other respondents opted to repair their credit score *before* submitting their application to streamline the process. For example, Mary, a 32-year-old Hawaiian mother of two, explained that when she first learned about a program through a brochure given to her by her previous landlord, she read that applicants need "really good credit." As such, she began to fix her credit in preparation to submit an application, getting a credit card with a "cute little balance of $300." Eventually, Mary graduated college and got a job with the State of Hawaiʻi, which is when she finally felt ready to apply for the program. Overall, it took Mary about 3-4 years to repair her credit, but her determination paid off, and she began construction on her home in early-2019.

The Downside to Greater Financial Capital

As explored above, some respondents needed to either build or repair their credit to be eligible for the program. Others, however, felt that their budgeting skills and greater financial capital actually disadvantaged them when it came to low-income homeownership programs. For example, Sandy, a 33-year-old mother of two children, had spent years putting money away into her savings account, while juggling various jobs and motherhood. Sandy stated, “I never had less than three jobs at one time.” However, despite working hard for so many years to save up for a home, she felt that her plan had “backfired,” as she ended up needing to put about $3,000 down for her down payment, money she hoped to use to pay off her mortgage. Sandy explained that while she understood the down payment to be an investment, she felt like her years of accruing savings ultimately worked to disadvantage her.

Like Sandy, Laurie, a 47-year-old mother of four, felt similarly disadvantaged due to her greater financial capital. Laurie was previously married and could never qualify for programs, like the self-help housing program, because her husband made too much money as a tradesman, making above the income threshold. When her husband passed away, Laurie lost his income, and became classified as “low-income.” In turn, she found more opportunities for assistance, including becoming eligible for the self-help housing program.

Similarly, Oli, a 35-year-old part-Hawaiian woman and mother of a young daughter, told us that, during the application process, she found assets that were previously unknown, as her grandfather left her stocks that she did not know about. Thus, in order to qualify for the program, Oli had to sell the stock and had to hunt down the required documents from the company. Oli expressed sadness over selling the stock, as they could have been used for her daughter’s college tuition. In the end, Oli had to put down what she described as a “a very large” down payment, and was able to keep approximately $15,000 in assets.

Holding Out: Location Significance and Construction Postponement

Some respondents found that their wait time was lengthened because they were waiting for a specific location, leading them to decline initial offers in other locations.[3] In particular, respondents preferred Pepe‘ekeo due to it being more suburban with a close proximity to Hilo. Although lots were smaller than those at the Paradise Park Project (which had 1 acre lots), many participants said the surrounding community felt more “convenient” and “safer,” especially for their children. The location had nearby schools, grocery stores, and a closer proximity to Hilo, which is where many respondents worked. Our data collection, of course, selected for one type of preference over another, meaning that respondents not in our sample likely had a different set of preferences, but the types of considerations described by our respondents provide important information on the decision-making process that we expect to be generally relevant.

For example, Smiles is a 43-year-old mother of one daughter and is currently in the process of constructing her Phase III home. She first learned about the program in 2001 and applied that same year. Once her application was approved, Smiles was offered units in multiple locations, including Mountain View and Paradise Park, but Smiles turned down those offers due to the far distance between those locations and her workplace, as well as her daughter’s school. Last year, in 2020, she was accepted into the Pepe‘ekeo site, stating that the wait was “long but worth it.”

Like Smiles, other respondents emphasized the significance of their project’s location. For example, Kealoha, a mother of two children, explained that she initially learned about self-help housing when her aunt participated in a project in Panaewa that was geared towards Department of Hawaiian Home Lands (DHHL) beneficiaries, which also required that

[3] Our sampling method only included interviewees from one location. As such, we cannot make any inferences on general preferences for site locations.

participants had to assist with house construction. After waiting to gain stable employment, she applied for the program and was accepted for a project about two years later. However, once she learned that a project would be developed in Pepe‘ekeo—a location closer to her workplace and her daughter’s school—Kealoha declined the initial offer and held out for an opening in Pepe‘ekeo. In sum, Kealoha waited an additional six years before getting approved for her unit in Pepe‘ekeo.

ASSESSING THE VALUE OF HOMEOWNERSHIP FOR POOR FAMILIES

Research has historically taken a fairly measured view of homeownership, at least in comparison to the prevailing political rhetoric (McCabe 2016; Shlay 2006). While politicians relentlessly claim the social and community benefits of homeownership, recent research suggests that these are largely due to the preferences and behaviors of those who are *able* to become homeowners, rather than a function of homeownership itself (Holupka and Newman 2012). When properly administered, the wealth and stabilization effects of homeownership for low-income families are well documented (Quercia, Freeman, and Ratcliffe 2011; Aarland and Reid 2019), but the catastrophe of the Great Recession made manifest the challenges associated with an incautious increase in the rate of homeownership.

Non-Economic Benefits of Homeownership

Early research on homeownership argued that it had significant non-economic benefits for families and children: children of homeowners were thought to do better in school (Aaronson, 2000; Green and White, 1997; Haurin et al. 2002); homeowners were thought to maintain and improve their properties more than renters or landlords (Haurin *et al.*, 1996; Rohe and Stewart, 1996); and, at the community level, homeowners were believed to join community groups and vote more frequently than renters (DiPasquale and Glaeser 1999). These beliefs, combined with normative links between citizenship and landownership resulted in a broad consensus in support of homeownership; nearly all Americans aspire to one day own a home and politicians repeatedly pushed legislation to promote homeownership, such as subsidized loans and generous tax incentives.

However, recent empirical literature suggests that the non-economic benefits of homeownership are generally the result of the un-observed characteristics of individuals who choose to become homeowners rather than homeownership *per se*. For example, a low-income family of four making $75k/year that chooses to negotiate the complex network of homeownership counseling, down-payment assistance, family support, and assisted mortgages may be very different from a similar family that chooses to remain renters. When controlling for these pre-existing characteristics, most of the purported benefits of homeownership on children disappear (Holupka and Newman 2012; Barker and Miller 2009). Similarly, a recent experimental study found that homeownership does not increase voting or civic participation after controlling for the unobserved characteristics of homeowners. The study confirmed that homeowners do invest more in property maintenance than renters, but only on interior repairs which confer fewer community benefits (Engelhardt et al. 2010).

However, the stabilizing effects of homeownership likely do have a positive impact on low-income children (Aaronson 2000; Haurin et al. 2002), but perhaps only white children (Holupka and Newman 2012). The degree to which homeownership promotes stability is rigorously documented (Aarland and Reid 2019), but is fairly complicated and should not be assumed from the observation that homeowners tend to reside in their units far longer than renters. The vast majority of evictions, for example, are based on the low and volatile incomes of many renters. This means that holding income and housing prices constant, we would expect that renters struggling to pay their rent would similarly struggle to pay their mortgage. While foreclosure is a more gradual process than eviction (and thus more likely to be remedied), it is also a more devastating outcome for families economically. Homeowners with a fixed rate mortgage are protected from rent increases and what is called “no fault” evictions, which occur when a landlord wishes to sell a property. In practical terms, however, the weight of the evidence suggest that responsible low-income homeownership can, all else being equal, improve residential stability for target demographics. While some commentators argue that such benefits could be achieved through rental housing policy reform, the reality is that such reforms are unlikely within the US housing system.

These findings suggest that one should pursue low-income homeownership, but that the social benefits of such investments are lower than expected and caution is warranted. Pushing families into homeownership before they are financially ready can be disastrous without proper support, but the economic benefits of homeownership – particularly the durable impact on intergenerational wealth – have stood up to academic scrutiny, as described in the next section.

Breaking Down the Economic Benefits of Homeownership

For rental housing, the "cost" of housing is simply the monthly rental payment plus some smaller amount for utilities. This is not the case for homeowners. Each month, homeowners pay some contribution to equity, some amount of property taxes, and some amount of interest. During that time, the house either appreciates or depreciates in value (depending on market conditions), while simultaneously accruing costs associated with maintenance and repairs (Quigley and Raphael 2004). In terms of the mortgage payment, the contribution to equity is not a *cost* in the traditional sense. While it may present cash-flow problems to the homeowner, it represents nothing more than transferring one form of wealth (generally cash) into another (real property).[4]

Thus, the cost of owner-occupied housing is:

(maintenance + interest rate + tax rate – appreciation) * value[5]

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[4] To an economist, a homeowner pays interest on their home regardless of whether or not the property is mortgaged. If the property is mortgaged, the interest is paid directly to the bank. If the property is owned outright, the interest represents the foregone opportunity cost of the property (essentially what the homeowner could make if she sold the home and invested the money).

[5] This basic equation is complicated by the ability of homeowners to claim deductions on state and federal taxes, with higher benefits (and thus lower costs) accruing to higher income households.

This equation allows us to understand that the conventional wisdom of "homeownership is a form of wealth creation" is actually several mechanisms operating simultaneously.

First, homeownership represents a sort of forced savings plan, requiring families to make monthly contributions toward the purchase of a durable investment asset (at least for the first 30 years). This is an enormously beneficial mandate for many families, but it should not necessarily be conflated with wealth creation – particularly given that actual equity investments are fairly modest during the first third of a conventional mortgage.

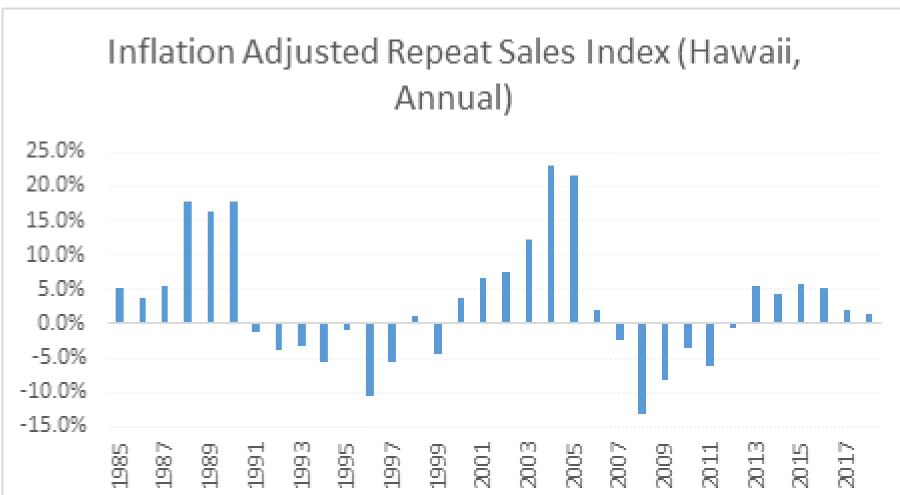
Second, unlike other forms of investment, homeowners get to live in their assets. The tradeoff is that, unlike renters, they are also responsible for maintenance, taxes, and interest payments – costs that should not be underestimated. But the calculus generally works in homeowners' favor as they are able to retain the economic profits that would otherwise accrue to their landlord (while also assuming his or her risk) in addition to a variety of tax benefits for which landlords are ineligible.

The third component is that of home value appreciation – the increase in housing costs above inflation. In many cases, it is the rate of appreciation that determines whether or not homeownership proves to be an economically successful investment for a family.

The best measure of property appreciation is a repeat sales index, which uses changes in the sales price of specific houses to estimate changes in quality-adjusted housing values. This is, importantly, a different metric from the oft-cited "median sales price," which considers only properties that are on the market in a given period. If, for example, a glut of newer, larger, or fancier homes come on the market, one could hypothetically see an increase in median sales price even in a deflationary period (although, in practice, this is unlikely). Regardless, what matters to homeowners is the value of their home, and using a repeat sales index is the best measure here.

In general, housing prices in Hawai‘i have risen faster than inflation over the last 35 years. Between 1984 and 2018, housing values rose nearly 473%, while inflation on goods other than housing amounted to 147%. This means that a house worth $200,000 in 1984 would, all else being equal, be worth $1,146,000 today, while that same $200,000 in other goods is worth just $494,000. Put less dramatically, this means that housing appreciated by about 2.5% per year after adjusting for inflation.

But this is the average rate of appreciation over a fairly arbitrary period. Looking at annual figures, Hawai‘i has experienced two periods of negative price appreciation, the first throughout the 1990s and the second during the housing crash in the late 2000s.



In other words, timing is everything when it comes to real estate appreciation. However, the highs are larger than the lows, as a one year investment in housing in Hawai‘i, randomly timed, would lose money in 14 out of 34 years (41%). Those able to hold for 10 years would lose money 9 out of 25 years (36%) and those able to hold on for 20 years would lose money 0 out of 15 years (0%). Of course, these numbers are purely illustrative as many consumers are able to time when they buy and sell properties. Nevertheless, it is important to recognize that while housing in Hawaiʻi is a good investment over the long haul, it is far from risk free. Indeed, there are also geographic variabilities to consider, especially insofar as the existing infrastructure, resources, and demand for housing varies between each of the major islands in Hawaiʻi.

HELPING LOW-INCOME FAMILIES ACHIEVE HOMEOWNERSHIP

As noted above, individuals making prudent decisions to enter homeownership have opportunities for wealth creation and stabilization to a degree that is difficult to achieve under current tenure systems. Our conversation with local housing stakeholders revealed a number of potential programs that can help bridge the gap to homeownership for low-income families. Generally speaking, these families face multiple barriers such as financial illiteracy, poor or no credit, a lack of down payment funds, or income volatility. Getting a mortgage is complex and many low-income families lack the familial and social resources necessary to navigate the process. The resources include everything from basic information on the home buying process, to strategies to build and preserve credit during the life course, to actual monetary gifts to assist with down payments. Stakeholders identified all of these barriers among the Foundation's target groups, and nonprofit stakeholders described their approach to addressing these issues. In the following sections, we consider each of these issues, drawing from the expertise of stakeholders and the academic literature.

Down Payment Assistance

Historically, prime mortgages have required a 20% down payment as protection against price depreciation and to promote responsible ownership behavior. Given the low savings rate among low- and moderate- income households, the need to come up with a significant amount of cash creates meaningful barriers to homeownership. Using survey data from 2009, Wilson and Callis (2013) found that less than 7% of renters in the United States can afford a modestly-priced home because they cannot afford a down payment. Increasing lending standards in the wake of the Great Recession have made it even more of a challenge (Freeman and Harden 2015). This is especially true for racial and ethnic minorities (Norton, Weidig, and Schmitt 2020), who are less likely to receive financial assistance from family members for a down payment (Charles and Hurst 2002).

Of course, very few first-time homebuyers actually pay a 20% down payment; in 2020 the median combined loan-to-value ratio for first time homebuyers in the United States was 95%, meaning that the median down payment was roughly 5% (CFPB 2020). This low figure is achieved in a number of ways including secondary loans, loans that require private mortgage insurance, or a host of home buying assistance programs such as FHA, VA, and USDA. Federal Housing Administration (FHA) insured loans, for example, require as little as 3.5% down (depending on creditworthiness) and are often accompanied by additional grant programs to cover closing costs or not require down payments for first time home buyers (Jefferson and Thomas 2020).

Backed by the Veterans Affairs Office, VA loans allow those who have served in the military to utilize it as a mortgage option with 0% down and no private mortgage insurance (PMI) barriers (Anderson and Kish 2021). Qualifying for the VA program is contingent upon certain criteria like how many years the veteran served for, or the number of tours they completed. USDA loans are another 0% down program for civilians with low private mortgage insurance (PMI) requirements, which targets low to moderate income households. However, USDA loans are restricted geographically to rural areas and there are price restrictions that prevent it from being used towards high-priced homes (Anderson and Kish 2021). These existing programs are crucial to helping low-income families across the US obtain homeownership, but eligibility restrictions prevent many families from accessing these opportunities.

Hawai‘i's low property taxes and the current historically low interest rates mean that the monthly payment required to purchase each dollar of house is likely as low as it is anywhere in the nation and as low as it will be in our lifetimes.[6] This is obviously somewhat good news as it allows families to qualify for larger mortgages. But it is bad news for first-time home buyers. If the monthly cost of owning and buying homes is low, the prices of those homes will be higher due to increased demand. Economists continue to debate how much cheap financing and low taxes drive up home prices, but at a basic level, the cheaper it is to buy and own housing, the more housing people will buy and thus the more expensive that housing will be. In theory, this represents a balanced trade off – low monthly costs are compensated for by higher housing prices leaving the consumer indifferent. But, the core challenge is that neither low property taxes nor low interest rates reduce down payment amounts, making it increasingly challenging for low-income families to save even 3.5% of the home cost, keeping 20% astronomically out of reach.

The table below attempts to summarize those costs depending on the cost of the home and the amount the family is required to pay as a down payment. Based on that down payment we calculate the monthly mortgage payment (at roughly present conditions) and then the household income necessary to afford that mortgage at either a 30% or 40% burden. We then calculate how many months of pre-tax income that family would need to save towards a down payment.

[6] In Hawaii, a household making the State's median income ($85,000) can afford a mortgage payment of $2,125. That family could afford roughly a $500,000 home (assuming a 3% interest rate and 10% down payment). If a family with that same income were to buy a home ten years ago (when interest rates were near 5%), they could only afford a $400,000 home. If a family with that same income were to buy a home ten years ago in Pennsylvania (where property taxes are closer to the national median), they could afford a $330,000 home.

	down payment		monthly	affordable income		months of income for d.p.	
home price	%	$	mortgage (without PMI)	at 30%	at 40%	at 30%	at 40%
$450,000	0.2	$90,000	$1,732	$69,280	$51,960	15.6	20.8
	0.1	$45,000	$1,922	$76,880	$57,660	7.0	9.4
	0.05	$22,500	$2,016	$80,640	$60,480	3.3	4.5
	0.035	$15,750	$2,045	$81,800	$61,350	2.3	3.1
$600,000	0.2	$120,000	$2,282	$91,280	$68,460	15.8	21.0
	0.1	$60,000	$2,535	$101,400	$76,050	7.1	9.5
	0.05	$30,000	$2,661	$106,440	$79,830	3.4	4.5
	0.035	$21,000	$2,699	$107,960	$80,970	2.3	3.1
$750,000	0.2	$150,000	$2,831	$113,240	$84,930	15.9	21.2
	0.1	$75,000	$3,147	$125,880	$94,410	7.1	9.5
	0.05	$37,500	$3,306	$132,240	$99,180	3.4	4.5
	0.035	$26,250	$3,353	$134,120	$100,590	2.3	3.1

As is clear, the idea that any low- or moderate- income family would have as much as 20% down payment is fairly preposterous, unless they happen to have assets beyond their income. As incomes decline, so do savings rates, making it highly unlikely that saving more than a year's salary is feasible. As we reduce the down payment, the monthly mortgage increases fairly modestly, while the number of months required to raise 5% or 3.5% of the mortgage price falls dramatically.

Given this analysis, one of the most direct ways for the Foundation to assist families in obtaining homeownership is through the creation of a down payment assistance program. Many of the stakeholders identified down payments as the largest barrier for home ownership in Hawai‘i. Stakeholders have seen many families with steady employment and good salaries “but can't quite save enough to put it down.” A federal stakeholder acknowledged this and shared that it leads to hefty private mortgage insurances, affecting how much of a mortgage the family can then afford. The same stakeholder explained that when you go to a lender, they are going to look at the cost of the mortgage, the principal and interest, the household expenses, property taxes, insurance, HOA dues, and the PMI: “that is enough to keep people from qualifying for the loans.” A traditional solution to this problem for first time homebuyers is to borrow money from family, but stakeholders explained that many families in Hawai‘i do not have extended family that can gift them their down payment – a legacy of historical wealth inequalities and colonial land dispossession. Because of these challenges, stakeholders identified several types of programming that can assist families with a down payment.

The first is issuing direct cash grants to families to purchase a home (Listokin et al. 2001). This method does not require any money from the families and allows them to use grants towards a down payment. To ensure that homeownership is sustained, these programs are often paired with budgeting or homeownership preparedness courses (described in detail below). One stakeholder in particular had experience offering families grants to pay down debt. The families would participate in a financial literacy course and, then, be awarded the grant to lower their debt-to-income ratio, preparing them for mortgage applications. The grants could go towards debt, such as credit cards, student loans, or other debts affecting their debt-to-income ratio. This is paired with courses to prepare the individuals on things such as budgeting, payment plans, and saving options. The program could also provide a mentor or counselor to assist families through this process. With these courses and grants, families can prepare for homeownership and have a concrete plan to reach the goal.

The second option is an equity stake model, where down payment assistance is provided and, in return, the resale appreciation of the unit is restricted—a condition which has been shown to be effective in the long-term preservation of the affordability of units (Davis 1992; Perkins et al. 2019; Temkin, Theodos, and Price 2013). This option allows individuals to receive a certain percentage of the home price to use as a down payment with the understanding that they will 1) have to pay the amount back when they sell and 2) sell the home for no more than what they bought it for plus some percentage of appreciation. This option still allows the individual to gain some equity over an extended period of time.

Similarly, shared equity is another type of model where down payment assistance is provided at time of purchase, and repaid along with the appreciation on the equity stake at the time of sale. For example, consider a family purchasing a $500k home that received $100k in down payment assistance. If that home appreciated to $620k at time of sale, the family would repay $100,000 + (⅕)120,000 = $124k to the funder, while still retaining $96k in appreciation towards the purchase of their next home. However, Perkins et al. (2019) found that individuals are reluctant to participate in equity stake or shared models mainly because of lack of education on increasing home appreciation values. There is also fear that owners may lack control of their property when using such purchasing assistance. Despite these concerns, individuals have been shown to prefer the shared equity model over the restricted equity stake model, likely because the latter is potentially riskier should housing fail to appreciate.

The fourth type of program is the development of a matched-savings program or Individual Development Account (IDAs), where participants receive a matched-dollar amount for every dollar they save (generally at a ratio between 1:1 to 1:7) to encourage asset accumulation (Grinstein-Weiss et al. 2013; Richards and Thyer 2011; Rothwell and Han 2010). Match savings programs were the most popular option among stakeholders, with many of the nonprofit stakeholders stating this is what they would invest philanthropic dollars towards. Stakeholders explained that this program is the most direct way to assist families and that it has a successful track record. One stakeholder suggested that the matched money serves as a type of incentive to support family participation and engagement. IDAs have been shown to be effective in promoting homeownership among low-income households, including Native Hawaiians (Rothwell 2010). However, in an extensive review of the effectiveness of IDAs, Richards and Thyer (2011) showed that the administrative costs associated with IDAs may outweigh the savings of families, especially as the amount deposited into IDA accounts may simply represent a reallocation of pre-existing assets. In turn, they suggest that it may be more beneficial to offer direct cash grants for use on selected purchases (e.g., down payment).

Existing research indicates that even relatively modest down payment assistance ($10,500 or less) could expand homeownership rates in the United States, especially among racial and ethnic minorities (Perkins et al. 2019; also see, Herbert and Tsen 2007). However, areas where home prices are particularly high may require larger investments per household ($100,000 or more) (Theodos et al. 2017). This may be especially true in Hawai‘i, where sales prices are significantly higher than nearly all US metropolitan areas. As described below, down payment assistance can work in conjunction with other housing solutions, such as mortgage readiness education and counseling.

Probably the most significant benefit of down payment assistance is its simplicity and cost effectiveness. Even at Hawai‘i's high price points, the number of families able to achieve homeownership via down payment assistance substantially surpasses nearly all of the construction programs outlined in this report. If the support is structured to be recouped at time of resale (ideally plus appreciation) the initial investment can be recycled multiple times. The downside is twofold. First, down payment assistance does not address issues of creditworthiness or income eligibility (except insofar as it reduces monthly payments), meaning that it is not useful for families with more modest income. Second, it fails to address the underlying supply shortage in the state. In theory, the down payment assistance program could generate increased supply at particular price points, but it is unlikely to do so in Hawai`i, leaving low-income families to compete with one another for the scarce supply of modestly priced homes.

Currently, there are several organizations in Hawai'i who offer this type of support with various offerings. Hawaiian Community Assets (HCA) and the Council for Native Hawaiian Advancement (CNHA) were the most commonly mentioned organizations by stakeholders, although the Hawai'i Home Ownership Center, the County of Honolulu, and HHFDC all have (or had) similar programs. HCA and CNHA often team up on projects, helping applicants for their programs become mortgage and homeownership ready, while also providing grant assistance. However, match saving grants can be as little as $2,000 maximum total, meaning they must be paired with additional subsidies in order to promote homeownership. Non-profit stakeholders shared that this type of assistance is always in high demand and something they wish they had more of.

Mortgage Readiness and Credit Repair

In addition to challenges associated with obtaining a down payment, some families struggle to secure a mortgage (even a subsidized mortgage) due to supposed "credit unworthiness" related to bad or missing credit history (Perkins et al. 2019:7). As might be expected, the prevalence of credit issues is higher in populations that are younger, lower income, or racial and ethnic minorities (Bostic, Calem, and Wachter 2005). Today, even upwardly mobile families with steady income and/or employment can be "credit deficient," making home ownership difficult.

Credit score can also impact their mortgage interest rates and mortgage payments

(Anderson and Kish 2021). Broadly, borrowers can be categorized into two groups based on their credit history or lack thereof: *prime* and *non-prime.* According to Hoskins (2017), non-prime borrowers generally fall within the bottom quartile of the US population's credit score distribution (Bostic, Calem, and Wachter 2005). Those in the bottom quintile often lack access to any mortgage loans, while more marginal households pay higher interest rates or insurance premiums than their prime counterparts (Hoskins et. al. 2017). Importantly, credit unworthiness is not simply a result of arrearages and defaults, but also the result of a limited borrowing history.

Data on credit worthiness in Hawai‘i is hard to come by and that which does exist is released as non-replicable industry research. A recent report from Experian, for example, suggests that, although Hawai‘i's residents have the highest per-capita debt burden in the nation, they also have among the highest credit scores (Stolba 2020). This finding is no doubt a testament to the state's high cost housing and its significant appreciation over the long term, but it tells us very little about the bottom portion of the income distribution. Indeed, our conversations with stakeholders—particularly those working on low-cost homeownership—suggest that credit readiness was a substantial barrier for precisely the type of families upon which the Foundation is focused.

As described by a key stakeholder, mortgage readiness and credit repair programs are "like a financial advisor for low and moderate-income families," as they provide information on how to purchase a home, effective models for finances, and strategies for credit improvement (Perkins et al. 2019). Whereas such programs are often intended to create a "homeownership plan," such courses can offer many other benefits to clients, even if they do not end up pursuing homeownership. For example, these courses have been shown to improve housing outcomes for homebuyers, homeowners, and renters, as they improve one's ability to budget and manage their debt and income (Myhre and Watson 2017). These programs tend to focus on one to one counseling, which provide families the time and space to go through their finances and create a “realistic” plan to eliminate debt and save towards a down payment or closing costs on a home.

A meta-analysis study conducted by Myhre and Watson (2017) explored the key aspects of counseling programs and found that amongst the most effective were: 1) early intervention 2) time spent between counselor and participant 3) pre and post counseling. Moreover, these courses can be particularly helpful in establishing relationships between clients and organizations, which can be leveraged in times of crisis to prevent some of the difficulties associated with homeownership (e.g., foreclosure) (Immergluck 2009).

Many ‘mortgage readiness’ programs currently exist and could be expanded upon in Hawai‘i, such as those associated with Hawaiian Community Assets (HCA) and the Council for Native Hawaiian Advancement (CNHA). Existing programs in Hawai‘i have been shown to be particularly sensitive to the unique racial and ethnic context, promoting culturally-sensitive training, shame-free dialog, and multi- and intergenerational counseling, with employees who are embedded with local communities. These are practices that could potentially be a model for replication in other communities with large Indigenous or racially and ethnically diverse populations (Santos, Vo, and Lovejoy n.d.), especially with support from philanthropic organizations that do not have bureaucratic restrictions on spending requirements. For the Kahua Waiwai program by HCA, affirming identity and culture is used as an empowering tool for participants to commit to their realized goals such as providing a home for their family. Overall, these community center approaches show cultural competency and are successful in engaging families, helping them reach their goals. In our analysis of self-help participants--discussed above--all respondents said that the required financial counseling courses provided valuable education that taught them the necessary skills to successfully take on a mortgage for the program.

In addition to providing financial counseling, these programs could be coupled with savings initiatives to support homeownership, such as a match-savings account or down payment assistance, to help families work towards homeownership. Counseling also provides needed check-ins with clients for them to re-evaluate and adjust plans as needed. Functioning capacity of programs as explained by stakeholders seemed to always go back to the number of staff and counselors available to meet the demand of clients. Check-ins and courses can be time consuming but are essential for effectiveness (see Myhre and Watson 2017).

Network and Organizational Capacity Initiatives

It is tempting to view affordable housing development as purely an issue of resources: if more funding is directed toward subsidized housing, someone will rise to the challenge of building it. And while this is true to some extent, decades of research have shown that the value of a particular development is both quantitative and qualitative. Certainly, the number and depth of subsidies matter, but so too does the location of affordable housing, the degree to which the built environment fosters wellbeing, and the likelihood that affordability will persist past mandated requirements. All of these factors, in turn, depend on who is developing the housing. The canonical split in the affordable development community is between for- and non-profit developers, a division that exhibits complex tradeoffs (Bratt 2008).

Ultimately, stakeholders suggested that the organizational structure of the developer is less important than the degree with which he or she 1) is mission driven (meaning that service to poor and low-income households is their primary motivation) and 2) has local expertise (including sensitivity to Native Hawaiian issues and familiarity with Hawai‘i's complex history of land ownership and control). When neither of these conditions are met, affordable housing in

Hawai‘i runs the risk of becoming what some researchers have (perhaps excessively) termed the "affordable housing development complex," whereby the utilization of public monies for affordable housing becomes detached from its primary goal (Sarmiento and Sims 2015). But scale and experience matter too; mission-driven local developers will have little success producing affordable housing if they lack capacity.

Instead of competition, many small or nonprofit development professionals expressed a desire to come together and focus their resources toward shared goals related to the preservation and creation of affordable housing in Hawai‘i. In particular, many stakeholders discussed a desire to support families in meeting their housing needs over a lifetime, envisioning a holistic approach rather than a single development. This could involve building off the expertise of multiple organizations to meet the changing needs of families over time. For example, someone could go from a situation involving homelessness to 1) a short term shelter developed by a homelessness serving organization; to 2) a permanent spot with a housing voucher in a tax credit property; to 3) a homeownership opportunity through a self-help housing organization; to 4) market rate unrestricted homeownership. Right now, such opportunities are limited, as Hawai‘i lacks an "eco-system" to support affordable housing options for people across what one stakeholder referred to as the "housing ladder."

While we should not yield to the knee jerk parochialism of denigrating developers from out of state, the benefits of a local community of affordable housing developers are myriad, particularly when it comes to mentorship and collaboration. Stakeholders suggest that the network for both for- and non-profit developers is quite small in Hawai‘i, presenting limited opportunities for training the next generation. Real estate development is learned primarily through hands-on experience and long-term mentorship. The establishment of a well-funded collaborative network could create opportunities for locally-based students and young professionals to connect with more seasoned professionals. One stakeholder in particular described the need for a "hub" or central organization or location for housing organizations to go to work collaboratively. Another stakeholder explained that "we're all in the same canoe, and we need to be paddling in the same direction at the same time." For these stakeholders, having this cross collaboration and mentorship could arguably speed up and create more affordable housing, since they would all be working towards the same goal. They explained that this could be done either through contributing money and staffing capacity towards one project at a time or providing training on how to make it through applications and being awarded grants. Such an organization could be structured in such a way as to allow developers on each island to share expertise related to local land use controls, while also benefiting from Oahu's concentration of resources.

"Home grown talent," as explained by stakeholders, are the individuals who are contributing members to local communities. This may allow them important insights into the unique histories and contemporary realities of development in Hawaiʻi, allowing them to create and maintain community relationships and avoid "NIMBYism." This is critical as many affordable housing projects in Hawaiʻi die on the vine because of opposition from neighboring residents (for example, the Kawainui Street Apartments in Kailua). This is true not only in wealthy communities, but also in lower-income neighborhoods, such as Waiʻanae, Kahuku, and Waimānalo. Given the uniqueness of land use in Hawaiʻi—including the protection of ceded lands, fragile ecology, and food sovereignty—it is important to understand the nuances of opposition and craft strategies to address it.

This problem is amplified in development targeted toward Native Hawaiian communities, either implicitly in areas such as Waimānalo or explicitly on Hawaiian Home Lands. Certainly, federal programs serving indigenous communities add an additional layer of complexity to any development effort, but the need for highly skilled Native Hawaiian developers goes well beyond the basic technical challenges. Ultimately, some stakeholders expressed the belief that a well-targeted affordable housing strategy targeted towards Native Hawaiians requires the sort of sovereignty and self-determination that only comes from having Native Hawaiian developers. Indigenous developers would not only have lived experiences and cultural wealth, but they would also be able to pair these resources with tactical skills to coordinate and produce impactful projects. Labeling a project with a Hawaiian name does not make it Hawaiian; what makes it Hawaiian is the ‘ike of the developers incorporated into functional and livable spaces for their people to occupy. For example, one developer who previously worked at DHHL decided to take development into their own hands and are now rehabilitating apartments with communal living areas specifically designed for Native Hawaiian families. They are building on the land meant for Native Hawaiians, all while preserving affordability in perpetuity.

Increasing the number of Native Hawaiian developers would also help the state maximize the full breadth of heterogeneous opportunities. Many stakeholders acknowledge that much of the land and development is controlled by a few large names that go back to pre-annexation. With this acknowledgement came the known fact that if you are not one of them or work with one of them, you are not going to survive in this "development game." Gaining control over the land could bring back opportunity and restoration of not only sustainable housing practices held previously but other resources such as agriculture, childcare, and education. Much can get done when Native Hawaiians can control their land and the developments thereupon.

The development of collaborative, training networks do not happen by accident. Despite the best intentions, developers are busy people and previous attempts to create stronger bonds within Hawai‘i's mission driven development community have struggled to maintain momentum. However, there is opportunity to invest in creating or facilitating this type of work.

Taking a community organizing approach is one way to appeal to the multiple organizations in Hawai‘i. Stakeholders described their connections and “who you know” as an asset to their organization. For example, when organizing community forums and outreach, stakeholders may be able to gather insight and decide on approaches based on the recommendations from their peers. For stakeholders who have created and maintained meaningful relationships with communities, they can serve as an example and mentor to other organizations. Stakeholders spoke about mentorship as something done informally and over an extended period of time, but it is also not something that happens organically. Instead, it requires resources for a paid organizer staff who can convince and cajole busy people into collective action until such a point where the process achieves its own momentum.

Gap Financing

In Hawai‘i, there is an ever-widening “gap” between what it costs to build a unit and the amount that it could be sold or rented to by a poor or low-income family. Consider the following stylized example:

> A developer wants to build a 100 unit condo tower targeted to couples earning 60% of the Area Median Income ($58,050). Based on that income, a family can afford a $1,451 monthly payment. Assuming a 3.5% down payment (and excluding condo fees or PMI), this means they can afford to purchase their condo for roughly $300,000. The total cost of construction, however, is roughly $550,000 per unit.

This basic problem rests at the core of all affordable housing development, both for-sale and rental, and is exacerbated in high-cost areas such as Hawai‘i. Put simply, the more it costs to build housing, the wider the gap that needs to be filled to be able to serve lower-income families. Both costs and income are higher in Hawai‘i than elsewhere, but the former outpaces the latter meaning that nearly all explicitly affordable developments in the state require substantial gap financing. Some stakeholders explain that they “want” to do affordable projects but “to make a project pencil” is sometimes impossible to do.

For rental housing, this financing comes primarily in the form of the Federal Low Income Housing Tax Credit (LIHTC). The process by which a tax credit gets converted to a development subsidy is enormously complicated (and extremely inefficient), but the program is nonetheless leveraged in nearly all affordable rental development and nearly all new rental housing in Hawai‘i. Unfortunately, the equity generated from tax credits hardly ever closes the gap between cost of development and what the product can be sold or rented for at an affordable rate (Kneebone and Reid 2021). Developers have made LIHTC work by “stacking” or using multiple sources of funding to make the project financially feasible (Kneebone and Reid 2021). In the context of Hawai‘i, these include the state’s tax credit programs, funding from the rental housing revolving fund administered by the Hawaii Housing Finance and Development Corporation (HHFDC), and philanthropic dollars. A few stakeholders in particular reiterated that the only way their projects were feasible was because of this stacking method and, without it, projects would have failed. For the stakeholders that mention gap financing, many of them say private funding to bridge this gap could be a “game changer”.

The Low Income Housing Tax Credit can only be used for rental housing development, and there is no similar program targeted at for-sale development. To resolve this issue, for-sale developers rely on a variety of creative strategies (several of which are outlined below). Oftentimes, for-sale development can only occur when free land is available (either state owned or donated) and, even then, requires waivers for the infrastructure costs and impact fees typically charged to market-rate development. Construction costs can be reduced via sweat-equity / self-help projects or, potentially, by embracing modularity and pre-fab housing. For homeowners, the gap can also be closed on the consumer side, by offering subsidized mortgages (such as USDA) and by providing down payment assistance, shared equity, and forgivable loans.

A core difference between gap financing for rental versus homeownership units is the challenge of maintaining the subsidy's impact for the long term. A naïve gap financing scheme for homeownership represents little more than a significant equity donation to the low-income homeowner. If a house is built for $600,000 and sold to a low-income family for $400,000, then that family has at minimum $200,000 in equity simply based on the housing's replacement cost. In reality, the location of that housing could result in instant equity several times that figure. There is nothing wrong, of course, with the progressive transfer of wealth to low-income populations, but that alone fails to meet the standards of promoting durable affordability. To address this issue, any gap financing approach for homeownership ought to be coupled with a mechanism to ensure the house is resold below market, while still allowing low-income households to benefit from equity appreciation.

Pre-Development and Revolving Funds

Pre-development costs consist of all the soft-costs necessary to determine whether a project is viable and to secure financing. These include the preparation of applications for financing, legal fees, and other architectural and engineering fees. While these costs can, of course, be passed on in the form of higher sales prices, they are generally ineligible for subsidy. This is for the simple reason that they are relatively high risk – not all projects are viable and the finite amount of development subsidies means that many worthwhile projects go unfunded each year. While large developers generally spread-out costs over multiple projects, thereby minimizing their risk if a project fails in pre-development, smaller or nonprofit developers lack access to such reserve funds placing them at a competitive disadvantage. Many stakeholders stated that having a revolving fund could dramatically change how fast and how many projects get done. One explained that this fund could be used for a variety of things, such as purchasing land to “tie up the property” as soon as it is available so they would be able to get their projects running. The lack of such funds can stifle the industry’s creativity, limit the number of projects pursued by nonprofits, and create delays in existing projects. As such, the creation of a pre-development financing program in the form of grants or low-cost loans can be a fairly low-cost way to catalyze more affordable housing. In the last legislative session, Hawai`i approved enabling legislation to create a low-income homeownership revolving fund, targeted to this issue. Similar programs have been adopted in Chicago, Hartford, Chattanooga, Jacksonville, Detroit, and elsewhere (Local Housing Solutions 2021).

Even costs that are not technically pre-development can present challenges for small developers who struggle to bridge the gap between project approval and funding receipt. Almost all of the stakeholders mentioned such challenges and stated that a “revolving fund or loan to float” could greatly impact their ability to see projects through. The creation of a revolving fund accessible to mission-driven developers could allow small or nonprofit developers to temporarily access funds to pay for upfront costs, bypassing the wait time often associated with governmental funding applications (Meiksins 2014). For example, the Nonprofit Loan Fund of Tucson and Southern Arizona provides nonprofits with access to low interest loans between $10k-$50k for up to 12 months, as they await governmental resources or other funding sources (see Meiksins 2014). In contrast to pre-development funds, which are meaningfully risky, these types of bridge loans can be issued upon project approval and paid back once governmental sources are secured. Such loans are, of course, available in the commercial lending space, but a service tailored to mission driven developers can reduce the cost of financing.

Indeed, an expedited process for bridge lending is important in Hawaiʻi, where stakeholders suggested that they often miss opportunities for adaptive reuse of existing structures because of competition with bidders with access to fast and easy capital (Meiksins 2014). One non-profit stakeholder shared with us a recent experience: The [Organization] was in conversation with a 22-unit property close to UH Mānoa, where the current owner said that one bedroom units could rent for $1,700. If [Organization] could obtain the property, they would only charge a few hundred dollars monthly to families moving out of homelessness. The [Organization] was not successful in getting this property, which they associated with limitations in how they can spend certain types of money. For example, if they were to acquire a Community Development Block Grant (CDBG), they can only pay fair market value for a property. In the case of the property off of University Avenue, it was selling for $6 million, and [Organization] offered $6.5 million, but someone else bought it for $8 million. In a situation like this, the organization could simply not compete with the other buyer who had an offer ready in hand. However, if funds were readily available then they might have been able to put a larger, but still sustainable, offer more quickly.

MODELS FOR DURABLY AFFORDABLE LOW-INCOME HOMEOWNERSHIP

The previous section discussed mechanisms for helping families bridge the gap to homeownership or to assist developers in building low-cost homeownership properties. In this section, we discuss the structure and form of those developments with an emphasis on helping maintain durable affordability across multiple purchasers.

Self-Help Housing

Self-help housing is broadly defined as an alternative model of homeownership, where the first occupants of a unit "arrange for the building of their own dwelling and, in various ways, participate in its production" (Duncan and Rowe 1993:1331). Self-help housing is most often associated with poor or low-income communities in the Global South, but it is increasingly being pursued throughout the Global North as a response to housing shortages (Benson and Hamiduddin 2017; Crabtree 2018). The research on self-help models in the United States is extremely weak, although case studies suggest that the process may have positive social, economic, and psychological benefits for not just the household going through the process, but also the broader community (Eriks et al. 2015; Lattimore 2018; Phillips et al. 2009; but see Delmelle et al. 2017). Self-help housing does not necessarily preserve affordability for the long-term, but it is practically always paired with some form of resale restriction, keeping the property affordable for a number of years after construction.

The Consuelo Foundation conducted an 8-increment self-help housing project in which they served families between 40% - 80% AMI, using the sweat equity self-help model (2014, 2019). The housing offered included 3- and 4-bedroom houses, as well as a 12-unit duplex. In a follow up study in 2019, it was found that 87% of the original residents still lived in their units. The foundation provided long-term support for financial management and support, which provided positive outcomes for the community as a whole. However, the same study found issues surrounding self-governance and homeowners' associations.

Of course, the direct benefit of the self-help housing model is that it purports to develop new housing for far less than is possible on the market. Again, we could not identify any study, either locally or nationally, that rigorously evaluates the true cost of new construction using the self-help model. Nevertheless, stakeholders (including representatives from several local self-help organizations) provided abundant evidence that the model is able to reduce costs by leveraging the labor of the home's future occupants for construction. In general, most stakeholders agreed that the minimum normal construction costs of a single family home in Hawaiʻi were roughly $500-$600,000 (including the cost of land). Self-help developers, by contrast, generally cited figures between $200-300,000, although these were generally premised on free land, zoning and infrastructure concessions from state and local government, and donated materials. There are two ways to conceptualize these donations. On the one hand, a skeptic could argue that these sources of support represent little more than development subsidies, meaning that the true savings from the self-help model is simply the households' personal contribution of labor. On the other hand, we would argue that the nature of the self-help housing project aligns with prevailing ideologies regarding housing assistance (Hackworth 2009) to such a degree that it is able to garner support that would otherwise not be available for other forms of affordable housing. In other words, the self-help model is attractive to stakeholders, both public and private, and it is able to garner resources that would otherwise not be spent for the public good. Either way, the final experience for the families is that a significant investment in time translates to a home purchase well below what would otherwise be available on the market.

In Hawaiʻi, various organizations help low-income families obtain housing using a self-help model, including the Habitat for Humanity Affiliates, Hawaiʻi Island Community Development Corporation, and the Self-Help Housing Corporation of Hawaiʻi. These programs generally involve homeowners partaking in the construction of a home guided by a professional contractor, their families, and sometimes the wider community. On Oʻahu, there are noted limitations in this model due to the lack of large parcels of land, but on the neighbor islands, organizations have been successful in building multiple units at once, which is beneficial in terms of time and infrastructure costs. There is high demand for such programs in Hawaiʻi, as witnessed by long waitlists for self-help housing opportunities, but stakeholders identified various limitations to scaling up this model, including limited organizational capacity and lack of funding opportunities. In particular, "competition over the same few funding opportunities" was cited as a source of stress by many of the non-profit stakeholders.

Detailed above, we also interviewed 18 families currently living in, or are in the process of constructing, a self-help home in Hawaiʻi. These interviews sought to understand their experiences building their own home through a self-help organization, as well as understand how they felt the program affected their individual and familial wellbeing. The data suggest that the cost of participation in self-help housing should not be ignored, but that it was ultimately superseded by the benefits. The majority of respondents described the construction process as stressful and time consuming, with many voicing particular concerns over their own lack of construction experience. However, some residents described the importance of the close bonds between neighbors that was established through the construction process, which contributed to a sense of safety and security in the community. For example, Jane told us that, as a single mom, she feels safe living in her neighborhood because "everyone has each other's back." Similarly, Maile said that there is a good system of community surveillance, making it a good place for young children.

Ultimately, all of the families felt that the sacrifices they made were worth it, describing this opportunity as a “blessing,” and they would highly recommend this type of housing model to a friend or family. This was especially true for respondents who felt that they could not obtain a mortgage without the assistance of housing specialists due to their income status or lack of credit worthiness. For some residents, this sentiment was based on prior-attempts at obtaining a mortgage, while others were deterred from seeking out information on homeownership because of the high cost of housing in Hawaiʻi.

While people’s experiences were overwhelmingly positive, some residents did voice some challenges. This included childcare concerns during building; securing a building partner for single-households; limited customization options, which is particularly challenging for families with disabilities; challenges with construction supervisor and unfinished homes; and, challenges with routine maintenance.

Community Land Trust Model

Another alternative model to homeownership is a community land trust (CLT). Across the United States, Canada, and the United Kingdom, community land trusts have proven to be an innovative solution to create and maintain affordable housing in perpetuity. It has been especially helpful in helping marginalized populations access homeownership (Moore 2018; Temkin et al. 2013).

Models differ, but generally a CLT divides ownership of the land and the structure between a trust (or cooperative) and the individual homeowner (Perkins 2019). CLTs maintain long-term affordability in three ways: 1) the model removes the cost of land from the home’s purchase price; 2) most CLTs limit the resale price of a home to some percentage (25-30%) of appreciation; 3) most CLTs restrict eligible purchasers to some percentage (60-80%) of the area median income.

Overall, community land trusts (and their kissing cousins, limited equity cooperatives) perform quite well at their three-part mission of maintaining affordability, increasing stability, and allowing families to build wealth. A report from the Urban Institute looked at seven similar programs and found that, in nearly all cases, a shared-equity model was able to keep the home affordable to similar populations upon resale (2017). Participant families were neither more nor less likely to move than non-participant homeowners (meaning they were neither trapped by the resale limitations nor pushed out by high costs and maintenance). And finally, families were, on average, able to leverage substantial returns on their investments due to price appreciation (however restricted) and the forced savings of homeownership. In percentage terms, these returns outperformed other investment options (such as stocks or bonds) but were still fairly modest in the overall amount due to small down payment requirements and limited equity investment early on the mortgage term. Nonetheless, two-thirds of the households who left the program moved to market rate homeownership opportunities.

Despite these promising results, community land trusts and other shared-equity models remain extremely small across the nation, leading some commentators to suggest challenges with bringing the model to scale. This is particularly true in Hawaiʻi, where organizations have only begun to experiment with the model. Nā Hale o Maui is one of the few non-profit CLTs in Hawaiʻi that focuses on providing single family homes to the community for long term stability. Their CLT model focuses on a lease hold strategy in which they allow buyers to purchase homes on their land, which is leased for 99 years with an additional 99-year extension option. This ensures that the homes being purchased remain at an affordable price, since buyers are purchasing the home and not the land. When homes are sold at this low of a rate, families reap the “trickle down” benefits of low mortgages, such as directing money towards nutritious food, childcare, education, and retirement. In regard to resales, they have a formula that is appraisal based,. They set up a ratio when the family first buys the house, which would be the sale price divided by the appraised value of the home. When they are ready to sell, they get a second independent appraisal, then they look at the two to find the equity. In terms of the equity share, the homeowner starts in the first year with a 25% share of the equity and then it goes up after five years, 2.5% a year till it hits the 50% in fifteen years.

Hawai‘i Home Ownership Center (HHOC) is another nascent model in the state. They created non-profit, the HHOC Housing and Land Trust (HHLT), which is specifically focused on preserving affordable homes for those earning 120% of the AMI or below. They sold their first home in August of 2019 and, as of 2021, have sold four homes along with one in escrow and one on the market. All of these products are apartments or townhomes. The HHLT works as a land trust similar to NHOM in that there is a buy back restriction where HHLT gets first option and repurchases the home based on a formula (instead of market price). This organization also pairs this program with homeownership courses.

Community land trusts are an innovative strategy to secure housing that is affordable in perpetuity (Moore 2018; Temkin et al. 2013), which can be expanded upon in Hawai‘i. However, existing research has indicated that a CLT model can experience challenges in establishing legitimacy due to the uniqueness of its programming, gaining access to finance, and finding and maintaining volunteer capacity (Moore 2018). Moreover, in the United States, federal housing programs are not well situated to facilitate shared equity homeownership, making it particularly challenging to obtain governmental sources of funding (Temkin et al. 2013).

Manufactured Housing

Another model for lowering the cost of homeownership is the usage of manufactured housing. Manufactured housing units are "built on a chassis in a factory and then transported and installed on a site" (Durst and Sullivan 2019:880). While often billed as something new and innovative (particularly when "modular" or "tiny"), the trailer has served as a cornerstone of affordable housing in America for decades. The most obvious benefit of manufactured housing is the price. When developed at scale, manufactured homes cost less than half per square foot than a new site home costs (Durst and Sullivan 2019:883). The housing itself is unjustly stigmatized (making it a prime target for NIMBY activism), but that also artificially lowers demand, keeping prices modest.

Boehm and Schlottmann (2006) notes that there are two types of manufactured housing ownership: 1) Owning the housing structure and renting the lot it resides on; 2) owning both the land and housing structure. Those in manufactured housing that owned their units were less likely to move over time in comparison to their renter counterparts. However, household income had a positive effect on the likelihood of moving. This finding suggests that manufactured housing is an affordable alternative for low income families with positive implications on long term neighborhood stability, so long as they own both the unit and the land beneath it is owned by the dweller (or the land is owned by a trust or another mission driven entity). Overall, the ownership complexities of for-profit manufactured communities can create significant vulnerabilities for low-income families, resulting in high levels of involuntary displacement of families who either rent the manufactured-unit or the land beneath it (Sullivan 2018; Desmond 2016).

The biggest challenge with this approach in Hawaiʻi is the lack of manufacturing capacity and the high costs of shipping associated with relocating manufactured housing to and from the state. Moreover, it is unclear how manufactured home communities would align with the regulatory infrastructure for long term residential communities in Hawaiʻi.

However, manufactured-tiny homes have been proposed as a solution to housing insecurities associated with homelessness in Hawaiʻi, (e.g., Kahauiki Village). Tiny homes are living-structures that are less than 400 sq feet, often (although not always) manufactured off site and then installed in situ. The effectiveness of such models has been understudied, with limited research suggesting that community pushback, lack of sustained funding, and development regulations may work against their widespread adoption (Jackson et al. 2020). Importantly, tiny homes are not meant to represent permanent housing situations and are generally inappropriate for families with children. While an exciting model to serve people experiencing homelessness, it does not align with the Foundation's goals by representing a durable solution to a family's long term housing needs.

Rent-to-Own

Some have proposed reducing barriers to homeownership through a rent-to-own model (RTO). RTOs target low-income families who may not be ready for homeownership, or those who may not qualify for a mortgage due to inadequate credit, savings, or other circumstances. This type of model allows the individual to rent a unit with an option to buy it at the end of the lease (Jaggia, Roche, and Thosar 2013). Such a model generally allows renters to pay down the mortgage during the interim period, essentially saving towards a down payment. In addition to giving potential-buyers more time to become "mortgage ready," this model is also attractive for landlords, as they get a tenant with "vested interest in the upkeep of the property" (Jaggia et al 2013:232).

From our stakeholder research, the only organization currently pursuing RTO is the Department of Hawaiian Home Lands (DHHL). DHHL used an RTO model with two recent projects (the Villages of La‘i Opua and Ho‘olimalima) as a way to aid beneficiaries on the waitlist,who would have been otherwise unable to qualify for a mortgage. The model employed in this case essentially allows DHHL to leverage Low Income Housing Tax Credit (LIHTC) funds (which are typically used for rental housing) for homeownership purposes, allowing the property to be built as a rental, utilizing LIHTC and other monies as gap financing. The use of these funds requires the property to be leased to low income families at affordable rents for at least 15 years, after which the developer can reorient the property as they wish (in reality, most developers apply to additional tax credits, preserving the affordable for at least 30 years, if not longer). In this case, the occupant is offered the opportunity to purchase the property, taking over the remaining debt service.

While this approach is quite innovative, it is important to note that it is almost entirely unevaluated both in Hawai‘i and nationally. For example, the Consuelo Foundation structured 6 of the 75 homes it developed in a Wai‘anae project to be financed through a RTO contract agreement because the families could not secure financing. This model helped the foundation meet their goal of aiding the “poorest of the poor,” as the program became more accessible for families who could only qualify for it and not a mortgage like the rest of the families. However, a follow up evaluation revealed that two families fell deeper into debt and were not on track with their project timeline for purchasing the home.

It is also important to note that rent-to-own (and its kissing cousin, contract selling) have historically represented a form of wealth stripping from minority communities. Predatory brokers convinced low-income families to “purchase” low-end properties and shoulder the entire maintenance cost for up to thirty years. If the family fell behind on the payments, however, they would be afforded none of the protections of homeowners and could be quickly evicted and the house “resold.” While none of the affordable housing developers in Hawai‘i would engage in such nefarious practices, the liminal tenancy of a rent-to-own arrangement is complex and needs to be carefully evaluated prior to substantial investment.

Development on Hawaiian Home Lands

As discussed throughout this report, many stakeholders identified the cost of land acquisition as one of the biggest barriers to affordable housing in Hawai‘i. Land is expensive and extremely-scarce across the state, particularly O‘ahu, while more rural islands often lack infrastructure to support projects. However, some Native Hawaiian families in Hawai‘i have access to land via Trust Lands allotted by the Department of Hawaiian Home Lands (DHHL).

On July 9, 1921, the US Congress passed the Hawaiian Homes Commission Act (HHCA), which set aside 200,000 acres of land in Hawai‘i for Native Hawaiians. HHCA “provides eligible Native Hawaiians, those who are 50% or more Native Hawaiian by blood quantum, with the ability to live on designated trust land” with a 99-year homestead lease for $1 annually (Corey et al. 2017:xi). Over the past 100 years, nearly 10,000 Native Hawaiians have been afforded homestead lots. Households who already live on Hawaiian home lands have high rates of home ownership and they are less cost burdened than Native Hawaiians statewide.

In general, the demand for homestead leases has greatly outpaced supply, as witnessed by the more than 28,000 Native Hawaiians on the waitlist. Those on the waitlist have been shown to be worse off in terms of socioeconomic status, and they are more cost burdened, live in overcrowded housing, and lack complete plumbing and kitchens in comparison to those who have received housing through DHHL (Corey 2017). Relatedly, Native Hawaiians are disproportionately represented among homeless populations due to widespread economic disadvantages (Corey et al. 2017; Pruitt and Barile 2020). Such dire circumstances cannot be divorced from the legacy of colonialism, including the imposition of a private property structure resulting in the loss of communal lands (Banner 2005; Darrah-Okike 2020; Lyons 2011; Rohrer 2016). Even amongst those who have received a homestead lot, many have been unable to benefit from the opportunity due to challenges associated with constructing their own home, obtaining a loan, and lack of infrastructure.

Despite its limitations, Hawaiian home lands provide a unique opportunity to support sustainable low-income homeownership. First, home lands are exempt from portions of the state and counties' regulatory apparatus, meaning that developers can be more creative in terms of density and the built environment. Second, while most of the existing subsidy programs can be used on home lands, there are specific sources of resources that are only available to developers on home lands. And third, while development on home lands does not necessarily mandate long-term affordability (although the lease-hold nature of ownership helps), it does ensure that any housing developed will assist Native Hawaiian populations in perpetuity. As such, supporting DHHL beneficiaries is a unique opportunity to support affordable housing development in Hawaiʻi. There are multiple ways to do this by either supporting individual beneficiaries or the organizations that support housing development on trust lands (often similar to those described above): grants or match-savings accounts for down payments; home-ownership readiness training; or gap financing or a revolving fund for developers working with DHHL beneficiaries.

RECOMMENDATIONS FOR AFFORDABLE HOUSING GRANTMAKING

In this section, we synthesize our data collection to make specific recommendations regarding Foundation investments. These are divided into two sections: 1) general principles that should guide Foundation investments; 2) specific programs and initiatives that hold substantial promise. We do not, importantly, make recommendations for investment in any particular organization as we are not in a position to conduct due diligence.

General Guidance to Support Housing Affordability and Stability for Low-Income Families

Market rate housing is a solution, but not to the problem the Foundation is trying to solve: As described above, stakeholders fell into one of two camps. Some believed that allowing for more market rate development would be sufficient to achieve housing affordability. Others believed that market rate development is irrelevant to affordable housing as it will likely be occupied by wealthy people, some from out of state. Both are wrong.

Investing in advocacy for densification and supply-side solutions ("YIMBY" movements, for example) is valuable and necessary, but does not appear to align well with the Foundation's stated objectives. Instead, the Foundation should focus on individuals for whom homeownership is out of reach for the foreseeable future (barring an extraordinary market correction). The Foundation should not assess this threshold as fixed in perpetuity. If supply increases, the Foundation should reorient towards lower-income demographics. If, as is more likely, supply continues to lag behind demand, the Foundation's target group will expand, although we recommend staying focused on low- rather than moderate- income households.

Target low- and (possibly) moderate-income families (not poor, middle-, or higher-income families) for homeownership subsidies: Given the universal appeal of homeownership, it can be tempting to consider philanthropic investments across the income spectrum. This should be resisted. For poor families, the risk of foreclosure and under-maintenance is too high and any program that would sufficiently mitigate that risk would not be an efficient use of resources. On the other end of the spectrum, middle income families may struggle to achieve homeownership, but this problem can be addressed in ways outside of private philanthropy, such as market-rate housing or the market for secondary mortgages. In practice this means the Foundation should target its investment to the low-income homeownership sweet spot of 50-80% AMI. Individuals earning below 50% of AMI should be served by rental subsidies. Individuals earning about 80% AMI do not represent a priority target.

Housing on Hawaiian Home Lands provides significant opportunities: We understand that, as several stakeholders noted, DHHL has a history of struggling to effectively maximize its opportunities. These same stakeholders, however, also noted that development on DHHL lands has enormous potential in terms of preservation, targeting, and even expediency.

From a preservation perspective, building on home lands ensures that the housing remains affordable in perpetuity. The primary mechanism for this preservation is the use of a leasehold arrangement and resale restrictions. This means that the land value can never be capitalized into sales prices. Moreover, the limitation of resale to Native Hawaiians (including the blood quantum limitations) artificially limits demand for housing on home lands (as ironic as that may sound given the wait list). Because Native Hawaiians can purchase housing anywhere, but non-Hawaiians cannot purchase on home lands, DHHL housing will always be less in demand (all else being equal).

In terms of targeting, DHHL also short-circuits the complexities around providing housing for so-called "locals" by limiting ownership to the only group with a normatively legitimate *a priori* right to place. This is not to say that other marginalized groups should not be the focus of Foundation investments, only that investments in home lands guarantee that the support will be appropriately targeted. Finally, it is theoretically (although not necessarily actually) easier to develop housing on home lands, as they are largely exempt from the majority of regulatory restrictions (despite many infrastructure issues).

Consider rental housing: Rental housing is an incredibly important part of our housing stock and rental housing subsidies are both effective and efficient in promoting well-being for poor and low-income families. Unfortunately, while they promote stability to some degree, the vast majority of rental subsidies fall short of the Foundation's stated objectives, making homeownership the focus of this report. That being said, there are opportunities to support the development of rental housing in ways that minimize the tenure's inherent insecurity (these are described below).

Broadly speaking, rental housing investment that looks to preserve stability must 1) have rent-restrictions for at least 60 years; 2) be owned and managed by a mission driven organization; and 3) be connected to supportive and supplemental services. To ensure stability, the rent structure should be based on a percentage of the tenant's income rather than a fixed (albeit reduced) amount. This structure protects the tenants from income volatility, while also reducing subsidies, as tenants make progress towards economic self-sufficiency.

Build evaluation into any funding: Low-income homeownership programs are massively understudied. This is for two reasons. First, they are often considered normatively valuable, meaning that they continue to be funded regardless of research evidence. Second, they tend to be small programs, often locally funded and, thus, lack federal evaluation mandates. As evidenced by the data in Hawaiʻi, reports that do exist are generally laudatory portraits of outcomes (numbers of families successfully served) rather than rigorous assessments of impact.

Consider the following example: the Foundation spends $2 million to fund 20 grants to first-time homebuyers with down payment assistance. Four lose the property or sell at a loss, but a casual evaluation nonetheless credits the program with 16 new homeowners at a cost of just $125,000 per homeowner. What is unobserved, however, is the number of recipients who would have successfully achieved homeownership were it not for the investment. If the recipients are not rigorously screened, it is likely that 10 could have achieved homeownership without the Foundation's intervention. Now the cost per new homeowner becomes 2,000,000/(20-10-4) = $333,333 per recipient.

This is just a stylized example, but it speaks to the importance of considering what researchers call "the counterfactual" – what families would have done in the absence of the program. The best way to estimate the counterfactual is to mandate randomization of recipients. Instead of selecting the first 20 eligible applicants, the program should screen 40 eligible applicants, then randomly select 20 recipients from those 40. The 20 who were not selected should receive a modest financial incentive to participate in follow-up surveys so that their outcomes can be compared to those who received services. So long as there are more qualified candidates than subsidies (a reality that will always be true in Hawaiʻi), there is nothing harmful or unethical about this approach and the value of the evaluation is enormous. This would not only help families achieve homeownership, it would also provide needed evidence for other organizations when deciding how to direct monies and, thus, creating more assistance.

Promising Programs and Initiatives

Support down-payment assistance programs*:* The most straightforward way to help low-income households achieve homeownership is down-payment assistance programs. Such programs are particularly attractive given current interest rates, which will likely rise (gradually) over the next decade. Low rates, combined with Hawaiʻi's low property taxes, means that there are significant returns to down-payment assistance both from removing prohibitive barriers and minimizing monthly payments.

There are many existing down-payment assistance programs which could be supported by the Foundation and it seems insensible to start from scratch. To the degree that the Foundation can direct the spending, we recommend the following best-practices:

1. In essence, down-payment assistance can be structured in four ways: 1) a grant; 2) a low- or no-interest loan; 3) a forgivable loan contingent on resale restrictions; 4) as an equity stake. Of these, we recommend the assistance be structured as an equity stake with the Foundation receiving the return (profit or loss) proportional to the original equity stake. Thus, if a home is purchased for $500,000 with $100,000 in assistance from the Foundation, then later sold for $600,000, the Foundation receives $120,000 and the household now has at least $80,000 in cash and, presumably remains eligible for a $400,000 loan with which to purchase a new home. This system allows the down-payment assistance pool to keep pace, literally, with the rate of housing appreciation. A down-payment program structured in this way is synonymous with a loan, the interest rate of which is pinned directly to the housing market. Given Hawaiʻi's perpetual supply shortage and desirable amenities, this would seem an attractive rate of return over the long-term. In terms of the other options, a grant seems unnecessarily generous and would

limit the Foundation's impact to single round of support. It is also unclear whether a $100,000 donation to a family would be ideally structured as down-payment assistance as opposed to, for example, an eight-year $1,000 rental subsidy. Low- or even zero-interest loans require the Foundation to make assumptions about the rates of property appreciation during an unknowable period. Resale restrictions similarly run the risk of limiting the options of low-income homeowners.

2. Ensure that the down-payment assistance is appropriately targeted (not, for example, to those eligible for FHA or USDA loans). Eligibility for the program should focus on individuals capable of qualifying for a mortgage and, importantly, whose income is fairly protected from economic fluctuations. As noted above, individuals with extremely low and/or volatile income are not well served by homeownership.

3. Ensure that assistance is complemented by support services, such as credit repair and financial counseling. While the local programs have not been rigorously evaluated, there appears to be strong track record of providing culturally-informed financial counseling to low-income families by groups across the Pae ʻĀina o Hawaiʻi.

4. In selecting an implementation partner, consider those with connections to historically marginalized groups. This is, of course, a fairly normative goal, but it also has direct implication for program impact. Communities that are under-banked often lack access to mortgage finance not only because of their limited income and credit, but because they lack information about and expertise in personal finance.

Offer pre-development loan fund via a CDFI: There are many ways to support the development of affordable housing for low-income homeowners. Where federal subsidies do exist (e.g., LIHTC, NMTC), they generally fall far short of demand, meaning that even duplicative programs have benefits. Nevertheless, our discussions with stakeholders suggest that the primary gap is in funding for pre-development (described in detail above). As an additional benefit, an increase in funding for pre-development could help democratize development in Hawaiʻi – helping small developers prepare their applications for competitive subsidies. Broadly speaking, we recommend that a program have the following attributes:

1. There are a number of ways for the Foundation to increase the availability of money for pre-development, including direct grants, a revolving loan fund, a loan guarantee, or insurance. Grants are clearly the least efficient in terms of projects catalyzed, but they do avoid the necessity of passing the pre-development costs along to the low-income homeowner. Generally speaking, the pre-development cost spread over multiple units is modest, making a revolving loan fund, guarantee, or insurance likely preferable.
2. To determine the optimal vehicle, we recommend the Foundation collaborate with a local CDFI. This clearly has the benefit of leveraging existing infrastructure but also bundles the Foundation's support with other assistance. One of the most challenging aspects of affordable housing development is the need to obtain multiple sources of funding from multiple programs across multiple levels of government; each of which often have their own application process. While there is nothing the Foundation can do to improve access to public subsidies, the bundling of pre-development support within an institution already dedicated to supporting affordable housing development seems highly beneficial.
3. We also recommend that the support be explicitly targeted to small and mid-sized developers in Hawaiʻi. As noted above, large developers are often able to leverage

current project funds for pre-development. This is not the case for small developers who often have only a handful of projects.

Pipeline Investments: Dovetailing with the benefits of a pre-development fund is the challenge of building local development talent in Hawaiʻi. It is tempting to believe that human capital, particularly local human capital, is irrelevant due to the finite amount of funding available for development. This is not true for two reasons. First, there is compelling evidence that Hawaiʻi is not maximizing potential federal funding. Programs like the Low Income Housing Tax credit are largely expended each year. But, programs such as the New Markets Tax Credit and other sources of support targeted are, according to stakeholders, underutilized. Second, the creativity of some local projects (such as Puʻuhonua o Waiʻanae) suggest that not all affordable housing needs to come from the well-worn set of governmental programs. Thus, we recommend that the Foundation consider investments that could support the development of local human capital related to affordable housing development.

The challenge is how exactly to do so. While the University of Hawaiʻi does have a business school, it lacks a substantial real estate program and at no point did the stakeholders draw a connection between formal education and the skills gap in Hawaiʻi. Instead, we believe a more grassroots approach to human capital development is warranted. Broadly speaking, the most feasible avenue for Foundation investment involves promoting exposure to affordable housing development among college-aged young people from historically marginalized communities, particularly Native Hawaiians. The Foundation's investment could be used to support modest stipends from an internship program that would connect motivated young-people to current mission-driven developers for an internship period.

Loan Fund to Support Project Based Section 8 Development: It is important to recognize that many low-income families are not financially ready for homeownership. For these, rental subsidies provide a critical need. Generally speaking, rental subsidies are allocated in one of two ways. The first, which is the structure of units produced with the Low Income Housing Tax Credit, sets rent below market and, then, screens applicants within an income tranche to which that rent is affordable. The second, which is used by Public Housing and Voucher Programs, limits household housing expenditures to 30% of their income.

From the perspective of stability and efficiency the former model is vastly inferior (it has some benefits on the development end and in terms of earning disincentives). The reason is simple. A tenant living in a LIHTC unit is not protected from eviction if their income decreases. While many LIHTC developments are managed by mission driven entities, these entities need rental income to fund debt service, meaning they can only be so flexible with debt services.

The second model is much more promising. By fixing rent at 30% of a tenant's income, incomes can rise and fall, and (assuming the program is properly administered) the tenants pay a proportional share. When tenant incomes increase, subsidies get shallower, increasing efficiency. Traditionally, philanthropy has not intervened in these programs, which are typically funded by the Federal government. As such, the Foundation cannot invest in the development of new Public Housing, nor could it efficiently fund new vouchers.

Thus, the solution rests in the Project Based Voucher Program – a highly underutilized program in Hawai'i. This program serves the same individuals as public housing and vouchers (the lowest income families). Like public housing, the subsidies reside with the unit and do not travel with families should they elect to relocate. Unlike public housing, however, it is privately owned and operated, meaning that units are not dependent on scarce Federal allocations for capital improvements.

Generally speaking, the number of vouchers (both housing choice and project based) is fixed, meaning that each unit funded through the project based program means one fewer family with a Housing Choice Voucher (HCV) (which they can use anywhere they can find with a modest rent and a willing landlord). Thus, in most markets, the use of vouchers by the project based program reduces the purported mobility benefits of vouchers – that a family can use their voucher in any neighborhood that suits their personal needs. In Hawaiʻi, however, we face a perennial challenge of voucher families being unable to find landlords willing to rent to them. Thus, the project based program, when appropriately utilized, could increase the durably affordable stock while not conflicting with the Housing Choice Voucher program's other benefits. Moreover, we anticipate an increase in vouchers over the next few years and the project based program is one way for an already saturated market to absorb new demand.

Because the units in a project based voucher development receives a guaranteed income stream, it can be used as the basis for acquisition rehab or new construction. Voucher rents in Hawaiʻi are quite generous and are more or less in line with construction costs. The Foundation could, thus, invest a modest amount per unit to facilitate acquisition or development (a loan guarantee, for example), while simultaneously helping develop proof of concept for a potentially impactful program.

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