

JAN 30 2026

A BILL FOR AN ACT

RELATING TO HOUSING.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 PART I

2 SECTION 1. The legislature finds that the State faces an
3 ongoing and severe housing shortage that has contributed to
4 rising housing costs, population displacement, and economic
5 inequity. The construction of new housing is constrained by
6 limited land availability, high construction costs, and
7 regulatory barriers, particularly in urban and transit-oriented
8 areas where residential demand is greatest.

9 The legislature also finds that the State has experienced a
10 sustained decrease in demand for commercial office and retail
11 properties, resulting in underutilized or vacant buildings that
12 diminish economic activity and neighborhood vitality.

13 The legislature further finds that converting vacant or
14 underused commercial properties into residential housing
15 represents an efficient, sustainable approach to increasing the
16 State's housing supply while revitalizing communities and making
17 better use of existing infrastructure. Similar efforts in other



1 jurisdictions, including the Commonwealth of Massachusetts'
2 Commercial Conversion Program, demonstrate the value of a
3 structured, competitive process for an initial round of tax
4 credits, in which developers must first obtain certification as
5 qualified conversion projects; submit comprehensive
6 documentation of project readiness, financing commitments, and
7 eligible development costs; and then compete for a limited pool
8 of credits based on clear preference criteria.

9 The legislature further finds that commercial-to-
10 residential conversions present a critical opportunity to expand
11 the supply of homes that are affordable to residents having
12 moderate incomes, not only to create additional units but also
13 to ensure that those units remain accessible to Hawaii's
14 workforce and families. To advance this goal, the legislature
15 intends that projects assisted under this program include
16 binding affordability requirements that target households
17 earning no more than eighty per cent of the applicable area
18 median income for rental units and no more than one hundred
19 twenty per cent of the applicable area median income for owner-
20 occupied units.



1 The legislature believes that these affordability
2 thresholds will help align new units with the needs of teachers,
3 health care workers, public employees, service workers, and
4 other essential members of Hawaii's communities who are being
5 increasingly priced out of the housing market. By tying
6 incentives to clear affordability targets, the program will
7 ensure that public resources are used to produce housing that
8 serves residents rather than speculative or luxury developments.

9 Accordingly, the purpose of this Act is to establish a
10 program and income tax credit to incentivize the conversion of
11 commercial properties into residential properties.

12 PART II

13 SECTION 2. Chapter 201, Hawaii Revised Statutes, is
14 amended by adding a new part to be appropriately designated and
15 to read as follows:

16 **"PART . QUALIFIED CONVERSION PROJECTS**

17 **§201-A Definitions.** As used in this part, unless the
18 context otherwise requires:

19 "Affordable housing unit" means a residential unit that is:

- 20 (1) Rented to a household earning no more than eighty per
21 cent of the area median income, as determined by the



1 United States Department of Housing and Urban
2 Development; or

3 (2) Sold to a household earning no more than one hundred
4 twenty per cent of the area median income, as
5 determined by the United States Department of Housing
6 and Urban Development.

7 "Department" means the department of business, economic
8 development, and tourism.

9 "Developer" means any person, partnership, corporation,
10 firm, nonprofit or for-profit entity, or public agency
11 determined by the department to:

12 (1) Be qualified by experience, financial responsibility,
13 and support to construct housing of the type described
14 and of the magnitude encompassed by the given project;

15 (2) Have submitted plans for a qualified conversion
16 project adequately meeting the objectives of this
17 part, the maintenance of aesthetic values in the
18 locale of the project, and the requirements of all
19 applicable environmental statutes and rules; and



1 (3) Meet all other requirements the department deems to be
2 just and reasonable, and all requirements stipulated
3 in this part.

4 "Development cost" means an expenditure directly related to
5 the construction or substantial rehabilitation of a qualified
6 conversion project, including the cost of site assessment and
7 the remediation of hazardous materials; provided that
8 development cost shall not include costs for the purchase of the
9 property.

10 "Qualified conversion project" means the rehabilitation of
11 a commercial property, including commercial centers, office
12 parks, and commercial buildings, for primary multi-unit
13 residential use or mixed-use, which may include retail or other
14 commercial uses; provided that:

15 (1) After conversion, the project contains no fewer than
16 two residential units; provided further that the
17 project may be a mixed-use development that includes
18 commercial uses in addition to residential units if
19 the building is primarily residential;



(2) Upon completion of the rehabilitation, the project contains at least fifty per cent affordable housing units to be sold or leased; provided further that:

(A) Affordable housing units offered for rent remain affordable housing units for a period of not less than fifteen years after completion of the conversion; and

(B) Affordable housing units offered for sale remain affordable housing units for a period of not less than thirty years after completion of the conversion;

(3) Prior to conversion, the building was nonresidential real property, as defined in section 168 of the Internal Revenue Code, all or a portion of which was leased, or available for lease, to office tenants; and

(4) The building was initially placed in service at least five years before the beginning of the conversion.

"Substantial rehabilitation" or "substantially rehabilitated" means the necessary major redevelopment, repair, and renovation of a property, as determined by the department,



1 including site assessment and the remediation of hazardous
2 materials, but excluding the purchase of the property.

3 **§201-B Program for qualified conversion projects.** (a)

4 The department shall establish a program for qualified
5 conversion projects, which shall be administered by the
6 department. The purpose of the program shall be to assist in
7 the conversion of commercial properties into residential
8 properties.

9 **§201-C Certification.** (a) In administering the program
10 established under section 201-B, the department:

11 (1) May certify one or more housing development projects
12 as a qualified conversion project:

13 (A) Upon timely receipt of a project proposal from a
14 developer requesting the designation as a
15 qualified conversion project; provided that the
16 project proposal shall be submitted in a form and
17 with any information prescribed by the
18 department, supported by independently verifiable
19 information, and signed under the penalties of
20 perjury; and



1 (B) If the department determines that the project,
2 together with any municipal resources committed
3 to the project, shall have a reasonable chance of
4 increasing residential growth, diversifying
5 housing supply, supporting economic development,
6 and promoting neighborhood stabilization as
7 advanced in the proposal for a qualified
8 conversion project;

9 (2) Shall certify prior to construction that the proposed
10 project meets the definition of a qualified conversion
11 project and the requirements pursuant to paragraph
12 (1);

13 (3) Shall evaluate the project proposal and either grant
14 or deny certification of the designation as a
15 qualified conversion project no later than ninety days
16 from the date of its receipt of a complete project
17 proposal. Approval of a project due to the
18 department's failure to act within ninety days shall
19 not constitute approval by the department of any tax
20 incentives provided under section 235- ;



(4) May impose a fee for the processing of applications for the certification of any project under this section; and

(5) Shall identify the development costs and certify prior to construction that all or a portion of the qualified conversion project costs are for construction or substantial rehabilitation.

(b) The department shall review at least once every two years each pending certified qualified conversion project not yet completed.

(c) The department shall review each certified qualified conversion project upon completion, certify that the project is consistent with the requirements of this section, including all qualified conversion project requirements, and confirm the development costs.

§201-D Revocation of certification. (a) The department may revoke certification of a project if the department determines, after an independent investigation, that:

(1) Representations made by the developer in its project proposal are materially different from the conduct of the developer subsequent to the certification, and the



1 difference frustrates the public purposes that the
2 certification was intended to advance; or

3 (2) The project no longer meets the requirements of this
4 section.

5 (b) Upon revocation, the State may bring a cause of action
6 against the developer for the value of any economic benefit
7 received by the developer prior to or subsequent to the
8 revocation.

9 (c) A revocation shall take effect on the first day of the
10 taxable year in which the department determines that a material
11 breach commenced.

12 **§201-E Tax incentive program.** (a) There shall be
13 established a tax incentive program for certified qualified
14 conversion projects. After certification by the department upon
15 the completion of the project, pursuant to section 201-C(c), the
16 department, in consultation with the department of taxation, may
17 award a tax credit available under section 235- of not more
18 than ten per cent of the development cost allocable to total
19 units in a project, as determined by the department, to the
20 developer of a qualified conversion project.



(b) The amount of the credit awarded shall be based on the following factors:

(1) The municipality's need for residential development and a diverse housing supply;

(2) The extent to which the certified qualified conversion project will encourage residential development, expand the diversity of the housing supply, support neighborhood stabilization, and promote economic development in the zone; and

(3) The percentage of affordable housing units contained in the certified qualified conversion project.

(c) The department may limit a credit available to a certified qualified conversion project under section 235- to a dollar amount or in any other manner deemed appropriate by the department.

§201-F Annual report. (a) Not later than twenty days prior to the convening of each regular session, the department shall submit a report to the legislature detailing the findings of the department's review of all certified qualified conversion projects evaluated in the prior fiscal year, including projects



1 evaluated prior to construction, while the project is pending,
2 and upon completion.

3 (b) The report shall include:

4 (1) A list of qualified conversion projects that received
5 certification;

6 (2) Information about each qualified conversion project,
7 including the site address, project developer, range
8 of rents of the residential units, type of residential
9 units, number of each type of residential unit, number
10 of affordable rental units for persons whose income is
11 not more than eighty per cent of the area median
12 income, and the number of affordable owner-occupied
13 units for persons whose income is not more than one
14 hundred twenty per cent of the area median income; and

15 (3) The total amount of development costs for which a tax
16 credit was issued or reserved pursuant to section
17 235- for each certified qualified conversion
18 project the year the credit was issued and the
19 completion or estimated completion year of the
20 certified qualified conversion projects.



§201-G Rules. The department shall adopt rules in accordance with chapter 91 to implement this part."

PART III

SECTION 3. Chapter 235, Hawaii Revised Statutes, is amended by adding a new section to be appropriately designated and to read as follows:

"§235- Qualified conversion project tax credit. (a)

There shall be allowed to each taxpayer subject to the tax imposed under this chapter, a qualified conversion project tax credit that shall be applied against the taxpayer's net income tax liability, if any, imposed by this chapter for the taxable year in which the credit is properly claimed.

(b) The qualified conversion project tax credit shall be based on development costs incurred by a developer for a qualified conversion project and equal to the amount certified by the department of business, economic development, and tourism pursuant to part of chapter 201.

(c) In the case of a partnership, S corporation, estate,
or trust, the tax credit allowable is for costs incurred by the
entity for the taxable year. The costs upon which the tax



1 credit is computed shall be determined at the entity level.

2 Distribution and share of credit shall be determined by rule.

3 (d) The director of taxation:

4 (1) Shall prepare any forms that may be necessary to claim
5 a tax credit under this section;

6 (2) May require the taxpayer to furnish reasonable
7 information to ascertain the validity of the claim for
8 the tax credit made under this section; and

9 (3) May adopt rules under chapter 91 necessary to
10 effectuate the purposes of this section.

11 (e) If the tax credit claimed by the taxpayer under this
12 section exceeds the amount of the income tax payments due from
13 the taxpayer, the excess of credit over payments due shall be
14 refunded to the taxpayer; provided that the tax credit properly
15 claimed by a taxpayer who has no income tax liability shall be
16 paid to the taxpayer; and provided further that no refunds or
17 payments on account of the tax credit allowed by this section
18 shall be made for amounts less than \$1. All claims for the tax
19 credit under this section, including amended claims, shall be
20 filed on or before the end of the twelfth month following the
21 close of the taxable year for which the credit may be claimed.



1 Failure to comply with the foregoing provision shall constitute
2 a waiver of the right to claim the credit.

3 (f) If at the close of any taxable year during the
4 five-year period after a credit is claimed under this section,
5 the qualified conversion project used to claim the credit no
6 longer fulfills the requirements of part of chapter 201, the
7 credit claimed under this section shall be recaptured. The
8 amount of the recaptured tax credit shall be added to the
9 taxpayer's tax liability for the taxable year in which the
10 recapture occurs under this subsection.

11 (g) For the purposes of this section:

12 "Developer" has the same meaning as defined in
13 section 201-A.

14 "Development cost" has the same meaning as defined in
15 section 201-A.

16 "Qualified conversion project" has the same meaning as
17 defined in section 201-A."

18 PART IV

19 SECTION 4. There is appropriated out of the general
20 revenues of the State of Hawaii the sum of \$10,000,000 or so
21 much thereof as may be necessary for fiscal year 2026-2027 to



1 establish and administer the program for qualified conversion
2 projects pursuant to part II of this Act.

3 The sum appropriated shall be expended by the department of
4 business, economic development, and tourism for the purposes of
5 this Act.

6 PART V

7 SECTION 5. New statutory material is underscored.

8 SECTION 6. This Act shall take effect on July 1, 2026;
9 provided that part III shall apply to taxable years beginning
10 after December 31, 2025.

11
INTRODUCED BY:

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S.B. NO. 3312

Report Title:

DBEDT; DOTAX; Qualified Conversion Projects; Program; Income Tax Credit; Appropriation

Description:

Establishes a program and income tax credit to incentivize the conversion of commercial properties into residential properties. Appropriates moneys.

The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.

