

Victoria Ward Ltd motion to allow sale and rental of reserved housing units at 988 Halekauwila

slides prepared for presentation to the

Hawaii Community Development Authority

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TZ ECONOMICS

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Making more housing available at low rents and prices cannot be a bad idea

- It is a myth that too much housing is being built on Oahu, and an especially bogus claim that too much is being built in Kakaako
- Another myth: “wealthy foreign investors”—80 percent of buyers in Waihonua and The Collection have local addresses (according to A&B)
- “There’s so much” that the only time there was less new housing being built on Oahu than in the last six years was during World War II
- Bumper sticker economics:
 - Keep The Country Country: Make The City City
 - Density is Proximity, Proximity is Mobility
- Building *any* new housing creates affordable housing through a dynamic process of search-acquisition-move: people move up, in, out, and through
- Renters more likely to be young, singles, the elderly: help *them* out

June 3, 2013

Star Advertiser

THE PULSE of PARADISE

CONDO MANIA!

The nearly 5,000 units planned for the city's urban core are expected to meet pent-up demand — or could even fall short

By Andrew Gomes
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Lanikea. Hokua. Ko'olani. Capitol Place. Keola La'i. Moana Pacific. The Watermark. Allure Waikiki. Pacifica Honolulu. Holomua.

These condominium towers in Honolulu were the product of the last real estate market boom, which prompted developers to build close to 4,000 new units in more than a dozen towers that also included The Pinnacle, 909 Kapiolani and 215 N. King.

number of high-rise homes — almost 5,000, including 1,000 rental units — in Oahu's urban core?

To some observers it's hard to imagine demand meeting such a supply.

But developers, along with a local economist and a real estate market analyst, contend that all the projects planned to date won't produce a glut.

"It's not a question of will there be enough buyers," said economist Paul Brewbaker of Honolulu-based TZ Economics. "The problem is, will there be enough condos?"

1 SYMPHONY HONOLULU
388 UNITS



2 ONE ALA MOANA
210 UNITS



3 1108 AUAHI ST.
300 UNITS



4 1140 ALA MOANA BLVD.
200 UNITS



City kills attempt to reduce habitual 911 calls

Paramedics would have visited the most frequent users of ambulances to get them appropriate care

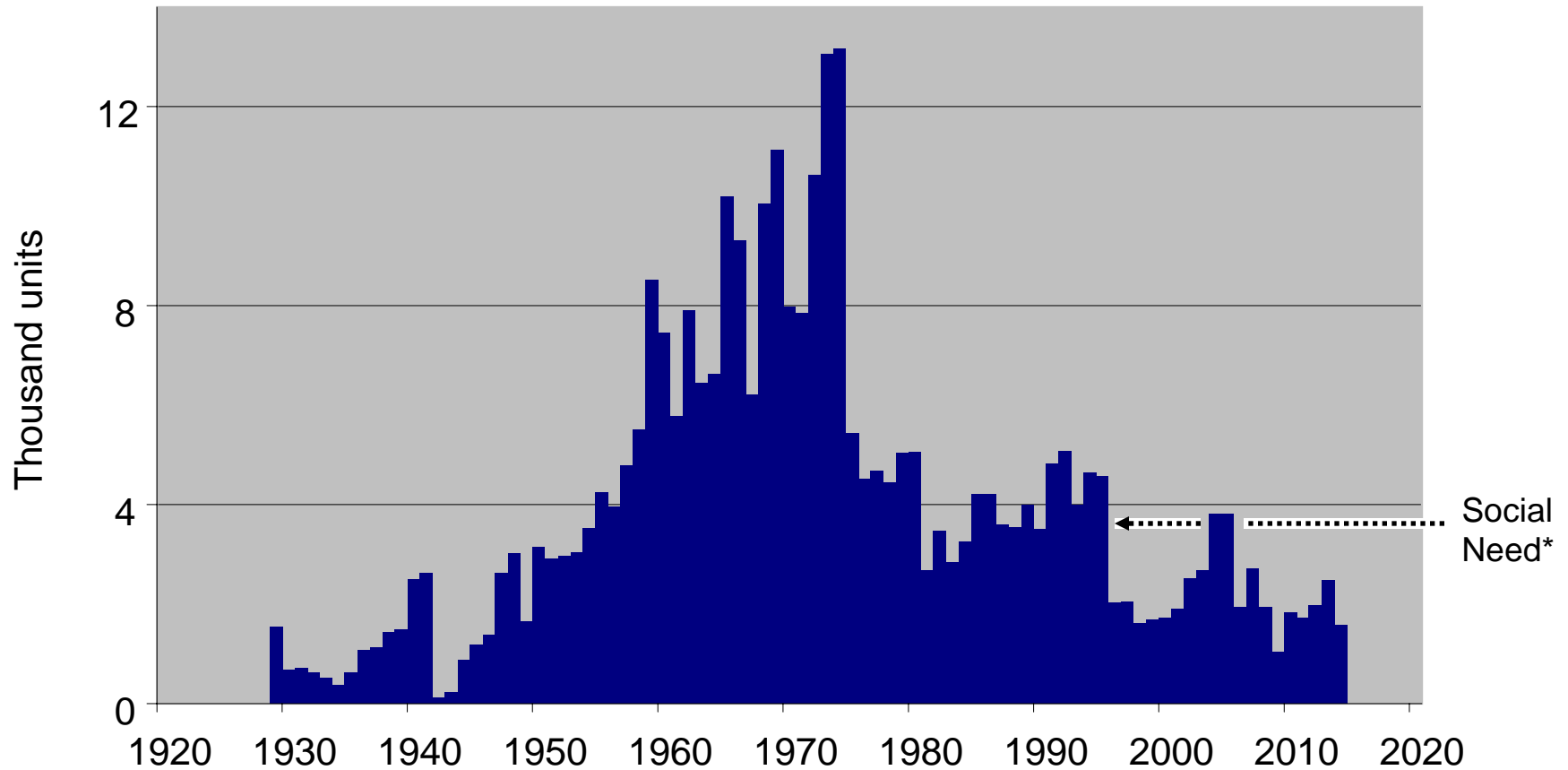
By Susan Essoyan
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A "community paramedic" program intended to reduce overuse of ambulances by chronic 911 callers has been dropped by the new city administration, but the state hopes to start a similar effort.

The Honolulu Emergency Services Department, led at the time by Dr. James Ireland, created a community paramedic team in November after research revealed that the top 10 callers to 911 had taken an average of 52 ambulance rides per year. One logged 142 trips in the year before he died.

The plan was for two community paramedics to

Oahu new homebuilding lowest since WWII: annual units authorized by building permit

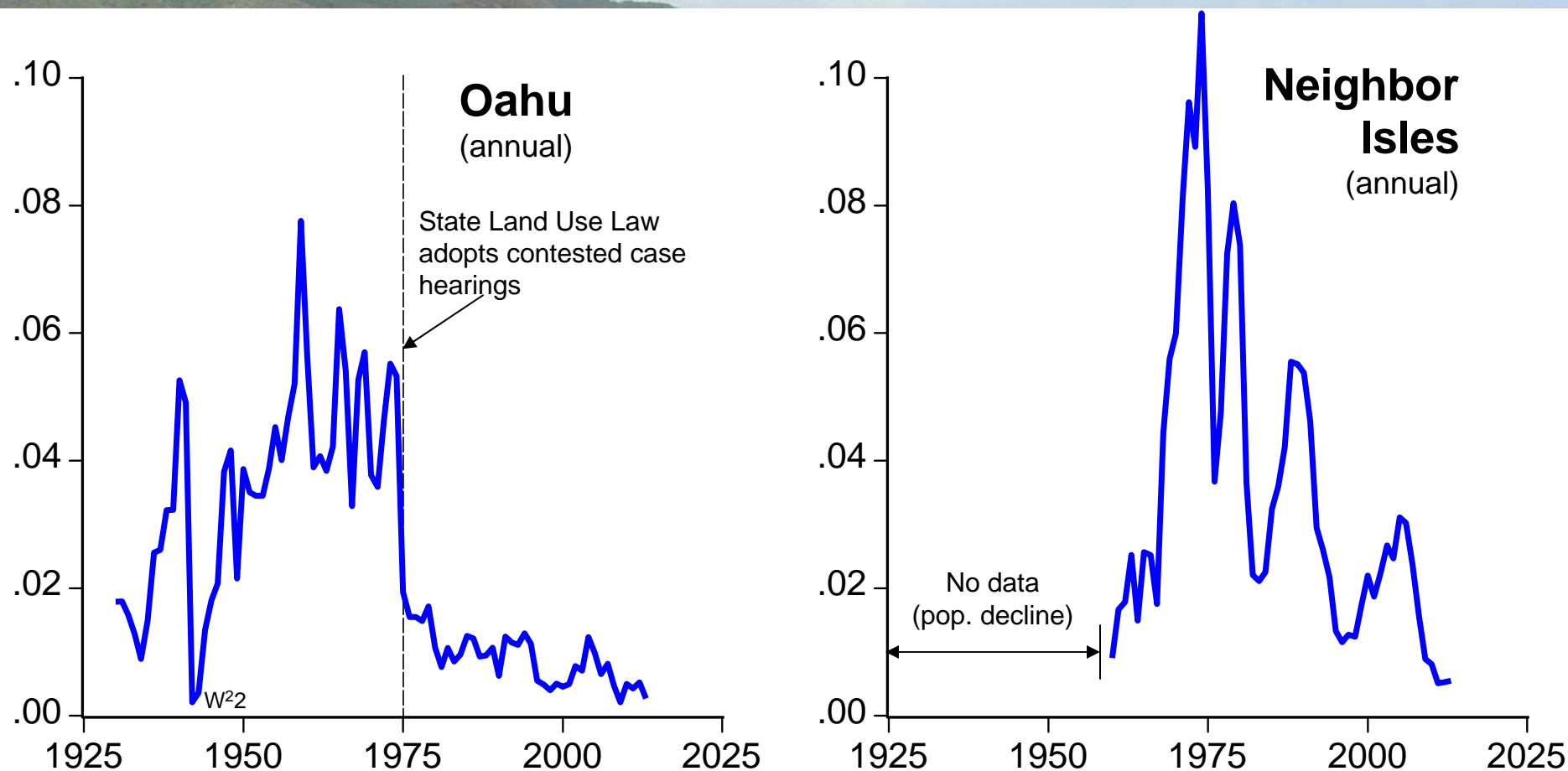


* Eugene Tian, Hawaii DBEDT, "What are the Economic Drivers for Hawaii in 2014 and Beyond," Realtor Housing Forum (May 2, 2014) estimates 3,525 new units needed annually to accommodate new household formation at existing density (<http://files.hawaii.gov/dbedt/economic/reports/2014-economic-drivers.pdf>).

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Sources: County building departments, Hawaii DBEDT, Robert C. Schmitt (1976), *Historical Statistics of Hawaii* UH Press; see also Hawaii DBEDT READ (April 2015) *Measuring Housing Demand in Hawaii, 2015-2025*. (<http://files.hawaii.gov/dbedt/economic/reports/2015-05-housing-demand.pdf>)

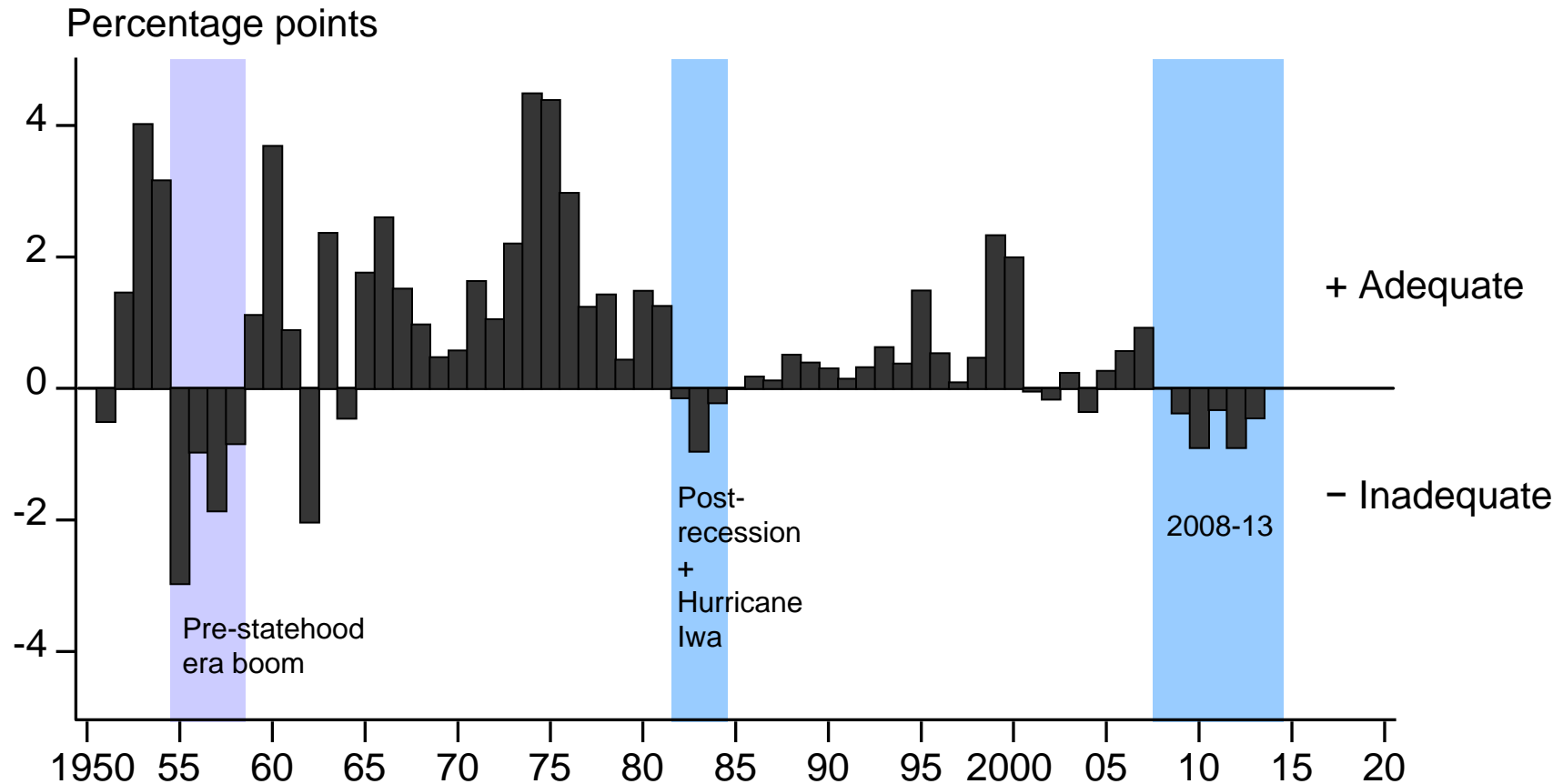
Net new housing as percent of housing stock at historic lows (capital formation ($\Delta K_t / K_{t-1}$))



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Sources: Robert C. Schmitt (1976) *Historical Statistics of Hawaii* UH Press, county building departments, Hawaii DBEDT (various) *State of Hawaii Data Book* (Section 21), TZE database; flows are permitted new units minus authorized demolitions, stocks are from published census and intercensal estimates

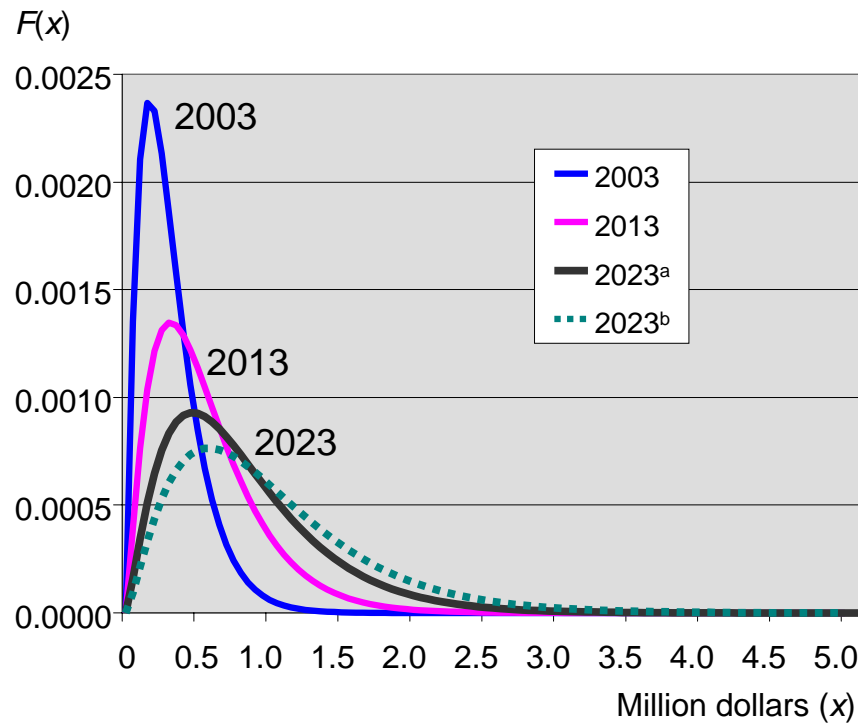
Statewide housing stock growth rate minus population growth rate (“adequacy”)



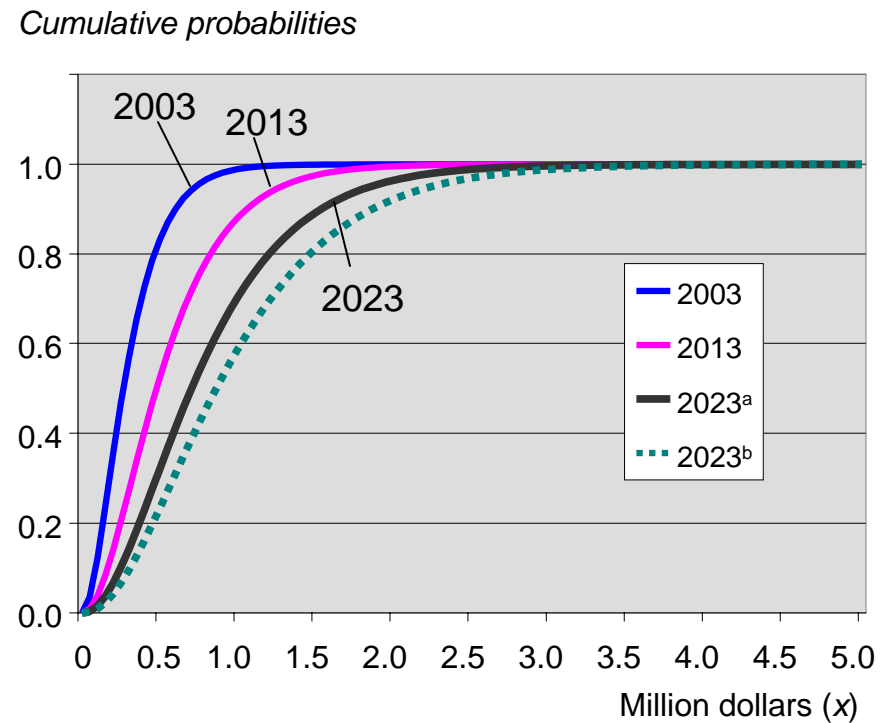
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Sources: Robert C. Schmitt (1976) *Historical Statistics of Hawaii* UH Press, county building departments, Hawaii DBEDT (various) *State of Hawaii Data Book* (Sections 1 and 21), TZE database; adequacy calculated as net change in the housing stock, in percent, minus annual population growth rate

Estimated distributions for Oahu home prices: market access at low end most challenging



Estimated gamma distributions



Cumulative density functions

^aAssumes quantiles appreciate at average annual rate of 3.8% (long-run projection)

^bAssumes quantiles appreciate at average annual rate of 5.9% (actual annualized increase 2003-2023)

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Even under *modest* appreciation affordability erodes rapidly (consider the “bottom line”)

million \$ thresholds	Year			
	2003	2013	2023a*	2023b†
Top 0.01%	1.767	3.055	4.380	5.282
Top 0.1%	1.394	2.418	3.474	4.195
Top 1.0%	1.008	1.759	2.536	3.069
Top 5%	0.726	1.275	1.845	2.239
Top 10%	0.598	1.055	1.531	1.861
Top 20%	0.464	0.823	1.199	1.460
Top 30%	0.380	0.678	0.991	1.209
Top 40%	0.317	0.569	0.833	1.019
Half of us live below threshold▶ Top 50%‡	0.265	0.477	0.702	0.860
Actual median (\$)	239,000	449,500	-	-
Actual mean (\$)	312,302	559,917	-	-
Mean from log distn (\$)	242,567	439,480	-	-

*Quantiles appreciate at (unweighted) average annual rate of 3.8% (2013-2023)

†Quantiles appreciate at (unweighted) average annual rate of 5.9% (2013-2023)

‡Median price from *synthetic* (empirical gamma) distribution

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Source for underlying data: Honolulu Board of Realtors; table reports quantile thresholds from the inverse gamma distribution of Oahu home prices, cumulative distributions estimated by TZE under research funded by Howard Hughes Corporation



Tenure flexibility—rental or ownership—maximizes ability of new supply to fit evolving demand

- Monolithic apartment building owner-operators, more historically significant elsewhere in country, replaced by uniquely Hawaiian-style post-statehood pattern:

Everybody's Auntie owns a condo that is rented to people like you and me

- No reason to obstruct a developer's change of course if an investment project re-optimizes as rental rather than condominium inventory under changing conditions
- The reserved housing requirement in and of itself is a distortion of spatial economic forces—it's more affordable mauka and Ewa: less is not more
- It's already the case that much of the housing stock migrates in and out of rental occupancy whether or not it originates as owner-occupied housing
- Either way, enabling more rental housing yields *more affordable* housing
- For whom? Oahu's population aged 60+ will grow 30% by 2025, the population 60 and under will grow 3% in the same decade—texture matters

Mahalo!

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