

## PAUL BREWBAKER DIRECT TESTIMONY

**Q Please state your name, place of employment, and position.**

A Paul Brewbaker, Economist and Principal, TZ Economics.

**Q What types of services does TZ Economics provide?**

A TZ Economics is a Hawaii economics consultancy doing corporate work, financial risk analytics, development impact analysis, and litigation support.

**Q Please describe your educational background and experience.**

A Please see my resume, marked as an exhibit in this proceeding. Along with university lecturing in economics, my background is in research on the Hawaii economy and financial risk analysis from a 25-year affiliation with Bank of Hawaii. Upon retiring in 2009, I began consulting. I am a graduate of Stanford University, and I received my PhD from the University of Hawaii, both in economics.

**Q How have you been involved in this Project?**

A I have consulted for the Howard Hughes Corporation on several occasions since 2014. Originally, I was retained to undertake an analysis of the full scope of the Ward Village redevelopment in Kakaako with respect to the housing market on Oahu and in the context of the contemporaneous residential investment cycle. Subsequently I have been intermittently engaged to extend that economic analysis, and in the current engagement have updated my estimates of Ward Village Block C West economic impacts.

**Q Please describe your analysis and conclusions.**

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1. Using the State's input-output model the Block C West (Victoria Place) project generates estimated total development impacts on Hawaii output of \$772 million from 2018 – 2023 in present-value, 2018 dollars.
  2. The development generates \$254 million in workers' earnings; \$49 million in state tax revenue; and 4,304 jobs over six years. This includes 1,609 jobs in year one of construction of the project, and 1,517 jobs in year two.

3. Maintenance and operations of Victoria Place over 30 years have present value impacts of \$296 million in real gross domestic product; \$93 million in workers' earnings; \$18 million in state tax revenue; and an annual average of 29 jobs.
4. The timing of Victoria Place development provides potential countercyclical support to the Hawaii economy.

**Q Why are the Project's economic contributions important?**

A The key to sustaining the current economic expansion on Oahu, with the U.S. economic expansion marking its tenth anniversary in June 2018, exceeded in duration only once before in U.S. history (during the 1990s), is to maintain recent rates of homebuilding and investment generally. Capital formation is especially important because tourism on Oahu reached its lodging capacity constraint during the 2010s. What began in 2010 as a tourism-led economic recovery evolved during the 2010s into an investment-led economic expansion.

Even though total visitor arrivals rose from 4.90 million to 5.67 million between 2012 and 2017, in constant 2017 dollars total tourism receipts on Oahu declined from \$8.37 billion to \$7.63 billion between 2012 and 2017. Durability of the current expansion requires fulfillment of expectations of continued investment: if Oahu tourism's economic benefits are not growing—and external costs associated with sheer numbers of tourists are not falling—then construction and investment are crucially important.

Ward Village redevelopment was conceived *through* the business cycle into the next decade. Unlike other promising suburban residential developments like Koa Ridge in Central Oahu, Ward Village development continues apace. Oahu's construction outlook is dimming and macroeconomic indicators point to an increasing risk of an end of the current expansion; therefore, risks will dampen expectations for future investment activity. The Victoria Place project represents a potential countercurrent, pushing upstream against incipient cyclical investment decline. The project is part of a broader investment impulse peaking in the early 2020s, transforming Honolulu's spatially pivotal urban core, meeting 21st century resident housing needs.

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