



February 2007

HAWAII DEVELOPERS' MONTHLY

Dedicated to the promotion, protection and improvement of real estate development in Hawaii.

HAWAII DEVELOPERS' COUNCIL

Excerpts from January Meeting Development Trends for 2007

Speaker: Christine Camp Friedman, CRE
Avalon Group



Bond Pricing, the key to the economic environment, has recently started inching up and is signaling the potential outlook for interest rates to stabilize after months of decline. I am betting that by third quarter this year, interest rates will start moving down. In spite of interest rates stabilizing and holding, Centrex announced recently that this is the worst housing market they have faced in 25 years. While this may be an overstatement, especially as it relates to Hawaii, I would argue that housing is nearing a saturation point in our island market. This is especially true of the higher end housing market. In the median range market of homes priced below \$400,000-\$500,000, there is still a significantly unmet demand. To qualify for a home in that price range, a family must bring home an average income of \$80,000 per year. Developers and builders will continue to provide products to meet the demand of the market place, albeit at a slower pace.

Retail on the other hand, especially within the suburban market has been doing quite well. Rents have been pushed over the last two years from average asking net rents of \$2.00-\$2.50 psf to an unprecedented \$3.00-\$4.50, with very few concessions granted, if any. In fact, we are developing more strip retail in high demand areas such as Kapolei and Mill Town with leasing targets exceeding expectations in spite of minimal marketing.

With Debartolo coming in with their significant retail center in DHHL's Kapolei East project and Kapolei Commons, retail rents are expected to stabilize in that region. Another key factor that will start to impact and stabilize rental rates is Hawaii's un-

Continued on page 7

HDC Membership Dues Renewal

There's still time to renew! If you missed the renewal deadline and would like to continue your membership, please fax (if using a credit card) or mail the payment to: Hawaii Developers' Council, P.O. Box 2537, Honolulu, HI 96804! Great meetings and member's only boardroom presentations are planned!

Tuesday, March 13, 2007
Speaker: Councilmember
Charles Djou
Oahu Country Club
Nuuanu Valley

11:30 a.m.
Registration & Lunch
12 noon—1:00 p.m.
Program

**Reservations &
Cancellations**
Fax 847-6575

No shows will be billed.

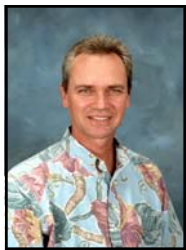
Board Room Series

Tuesday, Feb 20, 2007

7:30 to 9:00 AM


First Hawaiian Bank
Tower
30th floor Board Room

<i>President's Message</i>	2
<i>Boardroom Recap</i>	3
<i>Consultants Corner</i>	4
<i>Legislative Update</i>	6
<i>3rd Quarter Update</i>	8
<i>Here's My Card!</i>	12



PRESIDENT'S MESSAGE

Frederic Berg
Kalepa Kona Partners

Thank you Pete Cooper for your service to the Hawaii Developer's Council as President in '06. Pete is responsible for not only guiding HDC in its many educational opportunities throughout 2006, but perhaps more importantly for setting the stage elevate the public's awareness of HDC as a responsible partner in determining the landscape for Hawaii's future. Thanks  for your service to the Hawaii Developer's Council as President in '06. Pete is responsible for not only guiding HDC in its many educational opportunities throughout 2006, but perhaps more importantly for setting the stage elevate the public's awareness of HDC as a responsible partner in determining the landscape for Hawaii's future. Thanks for your service to the Hawaii Developer's Council as President in '06. Pete is responsible for not only guiding HDC in its many educational opportunities throughout 2006, but perhaps more importantly for setting the stage elevate the public's awareness of HDC as a responsible partner in determining the landscape for Hawaii's future. Thanks

It's that time of year when we assess the world around us, take stock and project what the New Year will bring. As I look around us I see many positive signs. Real Estate prices are at their all time high in Hawaii. Our hotel rooms are constrained by capacity resulting in the highest rates hoteliers have experienced in Hawaii. Many other indicators point north.

So why the headlines? "Economy Slowing!" "Real Estate Boom Over!" "Development Moratorium!"

Try wait? Stop now? Das Nuts!!!

Let's see, the pro forma says... prices are up... check, absorption slowing (that was a tough pace anyways)... check, costs are up (but not as much as prices) ...check. It's a go.

So why stop now? Because someone forgot to build new roads and our families have no place to live. Who is to blame? Developers of course. Who you gonna call? Why not developers?

Our challenge this year is to team up with the community we live in to bring perspective and solutions that will sustain our economic engine so that we can manage our economy.

First a review of fundamentals. A major

driver of Hawaii's current economy is the baby boomer asset base that has grown to allow families the purchase of a second home in Hawaii. This wealth has not disappeared, if anything it will continue to grow. Additionally, Hawaii's climate is the best in the world. No change there. Hawaii is the safest tropical destination in the world. There may be challenges to this, but so far we are on top, hands down. Economists may fret over third and fourth moments of price elasticity over time, but we can all agree the fundamentals point to a secure future for some time.

With this kind of demand brewing at our shores the last thing we can do is ignore it. If we do, as has been suggested by "transitioning our economy" we will be run over by the demand. The last few years have shown that our limited government resources are finding it difficult to meet the infrastructure requirements of this natural demand. To refocus the limited resources away from meeting the demand for housing our own people and our guests will result in a situation where the demand will over run our community, like it or not. We need to manage our growth through responsible development. Developers have to take on more responsibility and so does the government which is charged with providing the infrastructure needed to grow responsibly.

Fortunately our fundamentals are good, so what are our challenges? HDC's first priority this year will be to gain credibility within our community. To that end the Hawaii Developers council is working with Communications Pacific to set a strategy in place that will allow us to become a "go to" voice in the community on matters relating to land development. Secondly we are embarking on a far reaching initiative that bring all our members closer to the process that

permits land development in this State. You will be asked to provide testimony at hearings, to volunteer for government commissions and boards, to bring out your families and friends to hearings, essentially to reach deep into those you associate with to support responsible development in this State we call home. My son's soccer coaches are not shy about asking for my time or money when it comes to supporting their livelihood. I will be reciprocating this year and I see no reason why our membership in general should not do so as well. Any organization you have been giving your time and money to should be asked to participate in an appropriate manner in our initiative to bring about responsible development in Hawaii.

Pete Cooper is taking names of those who are interested in participating in various government commissions and boards. Please take the time to review the list attached and select a commission or board you either have a passion for or directly impacts your livelihood and let Pete know you would like to be on that commission or board.

These are exciting times. I look forward to contributing to an environment where rational decisions about land development can be made through a consensus in our community.



Please join me in welcoming Shane Peters to the Board of Directors of the Hawaii Developer's Council. If you see Shane or any Board Member, please take the time to thank them for their service to the Board.



Affordable Housing

by A. Bernard Bays
Partner, Bays Deaver Lung Rose & Baba

Hawaii is scrambling to address its skyrocketing housing prices, workforce displacement, and increasing homelessness. The islands are likely to become the next "affordability wasteland," as Silicon Valley was recently dubbed when the median home price there reached \$800,000.¹ Hawaii, unfortunately, is not far behind: Kauai's and Maui's median home price soared well over \$700,000 this year.² All over the islands, the workforce is increasingly pushed out of the areas where they work, because they cannot afford to live there. The situation is getting worse on Oahu as workers are pushed farther and farther west, says Kevin Carney, head of "Housing Hawaii" and non-profit housing developer with Hui Kauhale. "When we take both parents out of the home, and they have to spend more and more time away from their children to commute to their jobs, how can we expect our families to thrive?" Homeless families living in "Coleman Condos" at the beach parks all over west Oahu are another indicator of the enormous need for affordable housing.

Both at the state and county levels, both public leaders and private organizations are scrambling to address the problem. The recent trend in Hawaii toward codifying developer exactions has the potential to be part of an effective approach to get more affordable dwelling units built and to ease the housing crisis in Hawaii, but only if the exactions are calibrated to encourage, rather than to create disincentives, for residential development. Even well-calibrated developer exactions, however, will never be sufficient to solve Hawaii's housing difficulties: government also needs to repair the broken entitlement process and remedy government's failure to keep up with infrastructure demands.

Government can help reduce the cost of residential development and ultimately the cost to Hawaii residents of having a roof over their heads, by streamlining the double-deep, state/county entitlement process, and by addressing the need to develop new infrastructure and rehabilitate dilapidated existing infrastructure systems that will not support growth.

Affordable Housing Regulation Basics

Affordable Housing regulations are subject to various nomenclatures, but "inclusionary zoning" is assuredly the name of the day.³ Inclusionary zoning is so named because its advocates see it as a remedy for exclusionary zoning practices.⁴ Exclusionary zoning in many of the country's communities has restricted land use so as to exclude the possibility of affordable housing units, (especially housing in high-density configurations) primarily in earmarked desirable regions.⁵

¹Broderick Perkins, *Silicon Valley's Median Home Price? \$800,000!*, REALTY TIMES, June 8, 2006 available at http://realtymtimes.com/printpages/20060608_medianpriceeight.htm (last visited Jun. 19, 2006).

²*Home Prices in Honolulu Hawaii Ranked Fourth Highest in the Nation*, NEXTAG: MORTGAGES, 2005 available at <http://www.nextag.com/home-mortgage/0/Home-Prices-in-Honolulu-Hawaii-Ranked-Fourth-Highest-in-the-Nation.html> (last visited Jun. 19, 2006).

³Inclusionary zoning is used in a variety of communities around the country. Fairfax County was the first to institute inclusionary zoning in 1971, with Montgomery County, Maryland in 1973. See FAIRFAX COUNTY, VA., ZONING ORD. § 2-800 (1998); MONTGOMERY COUNTY, MD., § 25A-5 (1997); also Barbara Ehrlich Kautz, *In Defense of Inclusionary Zoning: Successfully Creating Affordable Housing*, 36 U.S.F. L. Rev. 971, 977 (2002). Montgomery County currently requires a 12.5% to 15% assessment on projects of 20 units or more. *Id.* Inclusionary zoning is used extensively in California. Of thirty different cities or counties with such ordinances, nearly half had a 10% assessment, and many require a range, depending on the incoming level targeted, typically from 5-15%. Only Davis, Irvine, and W. Hollywood require 25%, 21%, and 20% assessments, respectively, for units targeted to moderate income earners, with lower percentages for low income units. See Barbara Ehrlich Kautz, *In Defense of Inclusionary Zoning: Successfully Creating Affordable Housing*, 36 U.S.F. L. Rev. 971, 1026-1031 (2002). In comparison, all of the Hawaii counties' requirements are quite aggressive, demanding between 20% and 30%, with the Land Use Commission typically requiring 20% affordable units whenever a developer applies for a zoning change. See *infra*, notes 17-19 and accompanying text.

⁴The origins of inclusionary zoning reside, in part, in the Mount Laurel cases, where the New Jersey Court attempted to solve economic segregation of New Jersey's residents through judicially imposed inclusionary zoning. For an interesting discussion of the legacy of the cases, see Lawrence Berger, *Inclusionary Zoning Devices as Takings: The Legacy of the Mount Laurel Cases*, 70 Neb. L. Rev. 186 (1991).

⁵See, e.g., Amy C. Brandt, *Comment: Sedona's Sustainable Growth Ordinance: Testing the Parameters of Dolan v. City of Tigard*, 28 ARIZ. ST. L.J. 1297, 1298-99 (1996) (describing how suburban municipal governments gradually invented ways to preserve the rural character of their towns to prevent the blights of urban life from creeping into their suburban neighborhoods, primarily by limiting new development and high density affordable housing—a phenomenon often called NIMBY ("Not in My Back Yard")).

P.O. BOX 2537
HONOLULU, HI 96804
808-845-4994 PHONE
808-847-6575 FAX
Email:
bkcorp2@hawaiiantel.net

2007 OFFICERS

President
Frederic Berg
Kalepa Kona Partners

Vice President
Candace Chase
TransPacific Mortgage

Treasurer
Catherine Camp
Kamehameha Schools

Secretary
Serge Krivatsy
THM Partners, LLC

Past President
Pete Cooper
Cooper & Cooper, LLC

Directors

Alan Arakawa
Waiawa Ridge Development, LLC

Howard Bilkiss
Howard Bilkiss, Ltd.

Joe Fadrowsky
Gentry Properties

Kenneth Chong
Pacific Realty Consultants

Abe Lee
Abe Lee Realty

Joe Mastrantonio
Project Builders, LLC

Shane Peters
Communications Pacific

Peter Savio
Hawaiian Island Dev. Co, Inc.

Mel Tanaka
Pacific Rim Bank



Affordable Housing (continued from page 3)

by A. Bernard Bays

Partner, Bays Deaver Lung Rose & Baba

One of the most common approaches in Hawaii and across the country for building affordable housing is "fair share mandatory set-asides" or inclusionary zoning where the developer must market a given percentage of the units he builds at prices affordable to specified income groups of the population.⁶ Typically affordable housing exactions are stipulated in terms of a portion of the total number of market or rental units a developer intends to build, targeted to be affordable to a certain range of average median income (AMI). The AMI index generally stipulates that housing is affordable if it costs 30% or less of a family's monthly gross income.⁷

In Hawaii each county has its own policies and requirements. Maui, Kauai, and Hawaii all have housing agency guidelines or workforce housing ordinances that are designed to uniformly apply affordable housing requirements on proposed residential projects. C & C, on the other hand, uses a system of Unilateral Agreements, proposals that are bargained for between the developer and the county, which once approved and recorded, run with the land.⁸ For large projects, however, C & C stipulates by ordinance that the exaction must be at least 25%. For instance, if a developer has plans to build a hundred homes, under the 2005 County of Hawaii Workforce Housing ordinance, the developer must build twenty houses that are affordable, or earn credits equal to that number.⁹ On Kauai, the proportion is 15% for projects with 5-19 units, and 25% for projects with 20 or more units. Of the full number of affordable units required, 20% must be targeted toward families earning 50-80% median income, 30% for those earning 80-100% median, 30% for 100-120% median, and finally the last 20% of the exaction must be affordable to families in the 120-

140% median income range, the so called "gap income earners."¹⁰

In comparison to typical mainland affordable housing requirements, all of the Hawaii counties' requirements or proposals are quite aggressive, demanding between 20% and 30%, with the Land Use Commission typically requiring 20% affordable units whenever a developer applies for a zoning change. In California, which has required each city or county to do its fair share to house its citizens for more than thirty years, exactions average around 10-12%; only three California cities match Hawaii's 20%+ exactions. Cities on the East Coast, where inclusionary zoning was first conceived, tend to be closer to California's average exaction levels than Hawaii's.

In all of Hawaii's affordable housing regimes, a developer may choose how to meet affordable housing requirements: dedications of buildable lots, in-lieu fees paid to the county or non-profit developers are typical options provided in the counties' affordable housing ordinances.¹¹ For instance, on the Big Island, a developer could build the affordable units on or off site within fifteen miles, pay an in-lieu fee equal to 25% of the average market prices less the affordable price for 120% median income, or supply infrastructure within fifteen miles for future affordable housing.¹² This is a dramatic increase from the previous policy that allowed for a fee of a few thousands dollars per unit. Maui provides additional options; its current Housing Administration Guidelines allow a developer to upgrade existing affordable housing (presumably owned by the county) or, under its current proposal, to pay a non-profit developer \$60,000 per unit to help build the number of affordable houses the for-profit developer was assessed.¹³

⁶*Id.* In addition to affordable housing exactions, the government may also require developers to dedicate relatively large portions of their land that have development potential for residential units, parks, or schools as conditions on their permits or zoning change request. *See, e.g., City of Monterey v. Del Monte Dunes of Monterey*, 526 U.S. 687 (1999). This may be either in addition to building the units (sometimes called concurrent development—requiring a developer to contemporaneously create infrastructure traditionally developed by local government, like building schools, regional roads, and sewer lines, even beyond the boundaries of the development itself along with the construction of residential units), or in-lieu of building affordable units. This is increasingly common in Hawaii.

⁷*See id.*

⁸*See* CITY & COUNTY OF HONOLULU RES. 80-239 (1980) (providing that to achieve affordable housing "The private sector shall be encouraged to prepare and submit proposals to the Department of Housing and Community Development on both existing City-owned land or land that shall be acquired."). Unilateral Agreements are a policy of the C & C's Planning Department that is governed by what is known to be customary and usual.

⁹COUNTY OF HAWAII CODE, § 11-4.5 (2005) (requiring 20% of all residential developments of five or more residential units or lots, and for resort or hotel uses generating more than 100 full-time employees the developer has to earn one housing credit for every four full-time equivalent jobs created, or a very high in-lieu fee). This supplanted a former policy of a 10% assessment and relatively low in lieu fee.

¹⁰KAUAI COUNTY HOUSING AGENCY, PROPOSED POLICY DRAFT 5 § III.(A.)-(C.) (Jan. 2, 2002).

¹¹*See* Appendix B.

¹²COUNTY OF HAWAII CODE, § 11-4.5.

¹³MAUI COUNTY ADMINISTRATIVE AFFORDABLE HOUSING RECOMMENDED GUIDELINES, § IV(A) (Rev. May 5, 2005); COUNTY OF MAUI, A BILL FOR AN ORD. ESTABLISHING A RESIDENTIAL WORKFORCE HOUSING POLICY, HHS-4 PLANNING COMMISSION DRAFT, § 2.96.060(B) (Rev. May 5, 2005) [hereinafter MAUI WORKFORCE HOUSING DRAFT 2005].



Affordable Housing (continued from page 4)

by A. Bernard Bays
Partner, Bays Deaver Lung Rose & Baba

Not only low income families are eligible for affordable housing units. In fact, affordable market units are targeted to moderate income earners. The Affordable Housing Strategic Study conducted in Maui in July 2006 concluded that 70% of Maui's total population would be eligible for developer subsidized housing units under its current workforce housing ordinance proposal.¹⁴ In 2006, a family earning a little more than \$105,000 could afford a \$350,000 home, less than the average priced condominium on Kauai, less than half the median priced single family home.¹⁵ So if a builder were building median market homes, priced between \$750,000 and \$800,000, he would have to subsidize each set aside unit in excess of \$400,000 to make it affordable to a family earning 140% of AMI.¹⁶ On Oahu, as another illustration about how expensive these exactions have the potential to be, if the land is virtually free and excise and real estate taxes are waived, a three bedroom rental unit needs a minimum subsidy of \$205,000 to make it affordable to a family earning 50% AMI or about \$35,000, Honolulu's Affordable Housing Advisory Committee reported to the Mayor and City Council in 2006.¹⁷

Entitlement Costs---New Developments in Streamlining the Process

The high cost of housing reflects the high cost of entitlements: the process of obtaining zoning modifications, permits, and planning and design approvals.¹⁸ Carrying costs and attorneys' fees incurred through years of delays and complex approval process drive up housing prices. Governor Lingle identified 22 overlapping requirements at the state and county levels imposed on new developments.¹⁹ Thus, the cheapest if not the politically easy path to more affordable housing units is streamlining the entitlement proc-

ess.

In the case of a developer who must secure a zoning change from agricultural to rural or urban, the developer must pass through the State Land Use Commission, and also his own County Council and planning department for zoning changes, and finally, he must acquire building and use permits.²⁰ The Joint Legislative Housing and Homeless Task Force reported to the Legislature in January 2006 that the estimated time line for development of a housing project is nearly seven years.²¹ The carrying costs associated with years of delay substantially increases housing costs for all Hawaii residents.

Under-staffing in all of the counties' planning departments means the permit process is slow and developers have to absorb the carrying costs caused by the delay, says Hawaii Housing director, Kevin Carney.²² The under-staffing means that even if a developer chooses the fast-track entitlement process available through HRS § 201H to build an affordable housing project, the permit process rarely meets the 45-day statutory deadline.²³ Presently "any boundary amendment petition deemed approved under LUC's administrative rules for § 201G-118 projects is subject to twenty-four *additional* "mandatory conditions" not otherwise required," reported the Joint Legislative Housing and Homeless Task Force.²⁴ No wonder the "fast track" process is not so fast.

One straight-forward if partial solution to the costs of entitlement delays is for the counties to expedite their permit process by adequately staffing their planning departments.²⁵ While this would no doubt be helpful, more personnel or outsourcing reviews would

¹⁴This was the conclusion of the Affordable Housing Strategic Study conducted in Maui in July, 2006 that was sponsored by the Kihei Community Association, and reported at the ULI Conference on Affordable Housing, Honolulu, Hawaii (July 24, 2006).

¹⁵See Appendix A.

¹⁶Obviously, no developer would choose to do this with multiple units. The in-lieu fee options would probably be cheaper for the developer. This begs the question of whether exactions will, in fact, result in the construction of more affordable units.

¹⁷AFFORDABLE HOUSING ADVISORY COMMITTEE, REPORT & RECOMMENDATIONS, V. (City and County of Honolulu, Apr. 2006). In a state where land, entitlement, and infrastructure costs run as high as Hawaii, it is not uncommon for these costs to exceed a few hundred thousand dollars for a relatively modest single family residence.

¹⁸Brewbaker, *infra* note 111 (citing a calculation made in the early-1990's by Mark Johnson, formerly of Castle & Cooke, that entitlement cost was approximately one-third of the delivered cost of homes at Mililani and Mililani Mauka at the time).

¹⁹Governor Linda Lingle, *Housing Our Residents 2006 Initiatives 1* (2006). Honolulu's Affordable Housing Advisory Committee uncovered 23 duplicate subject areas between LUC conditions and typical Unilateral Agreement conditions in land use and zoning applications. AFFORDABLE HOUSING ADVISORY COMMITTEE, REPORT & RECOMMENDATIONS, Page v (City and County of Honolulu, April 2006) (list includes diverse conditions such as Archeological Preservation, Buyer Notification, Drainage Improvements, Housing, Noise, School Facilities, Set Backs, Soil Erosion, Transportation Improvements, Wastewater and Water Improvements).

²⁰The Legislature has given the counties essentially the same authority as the State under HRS § 201H to create and manage programs to help house low to moderate income families, or to purchase and develop their own projects. See HRS §§ 46-4 (zoning), 46-15.1 (Housing, county powers), 46-15.7 (Concurrent processing, which provides that when amendments to a county plan or zoning map are necessary to permit the development of a housing project, requests may be concurrently processed with the state LUC and the county, and provides for any affordable housing component that may be required by the county council).

²¹JOINT LEGISLATIVE HOUSING AND HOMELESS TASK FORCE, REPORT TO HAWAII STATE LEGISLATURE 40 (Jan. 2006).

²²Carney, *supra* note 103.

²³*Id.*; see also JOINT LEGISLATIVE HOUSING AND HOMELESS TASK FORCE, REPORT TO HAWAII STATE LEGISLATURE 8, 24, 43 (Jan. 2006).

²⁴JOINT LEGISLATIVE HOUSING AND HOMELESS TASK FORCE, REPORT TO HAWAII STATE LEGISLATURE 43 (Jan. 2006).

²⁵See generally testimony of Henry Eng, Director, Department of Planning and Permitting, City and County of Honolulu before JOINT LEGISLATIVE HOUSING AND HOMELESS TASK FORCE, REPORT TO HAWAII STATE LEGISLATURE Appx. C 3 (Jan. 2006).



Affordable Housing (continued from page 5)

by A. Bernard Bays

Partner, Bays Deaver Lung Rose & Baba

never address the tap root of the problem: the double entitlement process.

Reform in the process and the substance of the zoning process may both be required before entitlement costs will cease to be a major impediment to affordable housing. The Affordable Housing Task Force suggested in 2005 that Hawaii needs to eliminate duplicative reviews by the State Land Use Commission ("LUC") and county zoning authorities.²⁶

Governor Lingle's housing initiatives for 2006 were aimed at eliminating project-by-project review by the LUC and would create specific requirements for the elements to be included in the counties' comprehensive development, community, and regional plans.²⁷ The LUC would review and certify each county's comprehensive plan to ensure that the required elements were addressed, but the LUC's role as the gatekeeper for individual projects would end.²⁸ The required elements in the comprehensive plans would be dictated by the state and reviewed by the LUC.²⁹ Limits would be placed on whether changes could be approved in the first few years after the approval of a county's comprehensive plan.³⁰ The counties would initiate boundary amendments with the LUC instead of individual developers and would have to show that a boundary adjustment was in alignment with the comprehensive plan's stated objectives.³¹ A long range view of planning and a quasi-legislative process would thus replace the current case by case quasi-judicial process that is cumbersome and possibly shortsighted.³²

While developer affordable housing exactions may be a partial fix for the affordable housing crisis, government must do its part in facilitating the construction of badly needed affordable housing units, too. Streamlining the entitlement process will have a beneficial effect on the prices of all new homes without government incurring any significant additional costs. It will get more affordable homes on the market faster, whether the units are in projects with at least 50% of affordable homes using the "fast track option"

under HRS § 201H-H, or in projects where the affordable homes represent the 15-30% affordable housing assessment required by the LUC and the counties.

Similarly, government must increase its will and its budgets to fund and upgrade badly needed infrastructure. While increasing density in Honolulu would ease the affordable housing crunch, it cannot be accomplished without upgrading existing infrastructure. Upgrades cannot be achieved on the backs of developers of new residential projects. The state and the counties need to reexamine their roles in planning, funding, and constructing infrastructure that will bring needed services to areas targeted for new development in the counties' comprehensive plans.

As for the counties' efforts to increase affordable housing exactions, like so many instances of government regulations that "raise the bar" without providing for the necessary financing, incentives, and a reasonable administrative process that would help developers meet their affordable housing assessments, higher assessments could easily become nothing more than an impediment to getting any residential projects built. If affordable housing exactions are set too high in a panicked response to the current housing crisis, the housing market is likely to contract even more. One government official observed that she has never met a developer that was not willing to meet a reasonable affordable housing requirement, so long as he could afford to do so. Reasonable assessments at around 20% should have the desired effect. Higher proportions of affordable units in residential developments built by for profit developers will only be achievable if incentives are also created by government. Incentives would provide developers with a reason to take on the risk of residential projects with higher than required proportions of affordable units. A wise mix of reasonable exactions, incentives that make the exactions less of a burden for developers, and governmental action to reduce the cost of entitlements and infrastructure will result in more affordable housing units for island residents.

²⁶AFFORDABLE HOUSING TASK FORCE: HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII, REPORT TO THE TWENTY-THIRD LEGISLATURE OF STATE OF HAWAII 1-2 (2005).

²⁷See generally H.B. 2353/ S.B. 2316 Reg. Sess. (Haw. 2006).

²⁸See *id.* (stating that "[t]he legislature finds that there is a need to streamline the land use regulatory process to facilitate the development of affordable housing. At present, counties prepare housing plans and the county housing agencies in coordination with the state housing and community development corporation of Hawaii have planned for and identified areas appropriate for affordable housing. The counties also prepare general and development plans which set forth land use policy and future patterns and types of development. There is a need to establish a formal linkage between county housing plans and general and development plans in order to better coordinate housing policy with land use policy and patterns of development.")

²⁹*Id.* at proposed § 226-D (elements include land use, transportation, affordable housing, community facilities and infrastructure, natural hazards, implementation program, and comprehensive conceptual land use maps).

³⁰*Id.* at § 205-3.1 (as proposed to be amended).

³¹*Id.* at Part V.

³²See *id.*

Excerpts from January Meeting

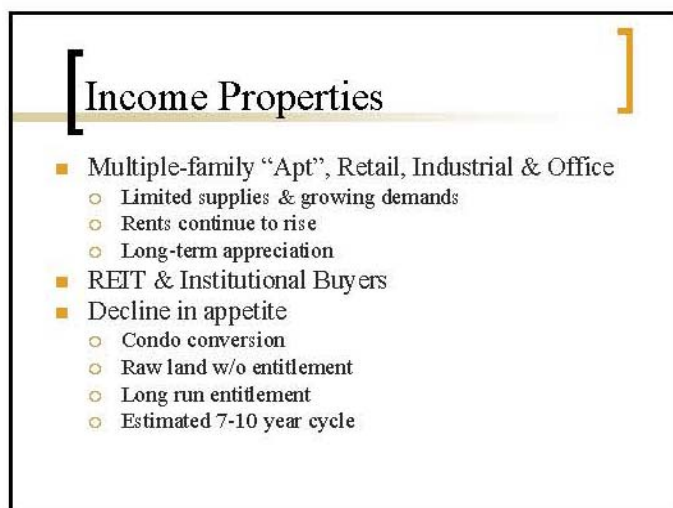
Development Trends for 2007 (continued from page 1)

precedented historically low unemployment rate. The low employee pool will fetter retail businesses that are seeking expansion into new locations. Some businesses are already finding it a challenge to fill positions for anticipated new stores. This will ultimately impact retail absorption.

Industrial space and land prices are both at a premium. Just look at the numbers... we are currently charging over \$50 psf and we have back-up buyers lined up for our project. Unfortunately, with current construction costs and land prices, current rents still don't justify spec buildings. With continued low vacancy, the rents are expected to be pushed, but as long as Kapalama Military Reserve areas are still leased by the State, the push in rents will still be short for new vertical developments. I believe continued demand will be for owner users who will pay the premium for the land and construction and lease their excess space to others.

Action Items:

1. Legislative session - traffic is not just a development issue; it is a quality of life issue. DOT should be pushed to improve these areas by earmarking funds for bypass road development.
2. Push for expedited review process for regional infrastructure development
3. Push for "mello-roose" types of financing where areas are considered capital improvement districts and bonds are issued for development of regional infrastructure.
4. We are the knowledge base and we need to get involved by calling our representatives and educating them of these issues. If we wait for others to do it, it may be too late.



Excerpts from January Meeting Development Trends for 2007 (continued from page 7)

Opportunity Areas

“Go west young men (or women)”

- Oahu
 - Kapolei/Ewa/Waipahu
 - Kalihi
- Maui
 - West Maui - Lahaina/Kaanapali/Kapalua
- Kohala/Kona Cost
- Kauai-Poipu

Development Challenges

- Fierce competition for development parcels
 - Mainland entrants
 - Market more efficient
- Capital tracking 3-5 year investment horizon focus
 - Avoid GP, SLUC, & Zoning
 - Long term view will have an edge (7-10 year horizon)
- Cost factors
 - Construction costs
 - Soft costs – higher occupancy and competition skilled labor
- Permitting
 - Longer but trend towards more transparency

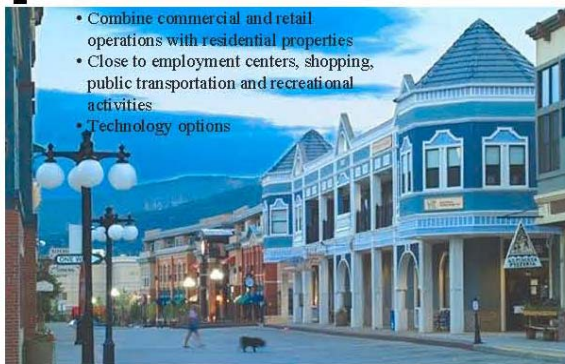
Key Issues

- Affordable housing for workforce
 - Growing demands on affordable housings
 - Opportunities for new developments
 - Rental housing trust fund
- Traffic impacts on new developments
 - Increase traffic impact fees
 - Limits on developing large-scale subdivisions or CPRs in a particular area



Trend for Mixed-Use Developments

- Combine commercial and retail operations with residential properties
- Close to employment centers, shopping, public transportation and recreational activities
- Technology options



Invest in Your Future. Join the Hawaii Developers' Council.



The Hawaii Developers' Council is a nonprofit organization whose mission is to be a catalyst for positive change in Hawaii's real estate development industry by providing a forum for education and information exchange among real estate developers and allied professionals, and by encouraging ongoing, open communication between those in the public and private sectors to benefit Hawaii's economy.

2007 HAWAII DEVELOPERS' COUNCIL MEMBERSHIP APPLICATION

The Hawaii Developers' Council puts you at the forefront of real estate development in the state by conducting informative, bi-monthly luncheon meetings with guest speakers representing different facets of our industry. The Hawaii Developers' Council is also known for its workshops and seminars on timely, practical topics and for its strong network of experienced developers and allied professionals. Together with state and city government officials, the Hawaii Developers' Council continually seeks to develop solutions that benefit developers, government, and the public.

Regular Members are individuals actively engaged in the business of developing real estate. Upon your application for membership, you will be entitled to one vote after your dues have been paid.

Allied Members are individuals whose businesses interface with real estate developers or real estate development projects. These include accountants, architects, attorneys, contractors, engineers, insurance agents, lenders, and Realtors®. An allied member is entitled to one vote after dues have been paid.

Annual Membership Dues for both regular members and allied members is \$150, which includes a **free** annual membership lunch! Membership fee is for 1 year (1/1 - 12/31 calendar year). New member initiates after 7/1 pay \$100.

Please check one: Developer Allied Professional

Name _____ Title _____

Company Name _____

Business Address _____

City _____ State _____ Zip Code _____

Phone: () _____ Fax: () _____

E-mail Address: _____

Enclosed is my check for \$100

Please charge my VISA MC AMEX Account # _____ Exp Date _____

3 DIGIT CVC Code (REQUIRED – found on back by signature or front of card) _____

Name on Card _____

Signature _____ Date _____

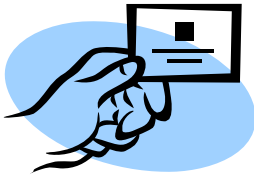
Mailing address for credit card (REQUIRED) _____

City _____ State _____ Zipcode _____

I would like to be involved in the following areas:

- | | | |
|-------------------------------------|--|--|
| <input type="checkbox"/> Newsletter | <input type="checkbox"/> Monthly Programs | <input type="checkbox"/> Government Affairs (State) |
| <input type="checkbox"/> Seminars | <input type="checkbox"/> Membership Services | <input type="checkbox"/> Government Affairs (County) |

Please fax this completed form to **Barbie Rosario** at (808) 847-6575, then send a hard copy with your check payable to **Hawaii Developers' Council** to Hawaii Developers' Council, P.O. Box 2537, Honolulu, Hawaii 96804. For more questions, please call at (808) 845-4994 or email to: bkcorp2@hawaiiantel.net Mahalo for advancing the interests of our industry and the public.



Here's My Card...

CANDACE CHASE
Executive Vice President (808) 540-5908
Fax (808) 540-5980

TRANS PACIFIC
MORTGAGE GROUP

Suite 1700 / 900 Fort Street Mall / Honolulu, Hawaii 96813 / (808) 540-5900
E-Mail: cchase@transpacmortgage.com
Website: www.transpacificmortgage.com

OREXCO
Old Republic Exchange Company

*Pacific Guardian Center, Makai Tower
733 Bishop Street, Suite 2700
Honolulu, Hawaii 96813
808.524.6737 Direct
877.591.1031 Toll Free
808.528.3837 Fax*

Julie Tumbaga
VICE PRESIDENT
REGIONAL ACCOUNT MANAGER
jtumbaga@orexco1031.com
www.orexco1031.com

Pacific Rim Bank

Melvin Tanaka
Senior Vice President & Senior Lender

Two Waterfront Plaza Tel: 808.457.3921
500 Ala Moana Blvd., Suite 2A Fax: 808.457.3931
Honolulu, Hawaii 96813 melvin@pacificrimbank.com

Pete Cooper
President

Cooper & Cooper
REAL ESTATE SOLUTIONS LLC

1124 Fort Street Mall, Suite 204 Phone: 808.587-8020
Honolulu, Hawaii 96813 Fax: 808.587.8022
petecooper@cooperandcooper.biz Call: 808.398.4782

Your business card could be here! Call Candace Chase, 540-5908!

Hawaii Developers' Council

P.O. Box 2537
Honolulu, Hawaii 96804

PRSR STD
U.S. POSTAGE
PAID
HONOLULU, HI
Permit No. 9850

Address Correction Requested

www.hawaiideveloperscouncil.org



Hawaii Developers' Council Boardroom Series XXI

Tuesday, February 20, 2007

7:30 a.m.—9:00 a.m.

**First Hawaiian Bank Boardroom, 30th floor
(Corner of Bishop & King Street)**

Coffee and Pastry—HDC MEMBERS ONLY

Cost: \$5.00 * RSVP Required * No shows will be billed * No parking validation

Resident Attitudes: Giving Development a Break, or Putting on the Brakes?



Speaker

John M. Knox, Ph.D.

John M. Knox & Associates, Inc.

Mr. Knox will draw upon both resident surveys and in-field experience to discuss the effect of infrastructure issues (i.e. overload and slow government action) on the calls for moratoriums on growth and development.

John Knox is a socio-economic research consultant who has been conducting Hawai'i resident attitude surveys for more than 25 years. He also prepares social and economic portions of entitlement studies for development, many involving in-depth interviews with community stakeholders.

He has designed and analyzed all the major resident attitude surveys for the Hawai'i Tourism Authority. His work on DBEDT's Sustainable Tourism project a few years ago included a panel that successfully brought business people, planners, Native Hawaiians, and environmentalists together to craft a common vision for the visitor industry.

Dr. Knox also understands the developer perspective through many dozens of engagements, as well as his role on the local Executive Committee of the Urban Land Institute. His recent work on the Housing section of the Maui General Plan Update included substantial input from the development community.

Please join us at this informative boardroom presentation!

INDIVIDUAL MEMBERS ONLY

First Name		Last Name	
Company			
Phone	Fax	Email	
Please make check payable to: Hawaii Developers' Council or provide credit card information below:			
Credit Card Number:		Exp Date	CVC Code (required info)
Mailing address for credit card (required information)		City/State	Zipcode

Please RSVP to Barbie Rosario by February 16, 2007 by fax, 847-6575 or email: bkcorp2@hawaiiantel.net

If you are not currently a member of the Hawaii Developers' Council, please take this opportunity to JOIN NOW!

This presentation is one of the many benefits of being a member of the Hawaii Developers' Council. Membership applies to individuals, not companies.