



HAWAIIAN BUSINESS COMPASS

by Yamaguchi & Yamaguchi, Inc.

Volume 7 Summer-Fall 2015

**Yamaguchi &
Yamaguchi, Inc.**

Real Estate
Appraisers &
Consultants

Since 1967

HONOLULU HOUSING DILEMMA

COMPOUNDING THE PROBLEM OR FINDING A SOLUTION?

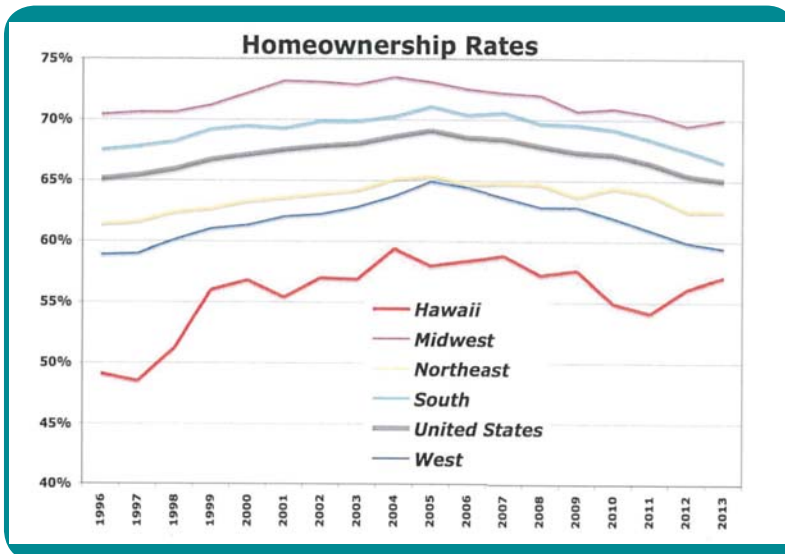
Jon Yamaguchi, Real Estate Appraiser and Counselor and Ricky Cassiday, Real Estate Economist

I recently traveled to Tokyo with a four member delegation of the Counselors of Real Estate (CRE) organization to participate in the historical agreement of an alliance with the Japan Association of Real Estate Counselors (JAREC) at the Inaugural Japan MIPIM Conference. We had robust meetings with Mr. Kisaburo Ishii, the Japan Vice-Minister for Land, Infrastructure, Transport and Tourism; Mr. Takuro Yamanaka, Chief Executive Officer, Mitsubishi Estate – Simon Company, Ltd; Mr. Hitoshi Uemura, President, Tokyu Land Corporation; and Mr. Keiichi Ozawa, Vice Chairman and Executive Director of The Real Estate Companies Association of Japan.

A major concern during the majority of our meetings was the issue of “second hand housing”, or resale of older housing. The consensus was that the “Xers” and “Millennials” want to be closer to the city and desire new product rather than purchase older homes and renovate. Although the problem has not been completely resolved, their current solution is building smaller affordable condominium units in mixed use projects and new economical housing in the suburbs. I found it interesting that Hawaii has certain parallels to Japan and similar problems such as lack of developable land, high land cost, high construction and labor costs, and the high cost of living.

As a real estate appraiser, counselor and investor for many years, I have experienced the evolution of housing in Honolulu that originated from little immigrant centralized neighborhoods around our metropolitan area slowly moving outward. Development was limited to builders of small tract subdivisions that expanded from the ocean to the mountains. The Honolulu Rapid Transit (HRT) ended their bus routes near Kalihi to the west and Waialae to the east. The outerlying districts were considered far and termed “country” by many. Two pioneer developers on opposite sides of the island who were considered quite eccentric at the time were Henry J. Kaiser to the east and Herbert Horita to the west. Thereafter, Castle and Cooke developed Mililani Town from converted agricultural lands and designed the first real planned development community with many other developers to follow suit. From the 1950’s to the 1980’s housing was available for the whole economic spectrum of home buyers from rentals to moderate, middle, upper middle and upper income housing product. This is called the “Economic Ladder of Opportunity.”

RC: Like Jon, I also have been in this field since the Dark Ages, working first for Gentry Homes, and then Castle & Cooke, and doing a short stint at Prudential Locations Research & Consulting. Back then, Oahu development was transformed by the rapid rise of housing prices, the Japanese bubble, which led to the grand affordable housing experiment, performed mainly in West & Central Oahu - Mililani, Waikale and Kapolei – wherein developers unilaterally agreed to produce 30% of their units at lower than market prices (tied to the median income) in return for entitlements. The net of this was a huge burst of condominium development, biggest ever seen (until today?), thanks to run-away market priced homes subsidizing below cost of production priced affordable homes. In my humble opinion, this is the gold standard in terms of successfully building homes for local people (with kudos to Schuler/Horton, Gentry, Castle & Cooke and Horita). However, this came to an end in the early 1990s (and not really replicated since). As a footnote, however, this begat the traffic that begat the rail – law of unintended consequences (and the failure of the Second City of Kapolei to produce – on-demand – a ton of jobs).



JY: Real estate in general is cyclical and I have witnessed two mini-recessions and our recent recession that occurred from 2008 to 2012. We have observed the political process which has helped and also hindered the real estate market. Regardless of where we were in the economy, I have always advocated a balance in housing to move toward equilibrium and real sustainability. We need to build what people can afford, not what they want or what looks good.

RC: Why was it not really replicated since? Because, come the next cycle, the big 'replacement' master planned developments teed up and ready to go fell afoul of political opposition – Hoopili (12,000 units) and Koa Ridge (6,000 units) were stopped in their tracks in the courts, thanks to the lawyers of Sierra Club and others. So, no tickle/no laundry: no market homes to sell, no affordable homes to build. And higher housing prices (including rentals). The Ewa developers made hay while the sun was out, but the others let go of half their employees. In place of affordable suburban homes, the market produced market-rate (read profitable) condo housing in town for the middle and upper classes. Those looking for affordable rental housing or workforce housing went without, or moved into the garages and backyards of those neighborhoods on Oahu that could do this.

JY: I believe in the normal forces of supply and demand, and that government should be giving the private sector an opportunity to develop and produce affordable housing with the ability to receive a reasonable profit. Too often government over regulates and politicians want equality over practical affordability. People should be given the opportunity to purchase what they can afford in size, quality and location with the ability to move up as their economic situation improves. Undeserved entitlements and uncontrolled subsidies that have run out of control, have disrupted the normal economic forces of supply and demand and eroded the moderate income housing rungs of the economic ladder. Rentals are necessary but not in lieu of developer obligations or as a solution to provide home ownership for our local population. What will happen when the reserved rental units go on the market in 10 to 15 years? We will not be replenishing the lower rungs of affordable housing units.

RC: And we'd better, because the garages and backyards are bursting at the seams, as you can tell if you drive the backroads of Ewa, Waipahu or Kalihi. In fact, 40% of all households on Oahu make only enough to afford a rental, and not at market rates (they make 80% of AMI or less). These are our public service workers – teachers, firemen – and the backbone of our visitor industry.

JY: For those who cannot afford to purchase a home, develop rental housing projects with a lease and option to buy at a known graduated price scale, or develop a forced saving plan that is deducted from the established rent each month for a down payment toward the purchase of a living unit. We all know that voluntary savings is an ideal dream and rarely a reality. This would give first time home buyers an opportunity to buy, build equity, sell and move up a to larger living unit as their economic viability improves. Only then, will we create a true supply and demand balance that allows buyers to start small and move up into larger accommodations that will fulfill the ultimate dream of owning a home in the future.

Jon & Ricky: Lastly, we hear complaints daily that current development of luxury/resort units are out of the reach of the middle class citizens of Hawaii. This is true, but this is no different from other desirable destinations in the world and it will continue to occur because Hawaii is desirable worldwide. Coupled with this, and the lack of developable land, Hawaiian real estate will maintain its market appeal. The wealthy local, domestic and foreign purchaser/investors will always be in our marketplace. However, more restrictions and entitlements will force developers to develop luxury units to recover their losses for required entitlements.

So what is the solution? We need a big picture plan to determine the demand, price points, construction costs and basic needs and execute the following three steps:

Public/Private Partnerships:

The State and City Governments should sell their present rental housing inventory to developers who can convert these units into for sale condominiums in order to fill the gap (the middle and lower rungs of the economic ladder) for real affordable first time buyer market units. All of the governmental rental high rises are in fair to average physical condition and will incur more mounting deferred maintenance costs in the near future. City management has been mediocre in the past and we have lost millions in deficit spending.

Further, the rental units are much too large and were built to meet the aesthetic, rather than practical aspect by the government and politicians at the time. With the funds received from the sale of the projects we should encourage Public, Private and Non-Profit entities to partner and develop rental housing. A Vision Plan will only work when each entity has “skin in the game” and all parties sharing the risk together. Thus, all parties will have the motivation to make the project succeed.

A 2005 study by a nationally renowned firm laid out a roadmap for doing this: monetize public lands in a way that spins off affordable housing that stays affordable in perpetuity. Ten years later, we have glimpses of this idea in the Mayor Wright Housing Renovation. In addition, the renovation of Kuhio Park Terrace Housing Project has also been a success.

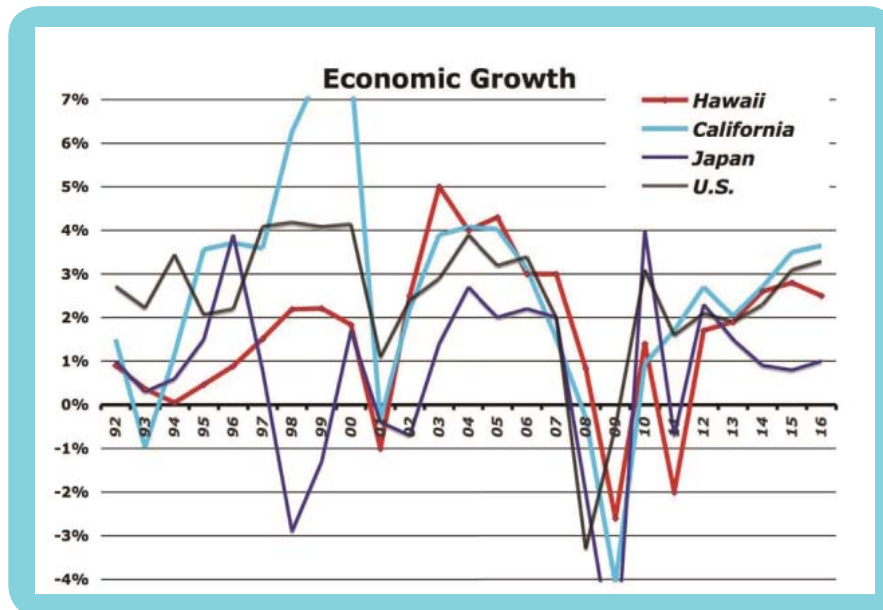
Encourage Expertise and Creativity:

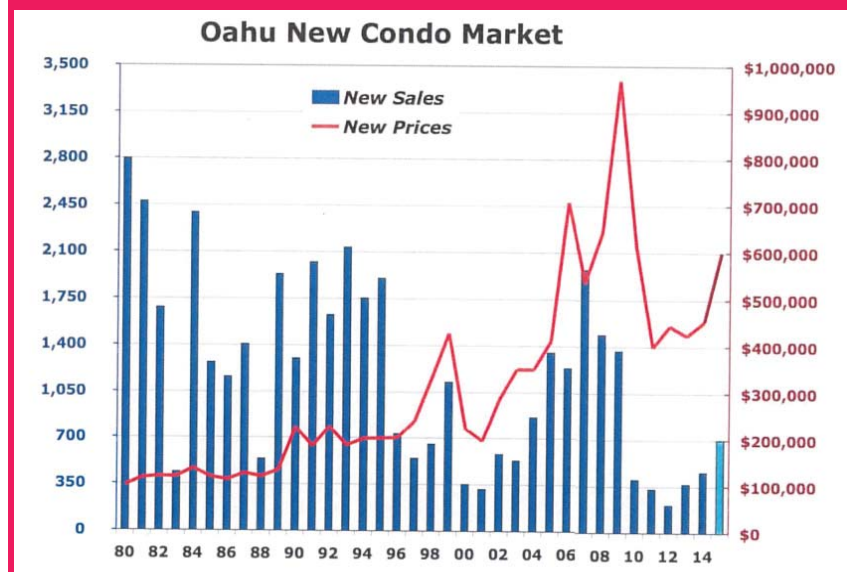
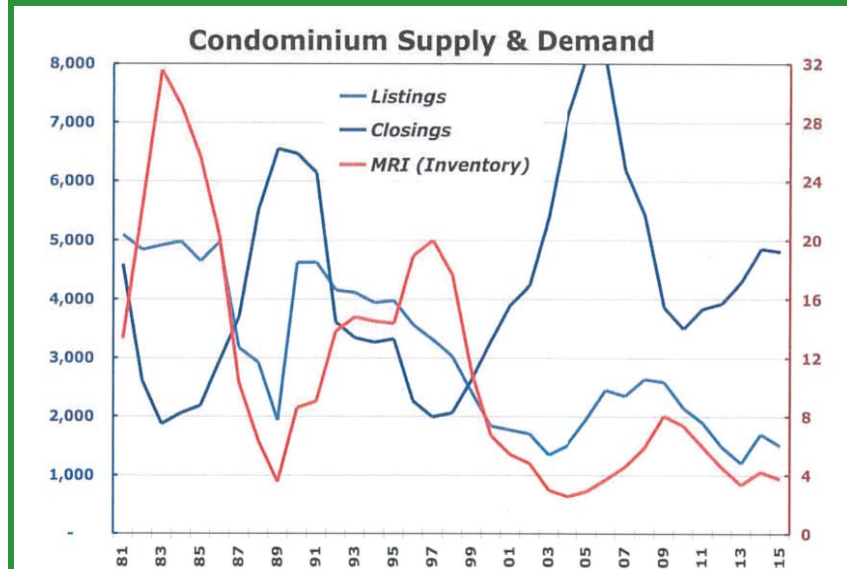
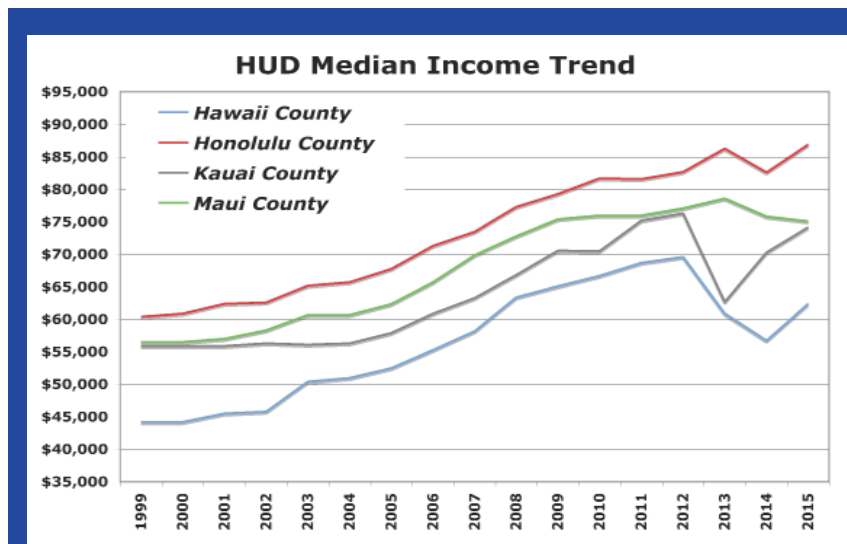
Allow developers to incorporate their creativity, knowledge and big picture strategy into their projects. We have many talented developers in our own back yard. A good example is the 801 South Street Project that provided work force housing by being innovative without excessive government restraints.

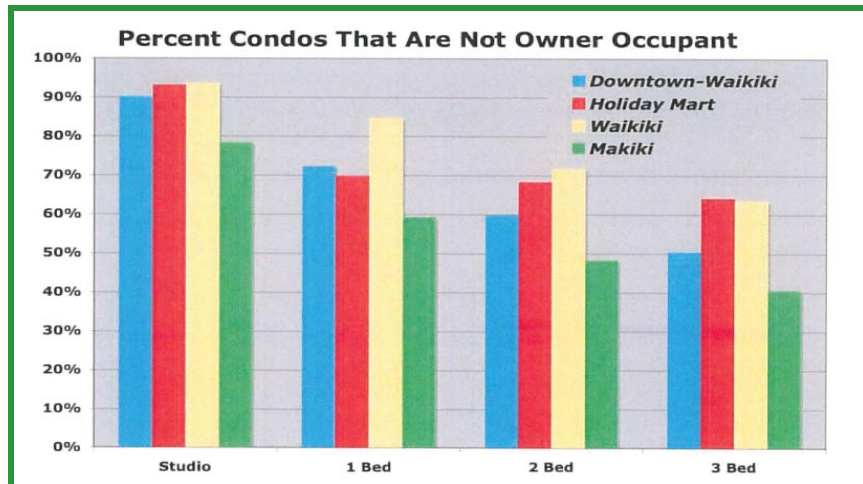
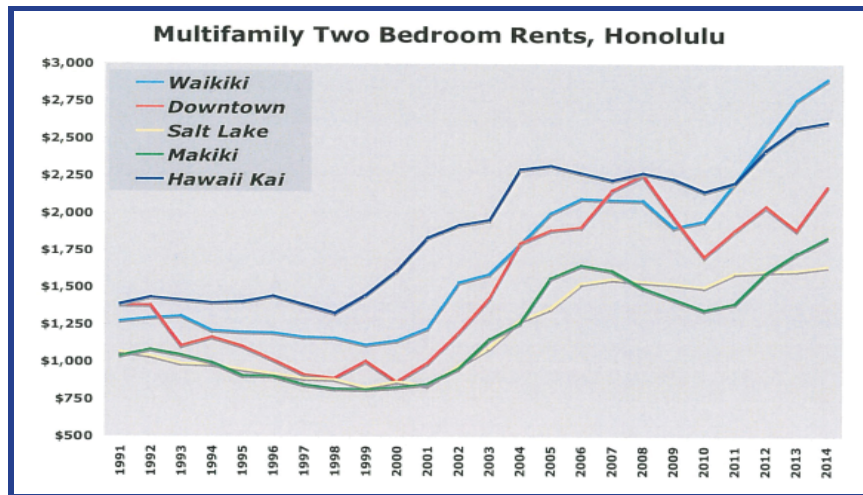
Allow Reasonable Risk Incentives:

Professional developers deserve to receive a reasonable profit. Developers take huge risks such as capital investment, timing, economic unpredictability, fluctuating interest rates and rising construction costs. High-rise developments also have higher risk due to the inability to slowdown or to finish only a portion of the project. Purchasers cannot occupy their units until the building is totally complete and habitable. Simply put, you cannot supply water or sewer to the building until it is completely finished; thus you wouldn't have the ability flush your toilet.

This is our brief synopsis of our housing evolution, our current crisis and possible solutions. We need leaders with vision, the wherewithal to follow through and to be selfless in a quest to bring people together for a common cause.







ABOUT THE AUTHORS

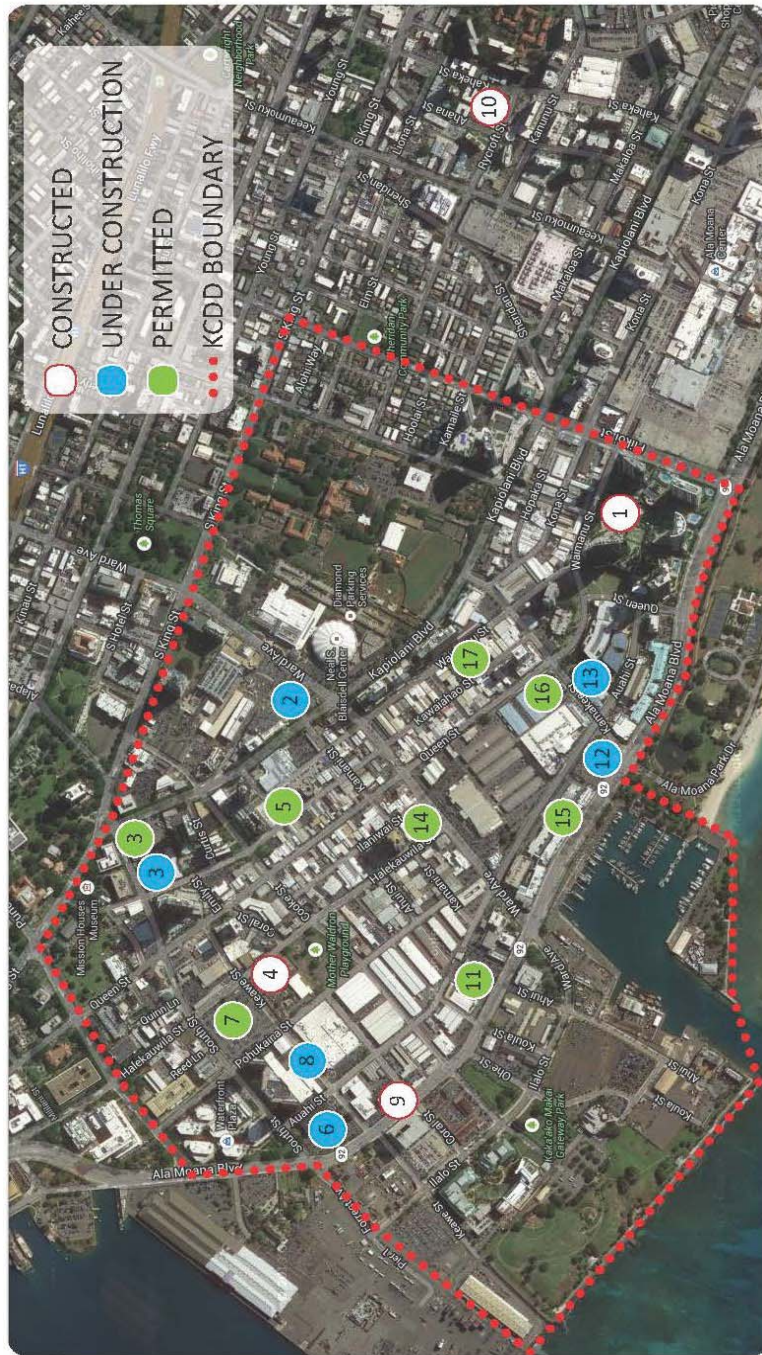
Ricky Cassiday of Data@Work has developed the most functional database of real estate transactions for analyzing the residential market across the state of Hawaii. The data draws upon both public and private data sources and goes back to 1985, covering 2 major market cycles. It includes all islands and all resort and residential property types, including leasehold. He has produced numerous types of studies (project feasibility, pricing programs, absorption projections, marketing strategy, product development, market entry and positioning) as well as long-term demand forecasts and models for specific markets and master planned developments. His work has helped to inform every major Hawaiian developer, financing institution, residential



design firms, most landowners and construction companies. He has been a featured public speaker at the Hawaii Developer's Council, the ULI Hawaii Chapter, the Society of Corporate Planners, Hawaii State Association of Counties, the Hawaii Association of Mortgage Brokers, the BIA Hawaii chapter, Association of Realtors for all the islands, numerous private groups, and the MBA Income Property, Investment Committee. He has been quoted in the Wall Street Journal, New York Times, San Francisco Chronicle, and Inman News.

Jon Yamaguchi CRE, FRICS, SRPA, SRA is the **President and CEO of Yamaguchi & Yamaguchi, Inc.**, a real estate appraisal and consulting firm accomplished in both residential and commercial markets. Since 1967, Yamaguchi & Yamaguchi has serviced the real estate community throughout Hawaii and parts of the Pacific Rim including Asia. We have assisted our clients in decision making relative to various needs, such as mortgage lending, development, investment decisions, collateral review, due diligence studies, lease negotiations and arbitration, condemnation, estate planning and date of death valuation. Jon's years of real estate expertise has attracted many local, domestic and international clients and his experience has led to counseling on complex compliance and regulatory issues. His keen ability to communicate with a diverse cross section of people and engage his clients in a positive manner are some of his unique assets.





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|-----------------------|-------------------------------------|---|
| 1. Waihonua | Kaiaulu O Kakaako Master Plan (KS): | 17. Artspace Project |
| 2. Symphony Honolulu | 6. The Collection (Block E) | |
| 3. 801 South Street | 7. Keauhou Lane (Block A) | 12. Wailea - Block 2 - Proj. 1 |
| - Buildings A and B | 8. Block B | 13. Anaha - Block 3 - Proj. 1 |
| 4. Halekauwila Place | 9. 680 Ala Moana | 14. 988 Halekauwila - Block 5 - Proj. 1 |
| 5. 803 Waimanu Street | 10. Rycroft Terrace | 15. Gateway - Block 2 - Proj. 2 |
| | 11. Vida (Block I) | 16. Land Block 1 - Project 2 |



Hawaii Community Development Authority Housing Development Projects

Year Permitted	Completed Projects	Market	Reserved	AMI	Total
1984	One Waterfront Towers	307	0	N/A	307
1984	Royal Capitol Plaza	297	28	64-140%	325
1984	Nauru Development				
	1133 Waimanu	0	282	97-117%	282
	Phase I: Nauru	304	OS	97-117%	304
	Phase II: Hawaiki	417	OS	97-117%	417
	Phase III: Ko'olani	370	OS	97-117%	370
1989	Imperial Plaza	221	0	N/A	221
1995	One Archer Lane	331	0	N/A	331
2002	Hokua	248	0	N/A	248
2003	Moana Pacific	706	0	N/A	706
2005	909 Kapiolani	227	0	N/A	227
2005	Keola La'i	352	63	104-130%	415
2005	Pacific Honolulu	489	124	100-140%	613
2011	680 Ala Moana	0	54	100%	54
2012	Rycroft Terrace	0	162	30-140%	162
2008	Waihonua	341	OS	Pending	341
Total		4610	713		5323

State Developed Affordable Housing	For Sale	Rental	AMI	Total
1989 Kamakee Vista	0	225	80%	225
1989 Pohulani	0	262	80%	262
1991 Kauhale Kakaako	0	267	80%	267
1991 Na Lei Hulu Kupuna	0	76	60%	76
1993 Honuakaha	93	151	60%	244
2010 Halekauwila Place	0	204	60%	204
Total	93	1185		1278

	Under Construction	Market	Reserved	AMI	Total
2012	801 South St A	0	635	100-140%	635
2012	Symphony	288	100	108-140%	388
2013	Waiea	177	OS	90-140%	177
2013	The Collection	467	OS	Pending	467
2013	Anaha	318	OS	90-140%	318
2013	801 South St B	102	308	100-140%	410
Total	1352	1043			2395





Hawaii Community Development Authority Housing Development Projects

Year Permitted	Approved Projects	Market	Reserved	AMI	Total
2013	<i>404 Ward</i>	49	375	90-140%	424
2014	<i>803 Waimanu</i>	121	24	Pending	145
2014	<i>Keauhou Lane</i>	338	294	100-140%	632
2014	<i>KS Land Block B</i>	75	108	100-140%	183
2013	<i>Cloudbreak (Kalaeloa)</i>	0	130	0-20%	130
2014	<i>BOQ Building 77 (Kalaeloa)</i>	0	100	100%	100
2014	<i>Land Block 2, Project 2</i>	236	OS		236
2014	<i>Vida (KS Block I)</i>	265	OS		265
2015	<i>Artspace</i>	0	84	60%	84
2015	<i>Land Block 1, Project 2</i>	466	OS		466
	Total	1550	1115		2665

Year Permitted	Pending Projects	Market	Reserved	AMI	Total
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**Italics indicate the current construction cycle*

Housing Supply Overview

June 2015

Single Family Homes	Pending Sales			Days on Market			Percentage of Original Price Received			Inventory of Homes for Sale			Months Supply of Inventory		
	Jun-15	Jun-14	%	Jun-15	Jun-14	%	Jun-15	Jun-14	%	Jun-15	Jun-14	%	Jun-15	Jun-14	%
\$350,000 and Below	150	200	-25.0%	27	29	-6.9%	98.9%	95.3%	3.8%	32	40	-20.0%	2.3	2.2	4.5%
\$350,001 - \$475,000	348	421	-17.3%	17	24	-29.2%	99.0%	98.3%	0.7%	74	100	-26.0%	2.3	2.4	-4.2%
\$475,001 - \$550,000	387	441	-12.2%	18	23	-21.7%	98.2%	98.8%	-0.6%	82	97	-15.5%	2.4	2.4	0.0%
\$550,001 - \$650,000	665	608	9.4%	22	19	15.8%	98.0%	99.2%	-1.2%	145	157	-7.6%	2.7	3.0	-10.0%
\$650,001 - \$800,000	745	677	10.0%	22	18	22.2%	97.8%	98.4%	-0.6%	236	211	11.8%	4.1	3.6	13.9%
\$800,001 - \$1.1M	613	583	5.1%	21	18	16.7%	98.1%	98.9%	-0.8%	227	197	15.2%	4.5	4.4	2.3%
\$1.1M - \$1.9M	397	380	4.5%	32	25	28.0%	95.2%	96.2%	-1.0%	232	198	17.2%	7.5	6.7	11.9%
\$1.9M and Above	159	142	12.0%	61	47	29.8%	93.2%	93.2%	0.0%	250	200	25.0%	19.4	17.9	8.4%
All Single Family Homes	3464	3452	0.3%	22	20	10.0%	97.7%	99.2%	-1.5%	1278	1200	6.5%	4.5	4.0	12.5%

Condos	Pending Sales			Days on Market			Percentage of Original Price Received			Inventory of Homes for Sale			Months Supply of Inventory		
	Jun-15	Jun-14	%	Jun-15	Jun-14	%	Jun-15	Jun-14	%	Jun-15	Jun-14	%	Jun-15	Jun-14	%
\$150,000 and below	410	414	-1.0%	33	40	-17.5%	94.9%	91.1%	4.2%	168	151	11.3%	4.8	4.0	20.0%
\$150,001 - \$200,000	413	413	0.0%	36	28	28.6%	95.1%	95.4%	-0.3%	152	137	10.9%	4.5	3.8	18.4%
\$200,001 - \$250,000	539	548	-1.6%	26	24	8.3%	96.5%	96.9%	-0.4%	129	164	-21.3%	2.9	3.3	-12.1%
\$250,001 - \$300,000	702	657	6.8%	24	23	4.3%	97.5%	98.2%	-0.7%	199	202	-1.5%	3.5	3.8	-7.9%
\$300,001 - \$375,000	925	874	5.8%	22	20	10.0%	97.5%	98.0%	-0.5%	294	243	21.0%	4.0	3.3	21.2%
\$375,001 - \$475,000	990	881	12.4%	19	18	5.6%	98.1%	98.5%	-0.4%	271	266	1.9%	3.5	3.8	-7.9%
\$475,001 - \$700,000	868	788	10.2%	26	22	18.2%	97.8%	98.2%	-0.4%	338	254	33.1%	4.9	4.1	19.5%
\$700,001 and above	541	447	21.0%	46	35	31.4%	95.6%	96.2%	-0.6%	383	332	15.4%	9.3	9.5	-2.1%
All Condos	5388	5022	7.3%	24	23	4.3%	98.4%	98.3%	0.1%	1934	1749	10.6%	4.4	4.2	4.8%

SOURCE: Honolulu Board of REALTORS®, compiled from MLS data.

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PAST ISSUES...

For past HBC Newsletter on topics such as:

- * Protect Your Assets
- * Slash your Taxes
- * Appraisal or Consulting
- * The Strike zone of Appraisal Market Value
- * Resort Market Update
- * The Hawaii Real Estate Cycle: Boom or Bust?
- * Cost vs. Value: Hawaii

Go to: www.yamaguchiinc.com Click on: Hawaiian Business Compass

COACH YAMA

To be successful in anything we do we need to:

FOCUS

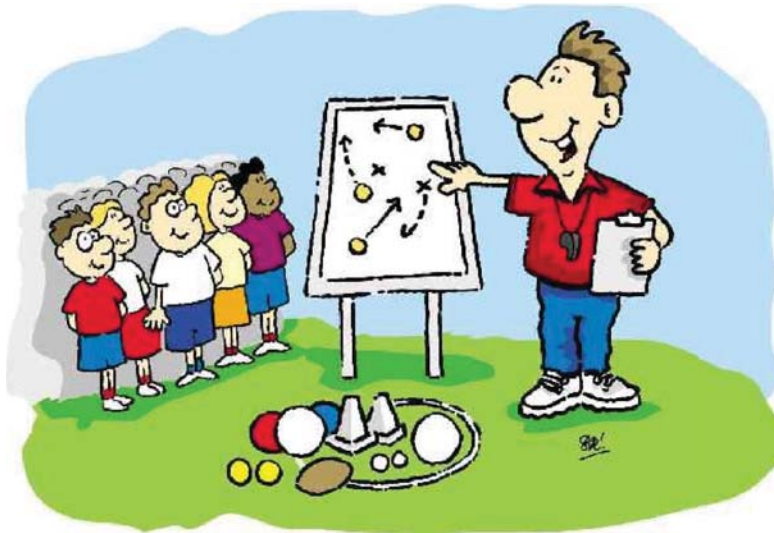
Identify Your Strengths and Weaknesses

Enhance your Strengths and Improve Your Weaknesses

Implement and Execute ("Practice, Practice, Practice")

Business/Game Plan

Apply the Plan and ADJUST



PROTECT YOUR ASSETS

Are all your real estate assets protected from unnecessary penalties and taxes?

No one knows the consequences of new tax laws every year and how it will affect each individual, estate or corporation. Pro-active Estate Planning is very important.

Have you established the proper real estate value basis at the point of ownership transfer and/or sale?

It is especially difficult to be proactive when a catastrophic event occurs, such as when a loved one or relative passes away. Tax consequences and penalties are the last thing on your mind when these things happen, but the longer time lapses the more difficult the solution becomes.

It is advisable to pick up the pieces and consult your tax and real estate experts as soon as possible.





Simply ...
Stephanie

Work Hard ♦ Play Hard

That's my philosophy of the balance in life; my yin yang, so to speak. In reality though, the fulcrum is rarely centered and the scale repeatedly slants away from play. So I have decided for my column to focus only on fun things . . .

Another Hole-in-the-Wall Find

In my quest to find more Hole-in-the-Wall eateries that you would not normally venture to without “word of mouth” intros, we found a great comfort food spot in the heart of Kakaako---Cooke Street Diner. CSD is a throwback to the Mom-and-Pops family joints of yesteryear, many of which no longer exist today. The décor is definitely no frills, but if you're ono (craving) for some old-time local home cooking, they will not disappoint. They even have two lunch wagons on Mondays - Fridays.

Must try (I have): Korean Chicken, CSD Loco Moco, Fish Specials, Beef Stew, Hamburger Curry, Shoyu Chicken, Sweet Sour Spare Ribs, Meatloaf, Chop Chop Salad, and of course, Friday Hawaiian Plate.



Ken Akazawa, owner

Cooke Street Diner

605 Cooke Street
(Cooke & Ilaniwai)
(808) 597-8080

Mon-Fri: 5:30 am - 2:30 pm

Sat: 6:30 am - 1:30 pm

Lunch Wagon Locations:

Makaloa Street

Near Kaheka Street between
First Hawaiian Bank-
Kapiolani and Makaloa Plaza

Auahi Street

Near South Street. Old Comp
USA building.

Ken's Grandma's Corned Beef Cabbage --- not served at the diner (10-minute meal)

- 2 cans corned beef
- 1 head cabbage
(cut into 2" x 1" strips)
- 1 round onion (sliced)
- 1 can sweet corn (drained)
- Salt & pepper to taste
- 1/2 can tomato sauce
- 2 oz. ketchup
- 1 tsp sugar



Fry onion with corned beef. Add cabbage, Add tomato sauce, add drained corn, salt & pepper to taste, add ketchup and sugar. When the cabbage is cooked, serve.

Comments and Reviews on Instagram and Yelp



Dr. Koichi Wakata

NASDA/JAXA (Japan Aerospace Exploration Agency) Astronaut.

During a nearly two decade career, Dr. Wakata has served as a veteran of four NASA Space Shuttle missions, instructor of robotics for NASA, and the first person to serve on five different crews without returning to earth. On March 9, 2014, Dr. Wakata became the first Japanese commander of the International Space Station and returned to earth on May 13, 2014. He has logged 347 days, 08 hours, 32 minutes in space.

www.nasa.gov/.../shuttle/shuttlemissions/sts119/interview_wakata.html
iss.jaxa.jp/en/astro/biographies/wakata/index.html

**YAMAGUCHI &
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ABOUT HAWAIIAN BUSINESS COMPASS

Real Estate Valuation and Consulting for:

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- * Retrospective/Historical Values
- * Gifting and Life Estates
- * Fractional Interests
- * Disposition, Sale, Estate Settlement
- * Trust and Partnerships
- * Internal Decision-Making Purposes
- * Eminent Domain
- * Financial Institutions

***“Strive not to be a success,
but rather to be of value.”***

~~ Albert Einstein

Our Hawaiian Business Compass newsletter was created to provide our friends and clients with informational topics that could possibly benefit them in their business and personal lives.

We author and feature articles that pertain to:

- Real estate trends and valuation
- Business issues
- Positive motivational content
- Human interest stories, and
- Varying topics provided by guest writers

As relationships are very important to us, our HBC newsletter gives us an opportunity to keep in touch, share our information and create something that is interesting and fun.

Jon and Stephanie Yamaguchi