

**Ewa and Oahu's
Affordable For-Sale Housing**
SUMMARY OF RECENT MARKET CONDITIONS

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Study Background and Summary of Findings

Study Background

Aina Nui Corporation, an affiliate of the Estate of James Campbell, proposes to develop some 547 acres as a residential and recreational community known as Kapolei West. Kapolei West is located within the City's Ewa Development Plan area, between Ko Olina Resort and the City of Kapolei. While State entitlements are in place for some 373 acres of the project, Aina Nui is petitioning the State Land Use Commission (LUC) to redesignate 174.2 acres for urban uses.

In discussions with LUC staff, the Ewa area's role in providing affordable housing for Oahu has emerged as a topic of interest. Thus Aina Nui requested Mikiko Corporation to prepare this overview of affordable housing conditions on the island of Oahu and the ongoing and recent contributions of the Ewa Development Plan area to meeting needs of the for-sale segment of this market.¹

Approach

Mikiko Corporation collected and analyzed information on households, housing demand, household incomes and residential sales transactions within a recent twelve-month period (August 1, 2004 through July 31, 2005) and for the twelve months of 2000. Data were collected for the island of Oahu and for Tax Map Key areas 1-9-1 and 1-9-2, which approximate the Ewa Development Plan Area.²

The Ewa DP Area stretches from Ko Olina to Ewa Beach, and encompasses existing primary residential areas such as the Villages of Kapolei, Ewa by Gentry, Ewa Marina, Ewa Villages, Kapolei Knolls, Makaiwa Hills, Makakilo, and Ewa Beach. It also includes Ko Olina Resort, which markets resort/second homes as well as primary residences.

¹ The for-sale segment of "affordable housing" is defined herein as that estimated to be affordable to households earning between 80% and 140% of the Honolulu County median income for any given period, under then-prevailing lending conditions. See Appendices 1 and 2 for further details.

² See Appendices 8 and 9 for display of Development Plan area as defined by the City and as approximated by tax map key codes. The additional lands covered by the tax map definition include relatively few housing units. Within this report, the Ewa DP Area is also sometimes referred to as "Ewa."

Executive Summary

The Ewa DP Area has played a very significant role in meeting the island's affordable housing needs, particularly in the for-sale market segment. In 2000 and recent months, the Ewa DP Area:

- 1) **Recorded a higher share of affordable sales than did the island** - Sales recorded in Ewa between August 2004 and July 2005 show about 51% affordable to families earning 80% to 140% of the County median, compared to only 44% for Oahu as a whole.
- 2) **Increased its number of sales at affordable prices** - In the recent 12-month period, the Ewa DP Area recorded 1,258 home sales at prices considered affordable to households earning 80% to 140% of the median, compared to 712 sales in 2000.
- 3) **Has served far more than its "fair share"** - While Ewa is home to some 6% to 7% of Oahu households, it provided 22% of Oahu's affordable home sales recently, and 17% in 2000. Thus, in terms of number of households, Ewa served more than three times its "fair share" of affordable housing in recent months.

All of these conclusions hold when considered separately for single- and multi-family homes. The significance of Ewa is particularly pronounced in the single-family market, where its provision of affordable ownership opportunities has been one of the most important developments in island housing in recent years.³

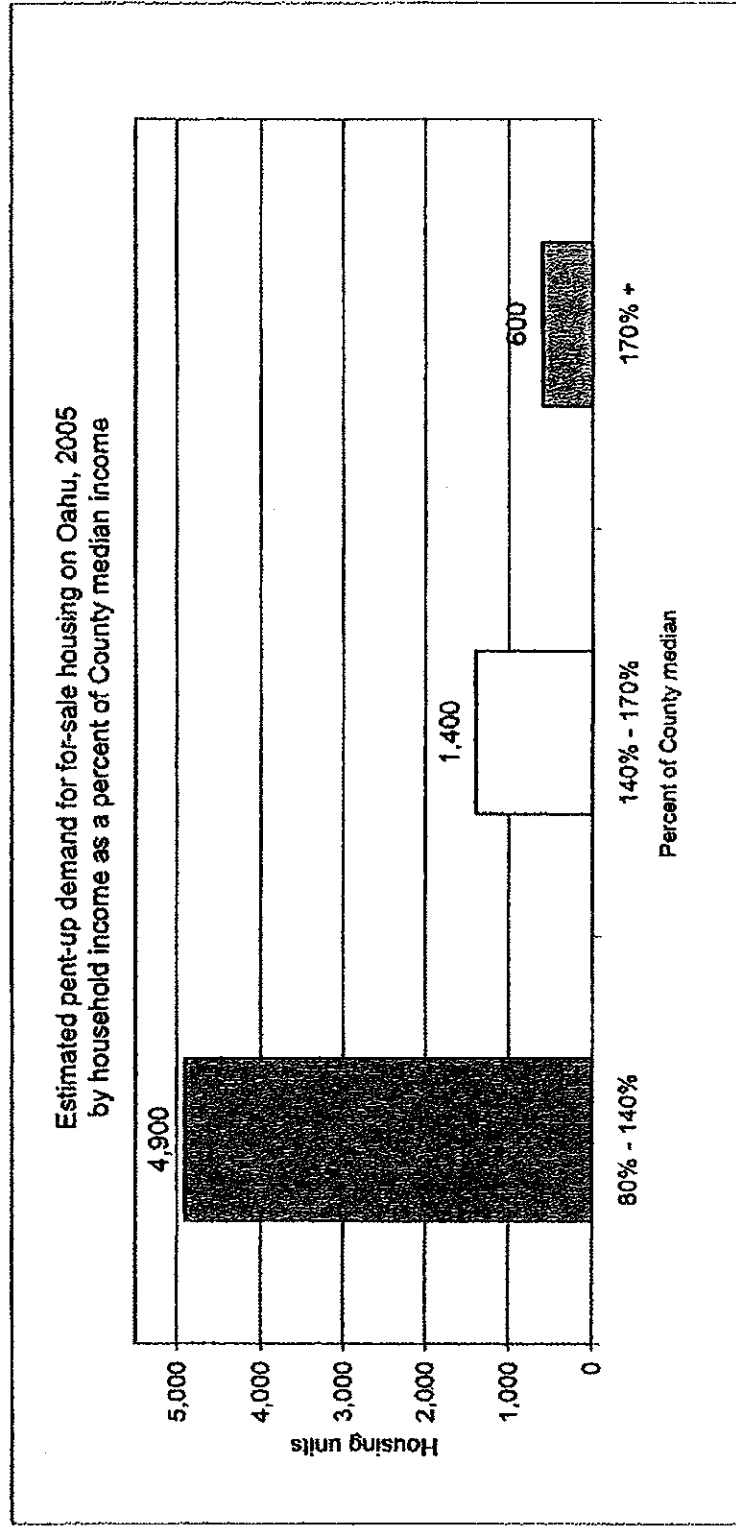
It should also be noted that the Ewa data shown are skewed by the very active sales programs of higher-priced resort/second homes at Ko Olina Resort in recent months. If it were not for these sales, the Ewa DP Area would show an even greater predominance of sales at affordable prices, as well as lower average and median sales prices.

These findings, and observations on pent-up demand are shown on the following pages. Also attached are appendices that present the analyses on which these conclusions are based.

³ An apparent drop in the share of Ewa DP Area single-family affordable home sales (from 64% in 2000 to 41% recently, see Appendix 5) is attributable to the relatively few sites available for new housing development and the ending of the buy-back provisions imposed on area housing in prior years. Thus, most of the units transacting in the recent period are resales, which have been affected by the state-wide rapid increase in prices.

Significant Pent-Up Demand Island-wide

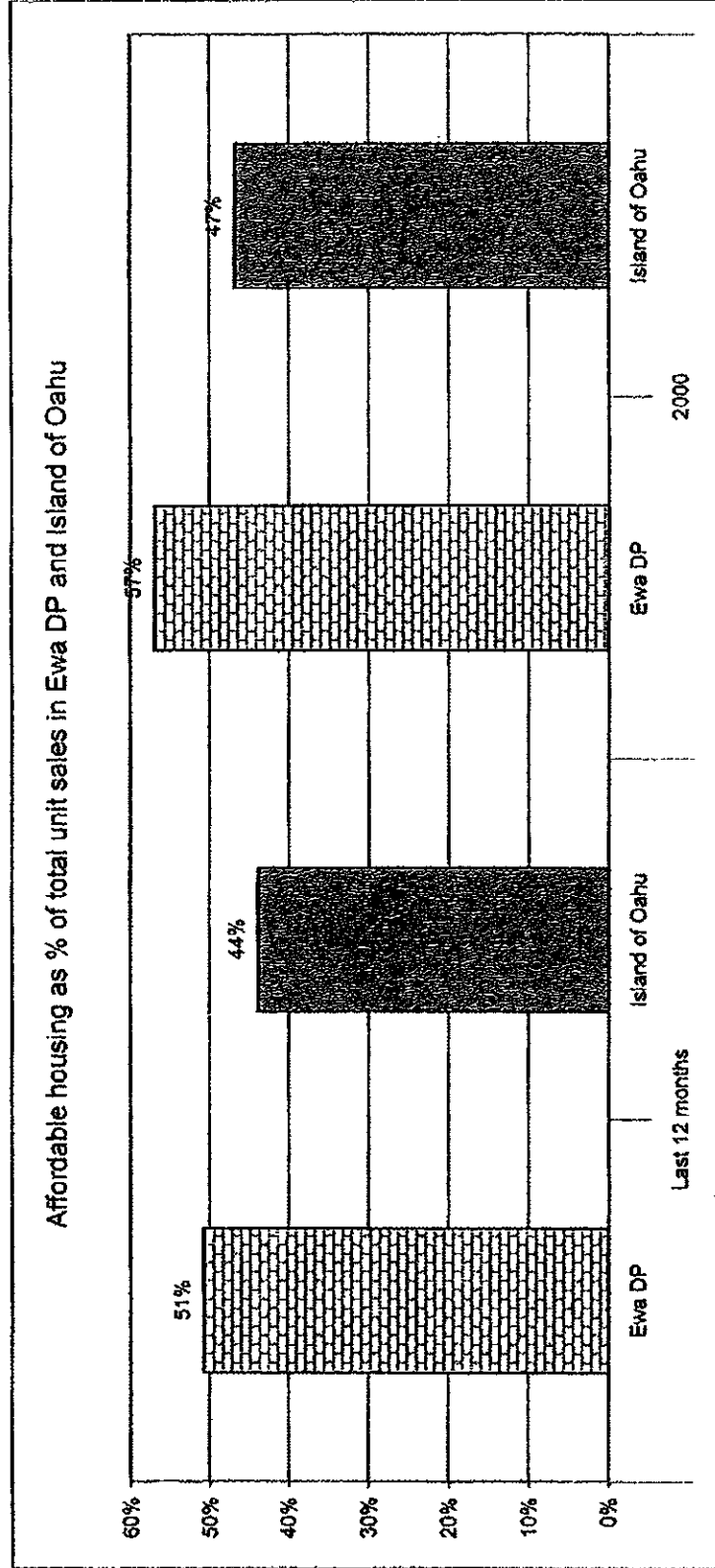
There is strong pent-up demand to purchase housing on Oahu. In total, some 16,300 housing units are estimated to be desired but not available at affordable prices. The greatest need among potential buyer markets is among households earning 80% to 140% of the County median income, or about \$54,000 to \$95,000 in 2005. Some 4,900 such potential households island-wide are thought to be doubled-up or otherwise unserved for financial reasons. This group is expected to be able to afford housing priced from about \$200,000 to \$440,000 in the current market.



Notes: Buyer markets assumed to be composed of households earning 80% or more of County median income (\$54,000 or more in 2005), with the "affordable" segment those earning 80% to 140%. See Appendix 3 for derivation of numbers shown.

The Ewa DP Area Offers Relatively More Affordable Housing than Oahu

The Ewa DP Area sells a greater share of units within the affordable housing category than does the island as a whole. Although the ability of both geographic areas to deliver affordable housing has been dampened by the recent housing "boom," as a percent of total units sold, Ewa has offered 7% to 10% more affordable units than the island as a whole.



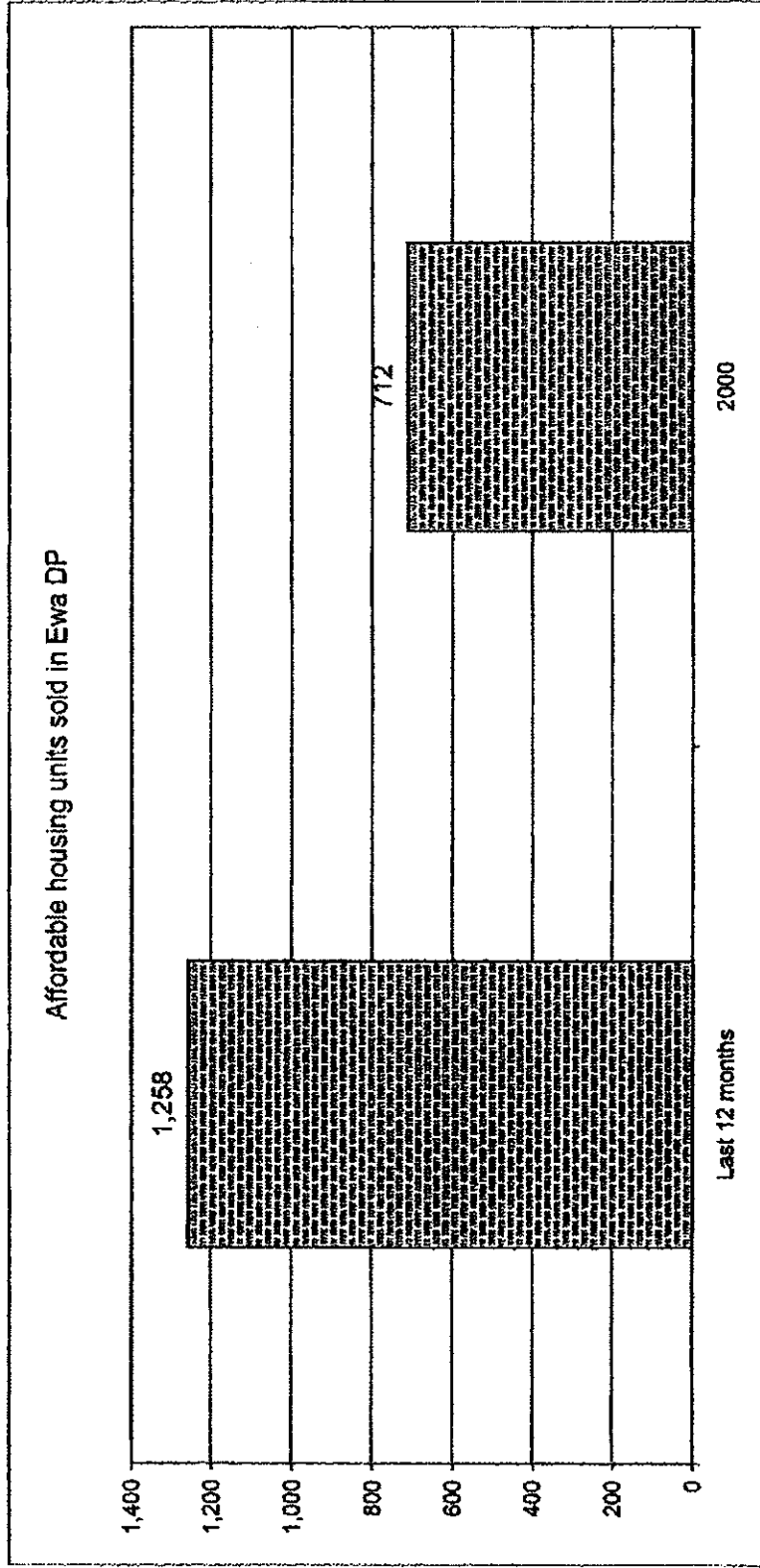
Notes: Ewa Development Plan Area is approximated by tax map keys 1-9-1 and 1-9-2 for purposes of this analysis.

"Last 12 months" refers to units that closed escrow between 08/01/2004 and 07/31/2005.

Affordable housing markets defined as those estimated to be financially accessible to those earning between 80% and 140% of the County median income for 2005 and 2000, respectively, under then-prevalent lending conditions. See Appendices 1, 2 and 4 for further information.

The Ewa DP Area is Offering More Affordable Housing Units Than Previously

The Ewa Area is selling significantly more affordable housing units than in the past. Compared to 2000, Ewa homes sold in the recent 12-month period represented 77% more units affordable to those in the 80% to 140% of median income category.



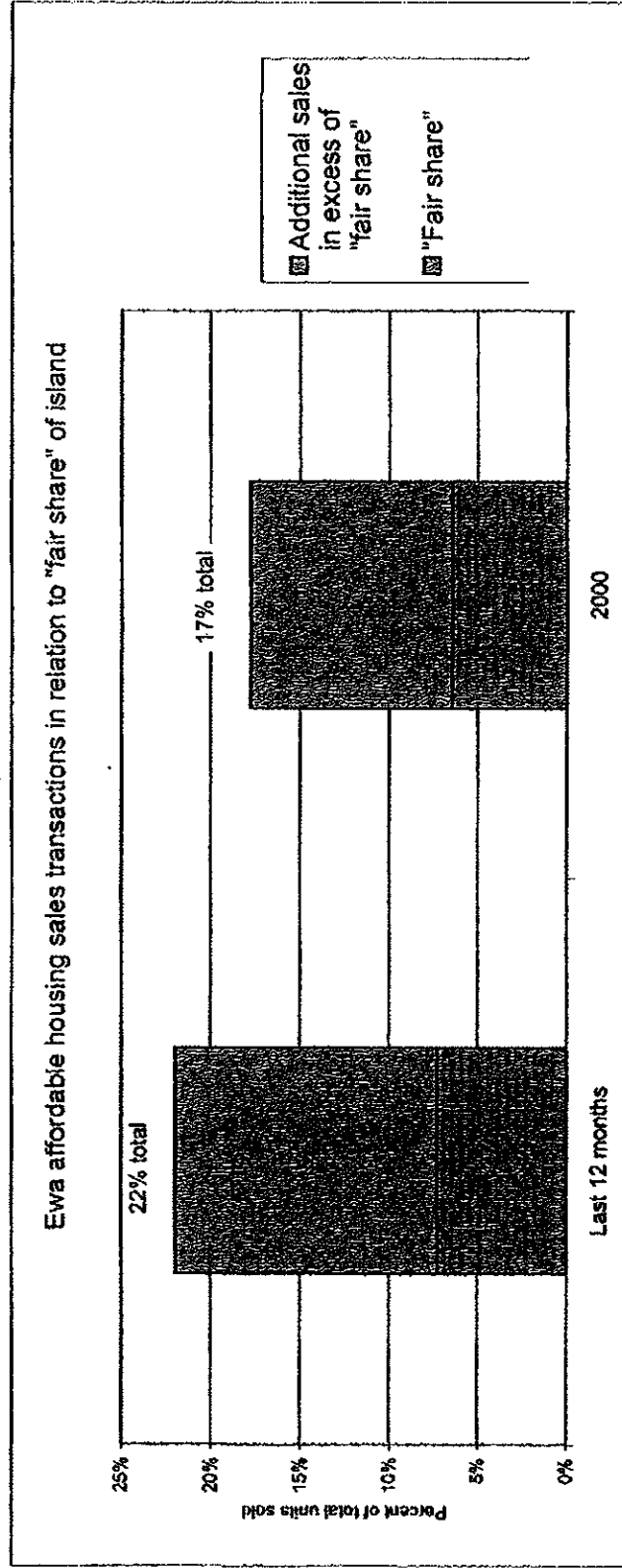
Notes: Ewa Development Plan Area is approximated by tax map keys 1-9-1 and 1-9-2 for purposes of this analysis.

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The Ewa DP Area Offers More than its "Fair Share" of Affordable Housing

The Ewa DP Area has been satisfying an increasing share of Oahu's affordable housing needs, well in excess of its "fair share." Based on affordability parameters relevant in 2000, Ewa was home to 17% of the island's for-sale affordable housing transactions in that year. Under current conditions, the district is hosting about 22% of the island's affordable for-sale housing transactions. Considering the relative number of households in Ewa and the island as a whole, the district's "fair share" would have been about 6% in 2000, and only 7% during the recent 12-month period.



Notes: Ewa Development Plan Area is approximated by tax map keys 1-9-1 and 1-9-2 for purposes of this analysis.

"Last 12 months" refers to units that closed escrow between 08/01/2004 and 07/31/2005.

Affordable housing markets defined as those estimated to be financially accessible to those earning between 80% and 140% of the County median income for 2005 and 2000, respectively, under then-prevalent lending conditions. See Appendices 1 and 2 for further details.

"Fair share" based on estimated percent of island households living in the Ewa DP Area in 2005 and 2000, as provided by Ciantas, Inc., May 2005. See Appendix 4 for base data.

Appendices

Appendix 1: Oahu Housing Affordability Parameters: 2005
 Based on estimated median County income in 2005

	80% of median	100% of median	140% of median	170% of median	200% of median
Annual income	\$54,000	\$68,000	\$95,000	\$115,000	\$135,000
Monthly housing budget ²	\$1,350	\$1,700	\$2,375	\$2,875	\$3,375
Less tax & insurance ³	-\$225	-\$244	-\$300	-\$333	-\$363
Net payable to mortgage	\$1,125	\$1,456	\$2,075	\$2,542	\$3,013
Affordable purchase price	\$200,000	\$260,000	\$440,000	\$540,000	\$640,000
Assumed down payment	\$10,000	\$13,000	\$88,000	\$108,000	\$128,000

Ability to pay¹:

Annual income \$67,750 County median
 Monthly housing budget² 30%
 Less tax & insurance³
 Net payable to mortgage

Approximate purchase terms⁴:

Affordable purchase price 5.8% interest
 Assumed down payment

NAP = Not applicable

¹ Based on 2005 HUD median income of \$67,750 for an Oahu family of four, as shown on www.huduser.org/Datasets/LIIL005/fy2005.pdf

² Percent of monthly income, including allowance for various adjustments shown and after allowance for typical other debt.

³ Assumes \$100 per month mortgage insurance, \$75 per month homeowners' insurance, and real property taxes based on approximate purchase price and Honolulu County real property tax rates in FY05 of \$3.75 per \$1,000 assessed value less \$40,000 exemption for owner-occupants. Further exemptions for elderly, disabled or other categories of buyers may also be available.

⁴ Based on http://www3.hawaii.gov/DBED/Images/User_Files/images/databook/db04

⁵ 30-year mortgage term, 5% down payment for households earning up to 120% of County median, and 20% down for those at higher income levels. Based on Fannie Mae terms applicable as of May 2005.

Appendix 2: Oahu Housing Affordability Parameters: 2000
Based on estimated median County income in 2000

Ability to pay¹:
 Annual income \$60,900 County median
 Monthly housing budget² 30%
 Less tax & insurance³
 Net payable to mortgage

Approximate purchase terms⁴:
 8.0% interest
 Affordable purchase price
 Assumed down payment

	80% of median	100% of median	140% of median	170% of median	200% of median
Annual income	\$49,000	\$61,000	\$85,000	\$104,000	\$122,000
Monthly housing budget ²	\$1,225	\$1,525	\$2,125	\$2,600	\$3,050
Less tax & insurance ³	-\$207	-\$219	-\$259	-\$283	-\$304
Net payable to mortgage	\$1,018	\$1,306	\$1,866	\$2,317	\$2,746
Affordable purchase price	\$150,000	\$190,000	\$320,000	\$390,000	\$470,000
Assumed down payment	\$7,500	\$9,500	\$84,000	\$78,000	\$94,000

NAP = Not applicable

¹ Based on 2000 HUD median income or an Oahu family of four, as shown on www.huduser.org/datasets/hfm00/hud00hi.txt.

² Percent of monthly income, including allowance for various adjustments shown and after allowance for typical other debt.

³ Assumes \$100 per month mortgage insurance, \$75 per month homeowners' insurance, and real property taxes based on approximate purchase price and Honolulu County real property tax rates in FY00 of \$3.65 per \$1,000 assessed value less \$40,000 exemption for owner-occupants. Further exemptions for elderly, disabled or other categories of buyers may also be available. <http://www.hawaii.gov/dbedt/db99/index.html>

⁴ Based on 30-year mortgage term, 5% down payment for households earning up to 120% of County median, and 20% down for those at higher income levels. Based on Fannie Mae terms applicable as of May 2005.

Appendix 3: Estimated Pent-Up Demand for Housing Island of Oahu, 2005

Households by percent of median income:	Maximum household income ¹	Target maximum home price ¹	Percent of households ²	Potential number of households ³	Est. % pent-up demand ⁴	Est. units, pent-up demand ⁵
<i>Principally rental market - Less than 80%</i>	\$54,000	\$200,000	50%	157,000	6.0%	9,400
<i>Potential buyer markets -</i>						
Between 80% and 140%	\$95,000	\$440,000	26%	82,000	6.0%	4,900
Between 140% and 170%	\$115,000	\$540,000	12%	38,000	3.6%	1,400
170% or more	> \$115,000	> \$540,000	12%	37,000	1.5%	600
Total			100%	314,000	5.2%	16,300

Note: Totals might not add due to rounding.

¹ As shown in Appendix 1.

² Based on estimates of Oahu households by household income as provided by Claritas Inc., May 27, 2005.

³ Represents demand for household formation based on population growth, household size trends and other factors, with total as shown in SMS, Inc., "Hawaii Housing Policy Study 2003," Page Section 1A-B-11, August 2003. (See also Mikiko Corporation, "Market Assessment for Residential Uses at the Proposed Kapolei West," May 21, 2004, Page 65.) Distribution based on percent of households shown.

⁴ Share of households in each group estimated to be unable to find suitable housing due to affordability factors.

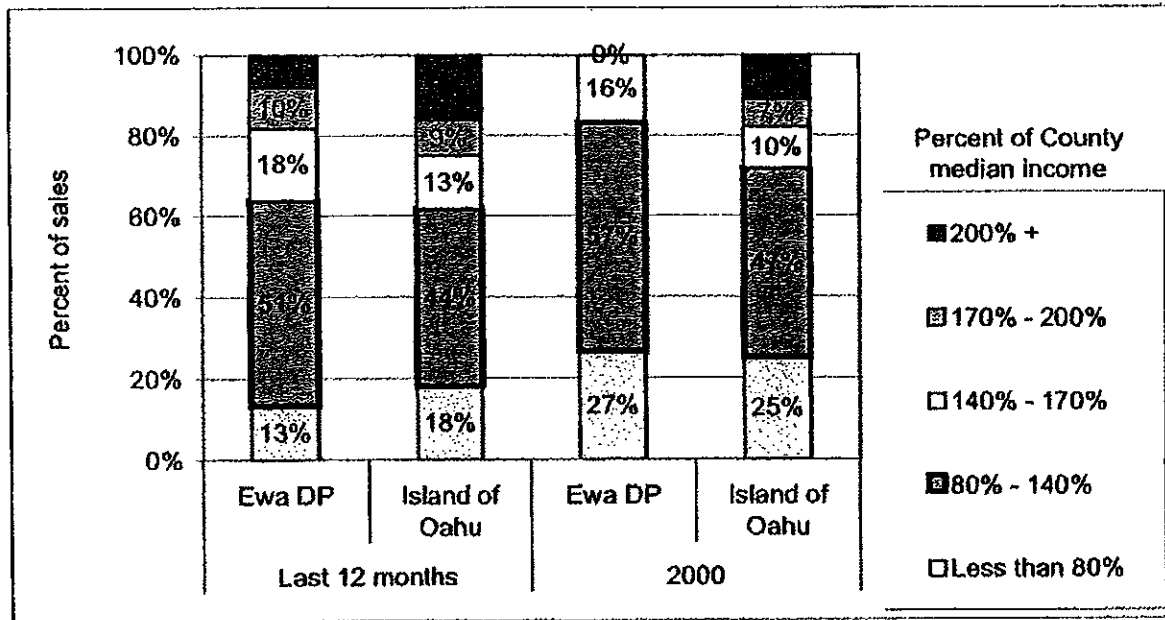
⁵ Total as shown in Mikiko Corporation, "Market Assessment for Residential Uses at the Proposed Kapolei West," May 21, 2004, Page 65.

Appendix 4: Total Home Sales by Affordability
Ewa DP and Island of Oahu

	Last 12 months ¹		2000	
	Ewa DP ²	Island of Oahu	Ewa DP ²	Island of Oahu
Average sales price	\$398,758	\$446,975	\$200,552	\$287,998
Median sales price	\$384,858	\$369,000	\$199,500	\$232,000

Number of sales by target income group³:

Less than 80% of median	328	2,348	332	2,143
80% - 140% of median	1,258	5,725	712	4,001
140% - 170% of median	443	1,714	205	877
170% - 200% of median	250	1,143	1	565
200% of median +	202	2,124	1	964
Total	2,481	13,054	1,251	8,550



Note: Includes fee simple single- and multi-family unit sales recorded at the Bureau of Conveyances within the periods shown. Excludes sales of multi-unit apartment buildings, which are presumed to be investment/rental properties.

¹ For the time period from 08/01/2004 through 07/31/2005.

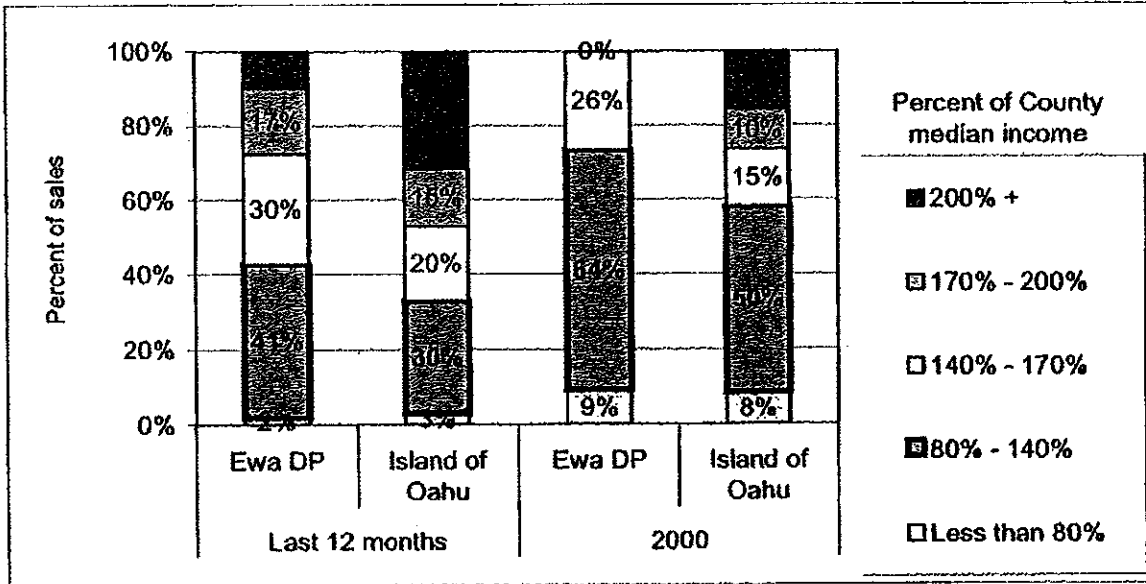
² Ewa Development Plan Area, as approximated by tax map keys 1-9-1 and 1-9-2.

³ Households grouped by their income in relation to County median for 2005 or 2000; number of sales occurring within price ranges affordable to each. See Appendices 1, 2 and 7.

Source: Hawaii Information Service.

Appendix 5: Single-Family Home Sales by Affordability
Ewa DP and Island of Oahu

	Last 12 months ¹		2000	
	Ewa DP ²	Island of Oahu	Ewa DP ²	Island of Oahu
Average sales price	\$478,403	\$634,357	\$237,617	\$369,880
Median sales price	\$460,000	\$525,000	\$238,100	\$293,000
Number of sales by target income group³:				
Less than 80% of median	20	144	67	368
80% - 140% of median	478	1,606	483	2,183
140% - 170% of median	345	1,069	199	679
170% - 200% of median	204	824	1	456
200% of median +	119	1,694	1	705
Total	1,166	5,337	751	4,391



Note: Includes fee simple single- and multi-family unit sales recorded at the Bureau of Conveyances within the periods shown. Excludes sales of multi-unit apartment buildings, which are presumed to be investment/rental properties.

¹ For the time period from 08/01/2004 through 07/31/2005.

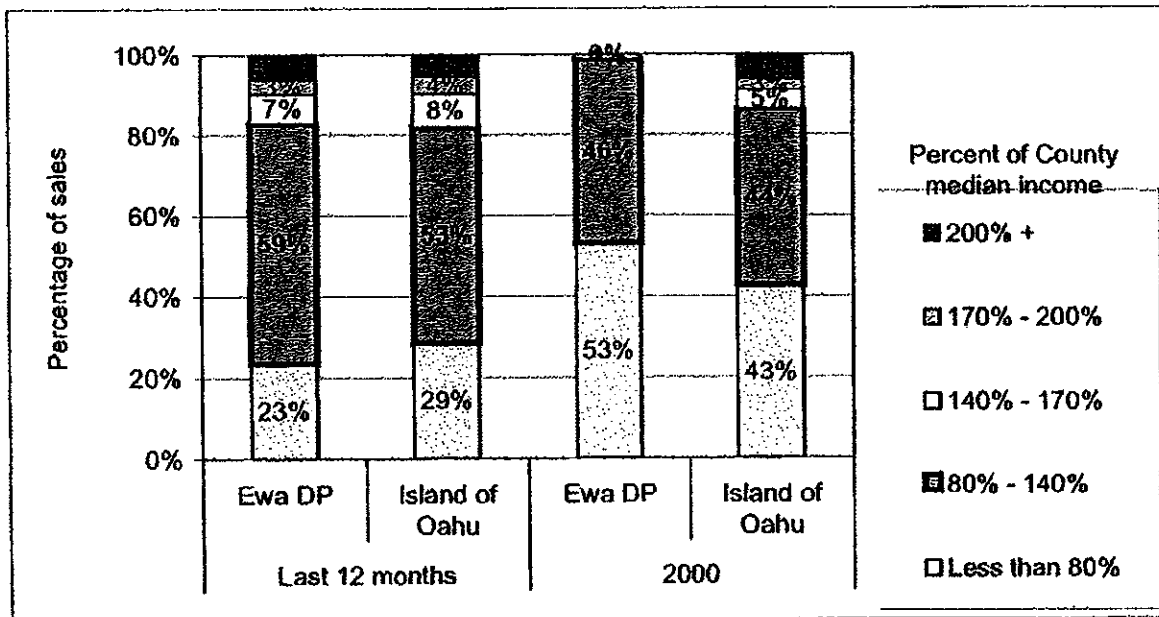
² Ewa Development Plan Area, as approximated by tax map keys 1-9-1 and 1-9-2.

³ Households grouped by their income in relation to County median for 2005 or 2000; number of sales occurring within price ranges affordable to each. See Appendices 1, 2 and 7.

Source: Hawaii Information Service.

Appendix 6: Multi-Family Home Sales by Affordability
Ewa DP and Island of Oahu

	Last 12 months ¹		2000	
	Ewa DP ²	Island of Oahu	Ewa DP ²	Island of Oahu
Average sales price	\$328,137	\$317,383	\$144,881	\$201,548
Median sales price	\$284,466	\$265,000	\$125,450	\$170,000
Number of sales by target income group³:				
Less than 80% of median	308	2,204	265	1,775
80% - 140% of median	780	4,119	229	1,818
140% - 170% of median	98	645	6	198
170% - 200% of median	46	319	0	109
200% of median +	83	430	0	259
Total	1,315	7,717	500	4,159



Note: Includes fee simple single- and multi-family unit sales recorded at the Bureau of Conveyances within the periods shown. Excludes sales of multi-unit apartment buildings, which are presumed to be investment/rental properties.

¹ For the time period from 08/01/2004 through 07/31/2005.

² Ewa Development Plan Area, as approximated by tax map keys 1-9-1 and 1-9-2.

³ Households grouped by their income in relation to County median for 2005 or 2000; number of sales occurring within price ranges affordable to each. See Appendices 1, 2 and 7.

Source: Hawaii Information Service.

Appendix 7: Home Sales by Price in the Ewa DP and Island of Oahu

	Ewa DP ¹			Oahu		
	Multi Family	Single-Family	Total	Multi Family	Single-Family	Total
Last 12 months²:						
Below \$200,000	308	20	328	2,204	144	2,348
\$200,000 - \$259,999	259	13	272	1,550	187	1,737
\$260,000 - \$319,999	271	60	331	1,154	270	1,424
\$320,000 - \$439,999	250	405	655	1,415	1,149	2,564
\$440,000 - \$539,999	98	345	443	645	1,069	1,714
\$540,000 - \$639,999	46	204	250	319	824	1,143
\$640,000 +	83	119	202	430	1,694	2,124
Total	1,315	1,166	2,481	7,717	5,337	13,054
2000:						
Below \$150,000	265	67	332	1,775	368	2,143
\$150,000 - \$189,999	55	114	169	574	386	960
\$190,000 - \$229,999	123	99	222	576	516	1,092
\$230,000 - \$319,999	51	270	321	668	1,281	1,949
\$320,000 - \$389,999	6	199	205	198	679	877
\$390,000 - \$469,999	0	1	1	109	456	565
\$470,000 +	0	1	1	259	705	964
Total	500	751	1,251	4,159	4,391	8,550

¹ Ewa Development Plan Area, as approximated by tax map keys 1-9-1 and 1-9-2.

² For the time period from 08/01/2004 through 07/31/2005.

Source: Hawaii Information Service. See also Appendices 1 and 2 for derivation of price thresholds.

Appendix 8: Ewa DP Area as Approximated by Tax Map Key Classification



Source: Hawaii Information Service. See Appendix 9 for actual boundaries of Ewa DP Area as defined by the City.

