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60536

BEFORE THE LAND USE COMMISSION

STATE OF HAWAII

In the Matter of the Petition of	)	DOCKET NO. A-94-706
	)	
KAONOULU RANCH	)	EXPERT TESTIMONY OF TOM W.
	)	HOLLIDAY; CERTIFICATE OF SERVICE
To Amend the Agricultural Land Use District	)	
Boundary into the Urban Land Use District	)	<u>HEARING:</u>
for approximately 88 acres at Kaonoulu,	)	Date: November 1 and 2, 2012
Makawao-Wailuku, Maui, Hawai'i	)	
	)	
	)	
	)	
	)	
	)	

**EXPERT TESTIMONY OF TOM W. HOLLIDAY**

**TESTIMONY OF TOM W. HOLLIDAY  
REGARDING THE PROPOSED PIILANI PROMENADE**

My assignment was to assess whether the use of lands in the Kaonoulu Industrial Subdivision for the proposed Piilani Promenade development is consistent with the original vision and entitlements procured for the property from a current market perspective.

I am the senior analyst and a project supervisor for The Hallstrom Group, Inc., a leading Hawaii real estate appraisal and consulting firm, and was a charter member at its founding in 1980. I have provided expert witness testimony before the State Land Use Commission regarding market studies, economic impact analyses and public fiscal assessments for numerous projects before the Commission over the past three decades. My qualifications are attached.

When announced in the early-1990s, the purpose of the project was to provide land to support business growth in Kihei, a rapidly expanding community with then-scarce available development sites.

As stated in the July 1994, *Project Assessment Report* (Section 1.B.):

**"Reason for Reclassification**

The proposed reclassification is being sought in order to develop a commercial and light industrial subdivision. Light industrial space in the South Maui Region is generally very sparse....Thus, residents and businesses must rely heavily on goods and services being delivered from the Wailuku-Kahului Area. This results in higher cost for goods and services, increase in traffic and other inconveniences for both providers and receivers of these goods and services.

In addition, the proposed commercial and light industrial subdivision is anticipated to address the needs for goods and services from a growing population based in the region."

The petitioners sought approvals allowing the conversion of marginally-productive agricultural lands into urban uses identified under Maui County "M-1 Light Industrial" zoning regulations (which also permits the uses allowable under B-1, B-2 and B-3 classifications). The project was to meet a portion of the forecast demand for additional commercial and industrial floor space in South Maui, providing needed space for business opportunities that would in turn lead to increased economic activity, regional employment and tax revenues.

The conceptual plan forwarded during the entitlement process showed a 123-lot subdivision with parcels ranging from 14,000 to 54,000 square feet. However, as noted in the *Market Feasibility Study* (Exhibit "A", page 8):

"These estimates of lot size, quantity and values are provided for planning purposes only. It is only one conceptual alternative which meets current market conditions with considerations for economic, social and physical variables. These estimates require reassessments from time to time and may need to be adjusted accordingly."

Upon analysis, I conclude the proposed use of a portion of Kaonoulu Industrial Subdivision for the Piilani Promenade project remains consistent with the original intent of the development and general planning and market trends, as:

1. Master plans are invariably revised over time to reflect changes in the marketplace. In the years between conceptualization and build-out there are inexorable transformations constantly taking place in regards to business models, consumer preferences, construction design and techniques, and developer/investor perspective. A successful and sustainable master plan must be sufficiently malleable to accommodate generally-conforming evolutions over time in order to achieve maximum efficiency of entitled lands and supporting infrastructure systems. Otherwise a project can stagnate, devolve into lesser orders of use, and fail to actualize the goals of the entitlement effort.

There are numerous examples of master plan revisions on Maui. Over the past two decades, the master plans for the major destination resorts have been changed to provide large numbers of house lots, which were initially a tertiary consideration at best, but have become a driving economic factor in the continuing success of the communities. Conversely, the focus on large scale condominium development ebbed, with master planned multifamily building sites being converted to single family subdivision.

The uses are meaningfully different in design, ownership, price, market orientation, buyer demographics and appearance; yet, they are both conforming uses in regards to underlying zoning and generally consistent with the original planning objective of providing resort-residential product for the Maui market.

The North Beach Makai area of Kaanapali was long master-planned (and entitled) primarily for hotel development. Changes in the market have resulted in the area being dominated by timeshare projects, which are again different in design, ownership, price, etc., but conforming with the in-place zoning and generally consistent with the intent of providing on-beach transient lodging inventory.

The master plans of the Project Districts mauka of Kapalua and Wailea Resorts have also been through several iterations of use, density and lay-out changes in response to market trends.

Alternatively, a lack of master planning and entitlement flexibility has meaningfully hampered absorption and development at the Maui Research & Technology Park, which the owners are now attempting to cure via a revised, updated master plan providing for a mix of building lot sizes.

2. The proposed project is in harmony with the continuing evolution of industrial-zoned land development on Maui. Historically, industrial lands on Maui were subdivided into smaller lots, and often improved with owner-occupied, single business/tenant

buildings, having lesser emphasis on exposure, appearance of improvements and patron functionality; reflecting the agrarian-based economy and small-town environment of Maui at that time.

Over the past two decades, the sector has changed dramatically; a result of the movement towards a service-based economy, the emergence of "retail warehouses", influx of mainland companies and franchises, adapting business models, trending consumer preferences, and economic realities on the island. The outcome is larger projects and structures, more multi-tenant buildings, greater ownership by investors (rather than owner-occupied), emphasis on frontage/exposure and appearance, larger parking areas and ease of access, heightened efforts to improve the customer experience and broaden appeal, and higher quality of building design and construction.

The juxtaposition of "old" versus "new" light industrial-zoned development along Dairy Road evidences the evolutionary changes in the sector. The commercial/industrial subdivision and building model of the past is not amenable to supporting prevailing business and consumer trends, and may be unsustainable under current market conditions.

At the time of its original proposed development in the early 1990s, the Maui economy (and specifically real estate) was in a major down period and the commercial/industrial market was just beginning the fundamental transformation towards the modern design. The initial conceptual plans for the Kaonoulu Industrial Subdivision reflected the historically "safe and tested" model within the context of an unstable period. From a market viewpoint, it is illogical to require that a master plan unyieldingly maintain a static design in the face of obvious evolutions, and will inevitably result in lesser economic use and output.

3. *The proposed project is a conforming use under the entitlement structure that was sought and approved.* While it may differ in appearance and tenancy types/sizes, it is consistent with the original objectives of the developer to provide commercial/industrial lands supportive of an expanding South Maui business community as allowable under the M-1 zoning ordinance. Within the context of the permitted uses under the code, the "highest and best use" of the Kaonoulu property has changed over time; a not uncommon occurrence. A re-analysis of highest and best use potentials is a standard practice when a master planned development property changes ownership prior to ground-breaking.

It is critical to the Hawaii real estate economy that there is contiguity in the understanding and application of land use/zoning laws on a long-term basis, particularly given the lengthy and costly entitlement and development process. Ownership and investments in developable land, and confidence in the market, could become compromised if approved/permitted uses under a property's zoning classification can be regularly called into question.

4. Upon development, the Piilani Promenade project will have generally similar overall density and employment levels as originally forecast for the subdivision.

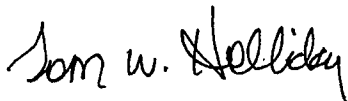
Based on the prevailing standards in the market during the approval process, the 68 gross acres underlying the proposed development would have supported some 700,000 to 800,000 square feet of commercial/industrial gross leasable floor area<sup>1</sup>.

Piilani Promenade proposes a total of circa 700,000 square feet of gross leasable floor area; consistent with the approved master plan.

Typically, retail uses have a slightly higher density of employees than industrial uses. However, outlet centers and warehouse stores have much larger than average spaces and a slightly lower employee density than other retailers, so job counts at the project should be consistent with initial estimates.

My preliminary analysis indicates the Piilani Promenade can also benefit the community by providing:

- Discount purchase opportunities for clothing and household goods by resident families creating positive consumer impacts in a manner similar to stores such as Costco, Home Depot and other major "mainland" retailers which have opened Maui locations. Not only will it increase the range of competitively-priced products available on the island, but will lower real costs for many items and serve as a bulwark against local inflationary pressures.
- A highly-desirable shopping experience for visitors, particularly the coveted high-spending, shopping-oriented Asian and Australian segments which currently comprise a minor portion of Maui tourists (less than 15 percent in 2011), but are viewed as critical over the long-term. As evidenced at Waialeale Premium Outlets on Oahu (and in Las Vegas, Southern California and elsewhere), the centers are major tourist attractions. And, given the product lines of many of these stores, they would not be in direct competition with existing visitor-oriented shops.
- The high-volume, high-turnover businesses should generate materially more in Gross Excise Taxes than alternative conforming uses of the land.



Tom W. Holliday

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<sup>1</sup> Assuming an 85 to 90 percent "net developable to gross acreage" ratio and a net building Floor Area Ratio (FAR) of .27 to .30.



## Professional Qualifications of Thomas W. Holliday (continued)

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- Major Neighbor Island Valuation Assignments
  - Mauna Lani Bay Hotel
  - Courtyard Kahului Airport Hotel
  - Maui Oceanfront Days Inn
  - Holiday Inn Express - Kona Hotel (proposed)
  - Keauhou Beach Hotel
  - Courtyard King Kamehameha Kona Beach Hotel
  - Aloha Beach Resort
  - Coco Palms Resort
  - Grand Hyatt Kauai
  - Islander on the Beach
  - Waimea Plantation Cottages
  - Coconut Beach Resort
  - Sheraton Maui Hotel
  - Outrigger Wailea Resort Hotel
  - Maui Lu Hotel
  - Coconut Grove Condominiums
  - Palauea Bay Holdings
  - Wailea Ranch
  - Maui Coast Hotel
  - Westin Maui Hotel
  - Maui Marriott Hotel
  - Waihee Beach
  - Kapalua Bay Hotel and The Shops at Kapalua

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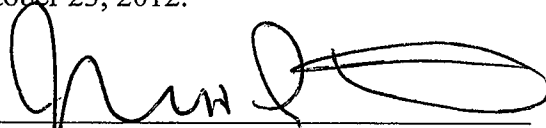
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Dated: Honolulu, Hawai'i, October 23, 2012.

A handwritten signature in black ink, appearing to read 'Clifford J. Miller', written over a horizontal line.

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