CHAPTER 21

COST OF HOUSING

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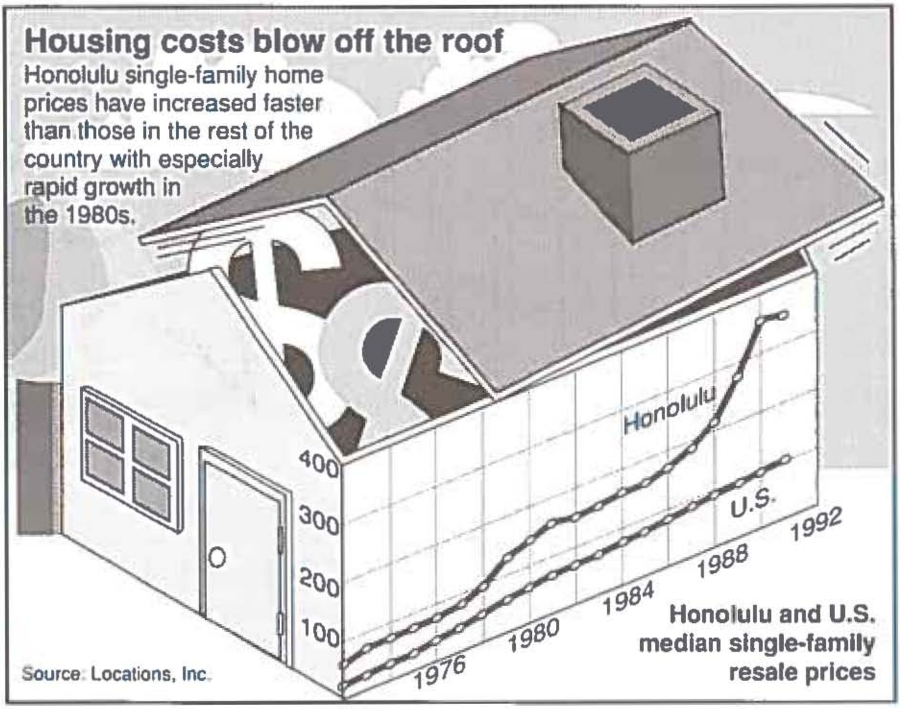
"Can government make housing affordable?"

Between 1986 and 1990, housing prices in Honolulu soared to unbelievable heights. The median price of a single-family home in Honolulu rose from $159,700 to $345,000, and of a condominium apartment from $90,000 to $190,000. It became apparent to many low-income and middle-income families that they would never become homeowners as long as they lived in Honolulu. This incredible increase in housing prices across the entire range of the market provoked loud calls for state and city governments to take action. Predictably, politicians of all stripes responded by promising to provide more affordable housing.

Is it possible for new government policies to reduce housing prices in Honolulu? The answer is both "Yes" and "No." Yes—better government policies can accelerate housing development and reduce median prices. No—prices in Honolulu are likely to remain significantly higher than in most mainland cities regardless of the government's housing policies.

Primary reasons. Why aren't Las Vegas or even Seattle prices possible in Honolulu? Here are the primary reasons:



First, the obvious. Oahu is an island with a restricted amount of land onto which the city can expand. Much of its 380,000 acres is unusable for housing because of the island's two mountain ranges. The Pacific Ocean is, of course, the main barrier to Honolulu's expansion. University of Hawaii Professor Louis Rose compared housing prices in major U.S. cities and found that land scarcity is a major factor in skyrocketing housing prices. Out of 40 major U.S. cities studied, Honolulu has the least land potentially available for housing.

Second, housing prices are usually higher in cities where the quality of life is better. This is simply a reflection of supply and demand dynamics. Honolulu has many desirable qualities: clean air, clean water, warm winters and moderate summers, beautiful forests and mountains, spectacular views, a culturally diverse population, a wide spectrum of interesting restaurants and a varied night life. No place is right for everyone but, aside from the high cost of living, Hawaii is most people's idea of paradise. Even those (like me) who believe Honolulu's quality of life has slipped a bit over the past decade generally agree that it has slipped less here than elsewhere.

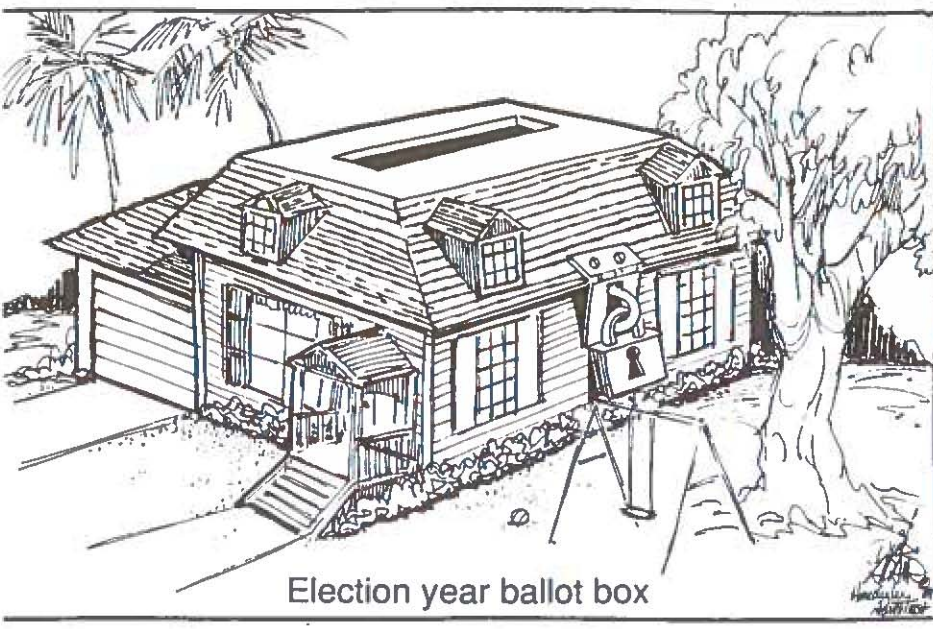
Third, the flow of tourists to Hawaii keeps increasing. The past decade was a period of spectacular growth for the tourism industry. Most experts believe that tourism will continue to grow, albeit at a slightly lower rate, as long as the islands' beautiful environment is conserved. If residents believe that future tourism growth will generate higher salaries for Hawaii's workers, then they will be willing to pay a higher price for a house or condo. They reason that their salaries will rise sufficiently to handle the debt burden. Of course, when individuals are willing to pay more, higher housing prices are no surprise. Again, we find simple supply and demand dynamics at work.

Fourth, Japanese investment has pushed up housing prices in Kahala, Waikiki, and nearby residential areas into which bought-out residents relocated. While the early 1990s slowdown in the Japanese economy could prompt some liquidation of investments, most experts anticipate that Japanese investors will continue to purchase homes in Honolulu. They predict that an increase in the number of investors from Hong Kong, Korea, Taiwan, Thailand and other countries will also push up Honolulu's housing prices.

Fifth, construction costs in Hawaii tend to be higher than on the Mainland. The reasons include: high shipping costs (largely because the federal Jones Act requires the use of expensive U.S.-built ships and crews between U.S. ports); high inventory costs (partly because of high land costs, but mostly because the distance from suppliers forces retailers to keep inventory levels extra high); Hawaii's relatively small population (which prevents certain economies of scale and, in many cases, results in a lack of competition); trade unions (which control the supply of construction workers); state licensing requirements (which restrict the entry of new contractors); excise taxes (which add about 5.5 percent to the cost of construction material); and, government exactions (such as the "60 percent-affordable-housing" and "one job for one new hotel room" programs). Most of these factors are beyond our control and the others are not likely to change soon.

Some forces pushing up prices could change at any time. Japanese investment could fall markedly; the clean, warm ocean waters off Waikiki could become polluted; workers' expectations of higher future incomes could change if other tourist destinations take off in popularity; and depletion of the ozone layer could conceivably make people leery of sun-drenched vacation spots.

Expectation and a ray of hope. My expectation is that housing prices here will remain much higher than on the Mainland as long as Honolulu retains its unique beauty, environment and cultural attractions. Mainland housing prices will only be attainable in the platforms of political parties.



Election year ballot box

There is, however, a ray of hope. A change in government housing policies could lead to lower housing prices, although not to mainland levels. To understand what these changes would be like, one must first understand the present situation.

The regulation of housing development in Honolulu is uniquely centralized. Most mainland urban areas are under numerous competing jurisdictions. The average has 72 governments. The New York City area has 360 and Chicago, 347. By contrast, Honolulu has just one local government. On the Mainland, if a single government in an urban area adopts a zoning policy that restricts housing development, prices change very little. Housing expands in another nearby jurisdiction with a less restrictive zoning policy. In Honolulu this can't happen. There are no other local jurisdictions.

Government monopoly. Not only does Honolulu have a monopoly on local government, but two agencies—the State Land Use Commission and the Honolulu City Council—have veto power over virtually any proposed development. If either agency dislikes a project, it's dead.

This structure has enabled government to pursue policies that have dramatically increased the cost of housing. First, only a small amount of island land has been zoned for urban use. The government has failed to approve numerous proposed housing projects and put fatal roadblocks in the way of other developments. Second, it has enacted regulations significantly increasing the cost of building new housing. For example, Honolulu's development plan, comprehensive zoning code, subdivision code, grading code and building code all impose heavy costs on developers. The existence of these rules and regulations means that developers must incur the cost of multiple studies, infrastructure to meet subdivision ordinances and project-design changes as mandated by government. In addition, the cost of resulting project delays—and there tend to be many—are considerable. Developers expect to take at least four to six years just to get the necessary approvals.

Why has government done this? Wouldn't approving more projects be politically popular? Defenders of the status quo argue that a heavy hand has been necessary to preserve Honolulu's pristine environment and relatively high quality of life. Certainly this is a partial explanation but one that, frankly, rings hollow.

For a full explanation, one must consider who has benefitted. Besides reading Cooper and Daws' *Land and Power in Hawaii*, note that homeowners gain from high housing prices. Any policy action to reduce housing prices would impose capital losses on current owners. Since homeowners are more likely to vote in state and county elections as well as to contribute money to politicians, don't look for more housing development tomorrow. Instead look for politicians to adopt band-aid programs, such as the 60 percent-affordable-housing require ment discussed in the Affordable Housing Requirement chapter. They may enable some middle-income families to become homeowners, but do nothing to expand the overall supply of housing.

In summary, high housing prices result from a number of factors, including unenlightened regulation that has helped current homeowners at the expense of everyone else. We can improve on our current institutions governing the housing market and achieve lower prices, but we should also beware of utopian proposals for mainland housing prices. Such proposals are good political rhetoric but are unattainable.

"WELL, THERE IT IS, AS PROMISED—
AFFORDABLE HOUSING."

THE HOUSING CRISIS

No issue before the Legislature today concerns more of Hawaii's people than that of housing.

The facts make dismal reading, so dismal perhaps that too many people in and out of government have too long ignored them:

- Prices for house sites in Hawaii are not only the highest in the nation, they have been reported as three times the national average.

- Not only do we have a shortage of low-income public housing, there are 36,000 Oahu families in the so-called "gap groups"— making too much to qualify for public housing but not earning enough to finance commercial mortgages . . .

- Home construction has fallen far behind need—10,000 units per year by one estimate . . .

The sum of all this is the word "crisis"—but as we have said before, the kind of crisis that has been so bad and with us so long we tend to forget it.

ONE OF THE FEW hopeful signs is that officials at the new State Capitol are aware and hopefully determined to do something about it . . .

The latest is the bipartisan proposal [that] . . . would establish a new State department of housing and urban affairs to run all State housing and land reform functions, along with starting important new programs to stimulate more and cheaper housing. . .

[The *Honolulu Advertiser*, March 23, 1969]

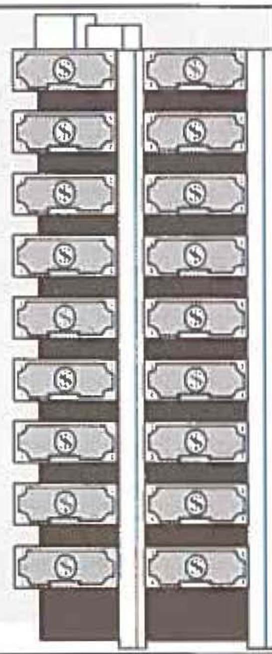
Highest rents

Apartment rents in Honolulu are the highest compared to other U.S. cities.

Location	Monthly rental costs	Index
Honolulu	$1,015	241.7
San Francisco	$772	183.7
Boston	$752	179.0
San Jose	$740	176.2
Washington, D.C.	$737	175.4
New York	$736	175.2
Los Angeles	$681	162.1
Chicago	$623	148.4
Hartford	$585	139.3
San Diego	$570	135.7
Standard City, USA	$420	100.0

The annual rental values shown in the above table are based on an 800-square-foot, 3-room, 1-bedroom, 1-bath rental unit. This accommodation is typical for a single renter earning $25,000 in annual income at Standard City, USA.

Source: Runzheimer International.



High rising rents

Honolulu apartment rents have increased faster than those in the rest of the country with especially rapid growth in the 1980s.