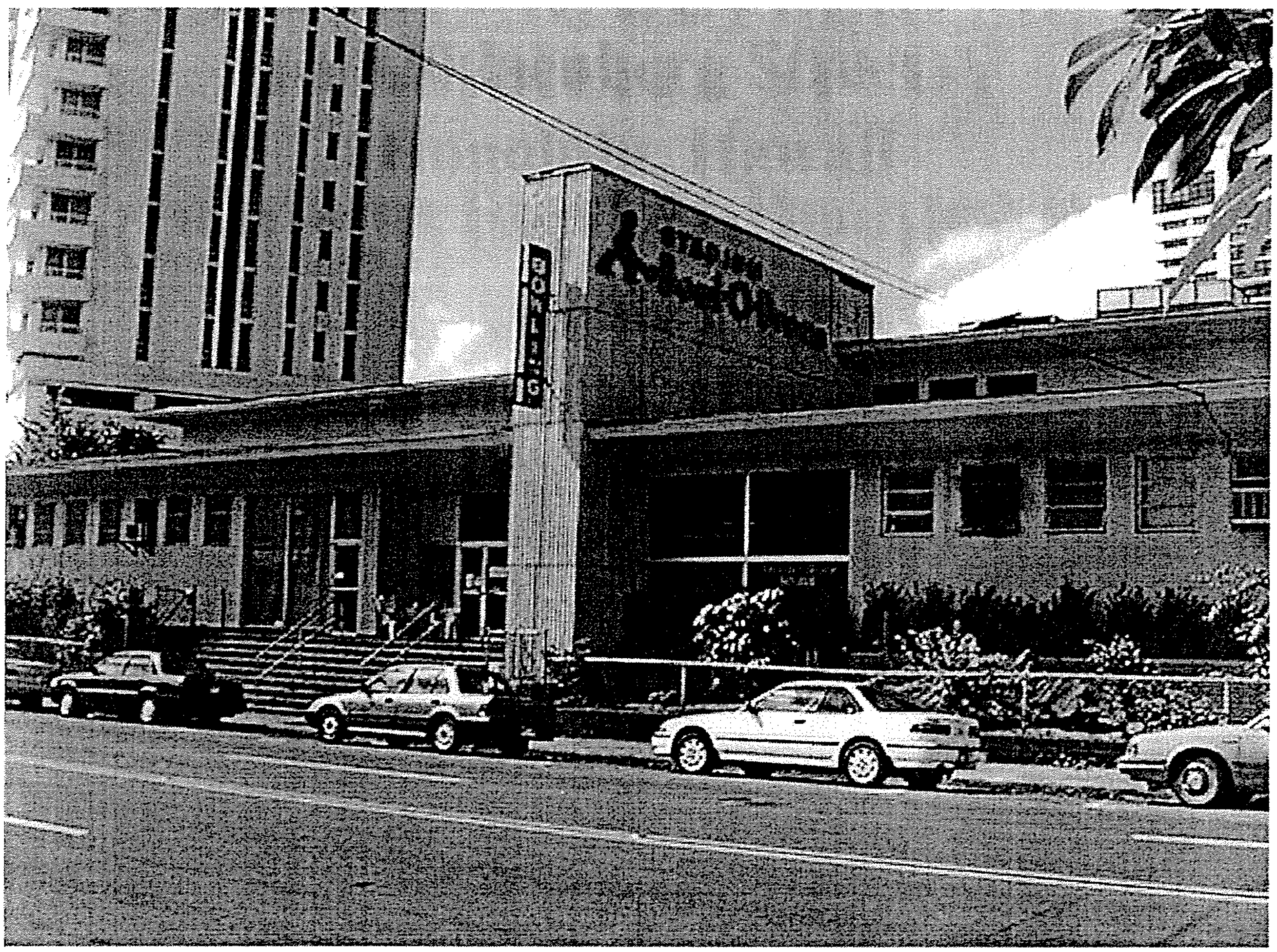
RESIDENTIAL DEVELOPMENT FEASIBILITY STUDY

Stadium Bowl-O-Drome Site

820 Isenberg Street
Honolulu, Hawaii



May 2000

RESIDENTIAL DEVELOPMENT FEASIBILITY STUDY

Stadium Bowl-O-Drome Site

820 Isenberg Street
Honolulu, Hawaii

For: State of Hawaii
Department of Hawaiian Home Lands

By: Townscape, Inc.
900 Fort Street Mall, Suite 800
Honolulu, Hawaii 96813

MAY 2000

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1.0

STUDY OBJECTIVES, FINDINGS & CONCLUSIONS

1.0 STUDY OBJECTIVES, FINDINGS & CONCLUSIONS

1.1 Study Objectives

The Department of Hawaiian Home Lands (DHHL) is considering the development of for-sale multifamily housing as an alternative product to meet the needs of its beneficiaries on the Oahu homestead waiting list. However, neither the demand for for-sale multifamily housing among DHHL applicants, nor the "affordability" – in terms of purchase price or development costs – has been researched or assessed.

Townscape, Inc. (TSI) was retained to undertake and coordinate such a study for the Stadium Bowl-O-Drome site at 820 Isenberg Street, Honolulu, Oahu. This feasibility study was intended to provide DHHL with information to evaluate the viability of redeveloping the Bowl-O-Drome property (Figure 1-1) as for-sale multifamily housing. This study examined multifamily housing use of the site in various configurations. Although not within the scope of this study, DHHL is evaluating other alternative uses – commercial/retail, office building, etc. -- as part of an overall decision on the future use of the Bowl-O-Drome property.

This feasibility study analyzed the following major elements:

- Depth of market demand among DHHL homestead applicants for for-sale multifamily housing in Moiliili, and beneficiaries' opinions of DHHL developing multifamily housing;
- Alternative development schemes for the Bowl-O-Drome site that would meet beneficiaries housing needs and preferences, and an evaluation of the viability of a commercial component;
- Development cost scenarios with DHHL as the developer and with a "for-profit" private developer;

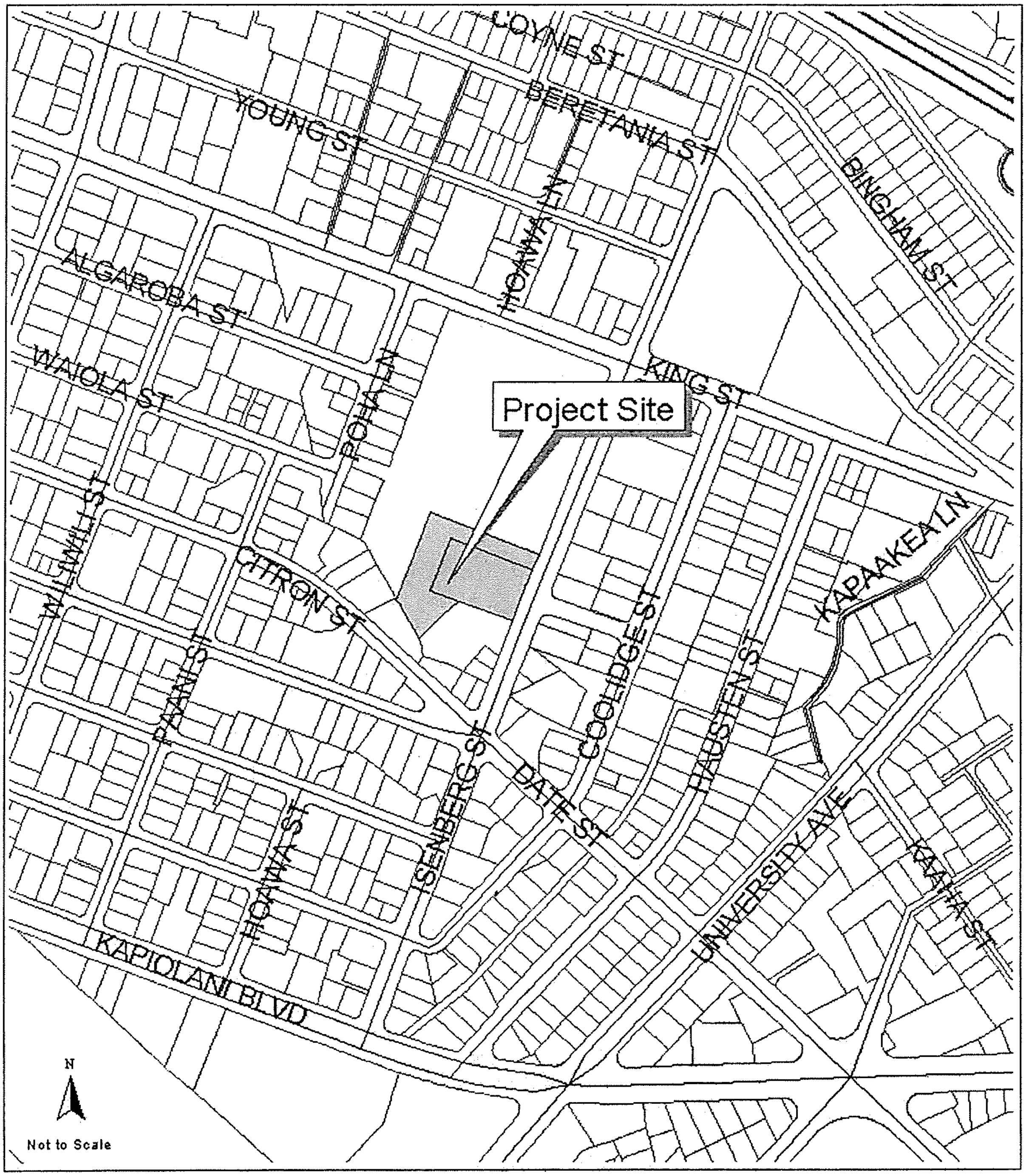


Figure 1-1
PROJECT LOCATION MAP
DHHL Bowl-O-Drome Feasibility Study

For: Dept. of Hawaiian Home Lands
By: Townscape, Inc.
May 2000

1.2 Key Findings

1. Market Demand

   About 200 of the approximately 6,500 DHHL applicants on the Oahu waiting list would meet DHHL's financial qualification criteria, and would also be interested in purchasing a multifamily housing unit in Moiliili.

2. Beneficiaries' Opinion of DHHL Developing Multifamily Housing

   About 30 percent of those surveyed responded positively when asked if it is a good idea for DHHL to build multifamily developments. However, the primary reason for supporting multifamily housing was because respondents assumed that a multifamily unit would be more affordable than a single-family house, that qualification would be easier, and that more people would be taken off of the waiting list. About 50 percent expressed negative feelings, citing a preference for land and a single-family house.

1.3 Conclusions

1. Multifamily Housing Affordability

   The Bowl-O-Drome development prototypes focused on 2- and 3-bedroom units priced from about $80,000 to $135,000 to best fit the income levels of "qualified/interested" homestead families that would potentially purchase a multifamily unit in Moiliili or Makiki – 70 percent of whom earn between $30,000 to $49,000 per year. The preliminary development costs analysis, however, concluded that multifamily housing units at the Bowl-O-Drome site would not be significantly less expensive than typical single-family houses that are constructed for DHHL housing projects, and, depending on the building type, multifamily could be more expensive on a per interior square footage basis.

   Four different residential development configurations were developed with such factors in mind as affordable unit prices for lower income beneficiaries, beneficiaries' housing preferences, and development costs.

Building Type	No. of Units	Average nsf/Unit	Unit Price Range*
Walk-up "Flat" 3-story	69 units	800 nsf	$78,000 – $135,000
Mid-Rise Apartment 5-story	87 units	1,100 nsf	$126,000 - $168,000
High-Rise Condominium 10-story & Office/Retail	126 units 64,200 sf	850 nsf	$118,000 - $211,000
Townhouse 2-story	35 units	1,100 nsf	$110,000 - $165,000

* Prices required to cover allocated housing development costs to be borne by homebuyer. Unit prices do not include site development costs to be borne by DHHL.

2. Multifamily Housing Demand Among Oahu DHHL Applicants

Of the total survey respondents, approximately 33 percent (representing 2,137 of the total 6,476 on the Oahu waiting list) met the financial qualifications criteria as defined by DHHL. Approximately thirteen percent of those "financially qualified" respondents (representing 278 of the waiting list) were interested in a multifamily unit at the Bowl-O-Drome site. It has been DHHL's experience that at the most 60 percent of the "qualified and interested" buyers of a single-family house (in this case representing at most 168 on the waiting list) complete the final loan qualification stage and actually close on the purchase of a home.

Applying this "drop-out" rate to the survey respondents who were "qualified and interested" in the Bowl-O-Drome site, at the most only two percent of persons on the Oahu "waiting list" would qualify for the final loan and close on the purchase of a multifamily housing unit at this site.

3. Commercial Market

Development of commercial/retail or office space as a mixed-use component of a multifamily development at the Bowl-O-Drome site would not produce a high enough economic return to subsidize development costs of the residential units. Based on market research of the Moiliili and McCully area commercial centers, lease rents at the Bowl-O-Drome site would have to be above market rates in order to carry the debt load of a new building, and lease-up of new office spaces could take years.

4. Development Costs

   If DHHL were to develop the multifamily housing units itself, only the "Flats" (Option A) or "Townhouse" (Option D) schemes appear feasible to develop within the recommended unit pricing levels for lower income beneficiaries. However, if an outside "for-profit" private developer is used, the additional financing costs and estimated profit margin make all four development scenarios unfeasible at the recommended unit pricing levels.

2.0

STUDY METHODOLOGY

2.0 STUDY METHODOLOGY

Townscape, Inc. completed an assessment of existing conditions, including infrastructure availability, reviewed applicable development regulations, and conducted a field reconnaissance of the property and surrounding neighborhoods. TSI was also responsible for the direction and coordination of three sub-consultant studies that were necessary to establish and analyze the following site feasibility study elements:

2.1 Market Demand Survey

SMS, Incorporated (SMS) conducted a telephone survey of 503 randomly selected DHHL applicants on the Oahu residential homestead awards waiting list. The survey asked a series of questions to identify "qualified" applicants – those whose responses met DHHL pre-selected financial variables. To measure demand for for-sale multifamily housing, the survey asked a series of questions regarding applicants' interest in DHHL providing for-sale multifamily housing, and the applicant's relative interest among four proposed multifamily development sites: Moiliili (Bowl-O-Drome), Makiki, Waianae, and Kapolei. The survey was designed with substantial input from DHHL and TSI. The results of the survey were analyzed and compiled in SMS's report entitled, "A Report on Multi-Family Demand Study Among DHHL Applicants" (December 1999).

2.2 Alternative Development Configurations

Design Partners Incorporated (DPI) developed seven different housing schemes and one mixed-use scheme for the Bowl-O-Drome site based on input from DHHL, the survey results, existing site conditions, and various market factors. Rough development costs and per unit cost estimates were prepared to generally "test" whether a multifamily unit's cost would be within reach of the beneficiaries' budgets. The eight alternatives were narrowed down to four.

2.3 Market Feasibility Analysis

Mikiko Corporation's (MC) affordability analysis (Phase 1 Report) identified the range of "affordable" unit prices for those beneficiaries whose annual incomes were $30,000 to $49,999, and were "qualified and interested" in buying multifamily housing in Moiliili or Makiki.

MC also prepared a development costs analysis (Phase 2 Report) for the four alternative configurations at the Bowl-O-Drome site. That report analyzed the economic feasibility of each alternative in terms of development costs and returns for two developer scenarios: 1.) DHHL as the developer, and 2.) a private "for-profit" developer.

3.0
EXISTING CONDITIONS

3.0 EXISTING CONDITIONS

3.1 Bowl-O-Drome Site and Neighborhood Setting

The Department of Hawaiian Home Lands (DHHL) owns the fee simple interest in the Stadium Bowl-O-Drome property located at 820 Isenberg Street in Honolulu, Island of Oahu, State of Hawaii. The site is comprised of two parcels totaling 82,493 square feet (Figure 3-1):

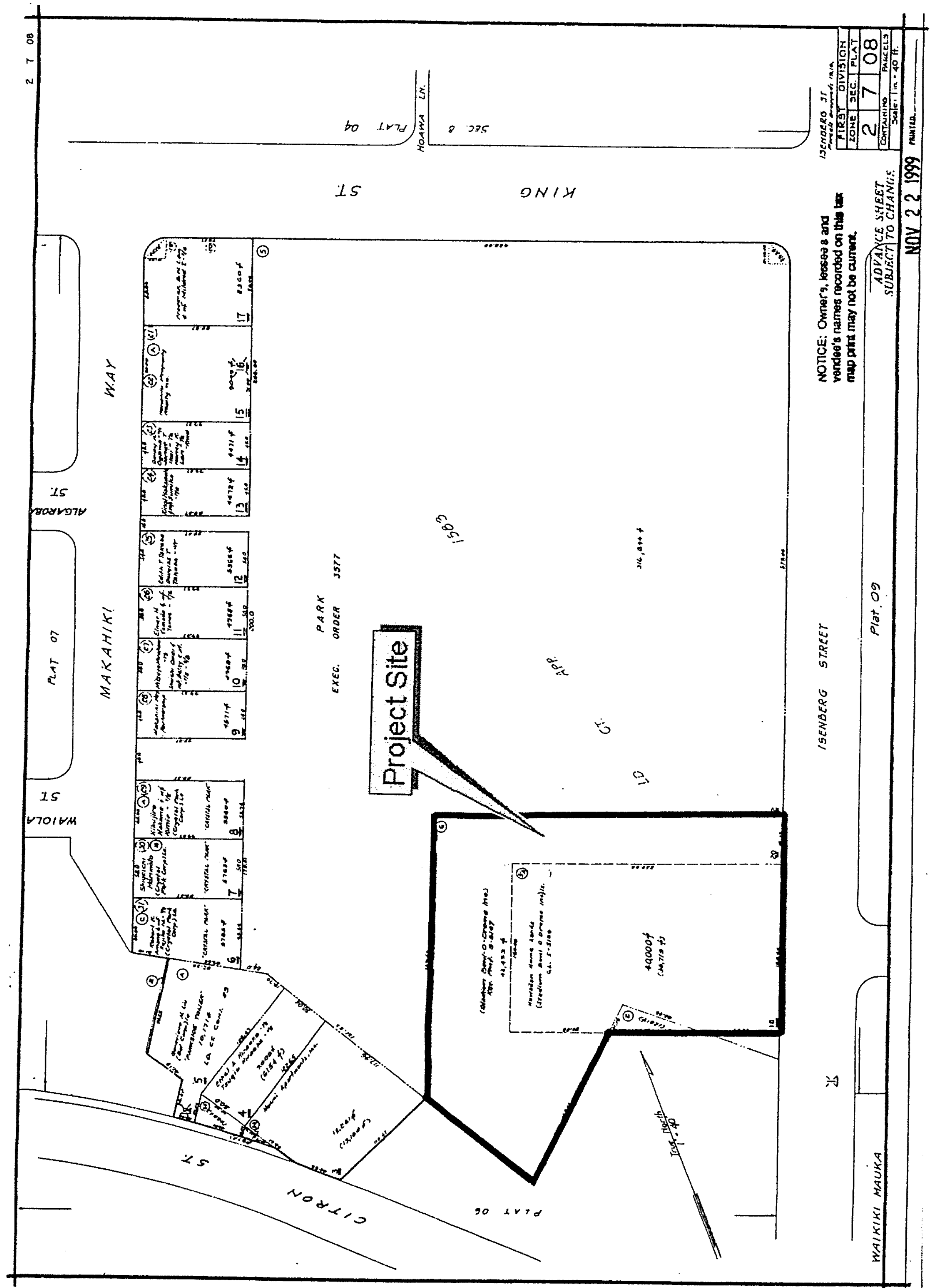
- Parking lot TMK 2-7-08: 20 42,493 square feet
- Building lot TMK 2-7-08: 18 40,000 square feet

The property contains a 22,346 square foot 24-lane bowling facility constructed in 1956. The former lessee's - Stadium Bowl-O-Drome, Inc. - last day of operation was December 31, 1999. In addition to the bowling area, the lessee operated a restaurant, bar, pro-shop and offices. The building, at the time of this report, was vacant.

The site is located within the Moiliili district of Honolulu. The surrounding area is characterized by a variety of urban uses including mid- and high-rise apartment buildings, single family houses, retail and office commercial, and the adjacent public Stadium Park which borders the site on its north and west property lines. Along the property's south boundary is a high-rise apartment building. (The 2000 Legislature has requested that DHHL keep the community informed of redevelopment plans for the Bowl-O-Drome property due to its visible location near the King Street corridor and adjacency to Stadium Park.)

The Bowl-O-Drome site fronts Isenberg Street which accommodates four-lanes of traffic through a residential neighborhood, and has on street parking on both sides of the street. Compared to the commercial centers and strips located along King Street, commercial use at the Bowl-O-Drome site would not have as much drive-by exposure and frontage visibility due to the property's location along and orientation towards the middle of a generally residential street.

Figures 3-2 and 3-3 on the following pages contain photographs of the property.



For: Dept. of Hawaiian Home Lands
By: Townscape, Inc.
May 2000

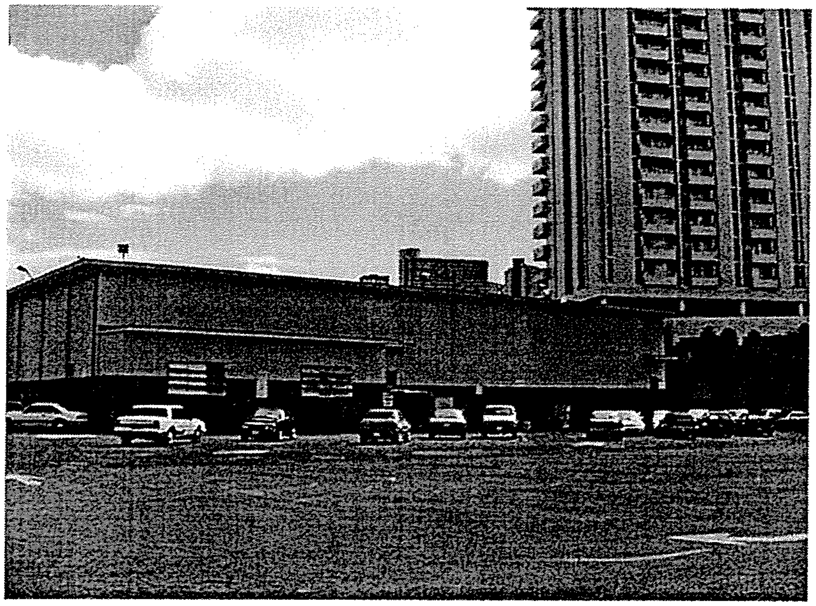
Figure 3-1
PROJECT SITE TMK MAP
DHHL Bowl-O-Drome Feasibility Study

View of Stadium Bowl-O-Drome building entrance fronting Isenberg Street.

Bowl-O-Drome parking lot entrance off of Isenberg Street.

Figure 3-2
PROJECT SITE PHOTOGRAPHS
DHHL Bowl-O-Drome Feasibility Study

For: Dept. of Hawaiian Home Lands
By: Townscape, Inc.
May 2000



View of the back of Bowl-O-Drome building. Note high-rise apartment building to the right.

View of Bowl-O-Drome building parking lot extending behind the building.

Figure 3-3
PROJECT SITE PHOTOGRAPHS
DHHL Bowl-O-Drome Feasibility Study

For: Dept. of Hawaiian Home Lands
By: Townscape, Inc.
May 2000

3.2 Land Use Designations and Development Regulations

The table below summarizes the land use ordinances and designations that may affect redevelopment of the Bowl-O-Drome site. The existing bowling alley building and use, although not consistent with the P-2, General Preservation zoning designation for the property, are allowed due to grandfathering. The properties surrounding Bowl-O-Drome are zoned A-2 Medium Density Apartment to the south, and BMX-3 Business Mixed Use to the north along the King Street corridor. The Stadium Park is zoned P-2, General Preservation. Although DHHL does not have to adhere to City zoning regulations, it is in fact DHHL's general policy to follow City development standards.

TABLE 3-1

LAND USE DESIGNATIONS / DEVELOPMENT REGULATIONS

State Land Use:	Urban
City & County Development Plan:	Parks and Recreation
City & County Zoning:	P-2, General Preservation
<u>P-2 Development Standards</u>:	
- Minimum lot area	5 acres
- Maximum building height	15 feet, with 25 feet height setbacks
- Maximum building area	5 percent of zoning lot or 4,125 square feet
Federal Flood Insurance Rate Map (FIRM):	Zone X: Areas determined to be outside 500-year flood plain
Special Management Area (SMA)	Not located in SMA

3.3 Infrastructure

The Bowl-O-Drome property is fully serviced by public utilities. A list is provided below:

Utility	Service Provider	Isenberg Street Infrastructure
• Water service	Board of Water Supply	12-inch and 30-inch mains
• Sewer service	Dept. of Facilities Maintenance	8-inch main
• Gas service	The Gas Company	3 / 4-inch main
• Electricity	Hawaiian Electric Company	overhead lines
• Telephone	GTE Hawaiian Tel	overhead lines

3.3.1 Sewer Capacity

According to the City Department of Design and Construction (DDC), a potential constraint on new development within the Moiliili area is the limited capacity of the existing pump station in Waikiki and the sewer lines from the McCully, Moiliili, Lower Manoa and Kapahulu areas that connect into it. However, there is no moratorium on new sewer hook-ups in the Moiliili area.

It is recommended that an application for a sewer connection be submitted to the City Department of Planning and Permitting in order to identify potential sewer system deficiencies. The City would compare DHHL's proposed scope for a multifamily housing development with the existing level of system demand created by Bowl-O-Drome. If the City determines that the system demand of the new development is acceptable, a sewer connection permit could be issued prior to the City's 6-Year Capital Improvement Program planned system improvements. Projected timing for these system improvements is to initiate design in 2001 and start construction in 2004.

3.3.2 Water Capacity

The existing potable water source, storage and transmission facilities for the Moiliili area are adequate for current levels of use. Redevelopment that does not significantly increase potable water demand will probably not require upgrades to the source, storage or transmission facilities. According to the Board of Water Supply (BWS), there are currently no identified water distribution problems in the Moiliili area. The distribution system is generally upgraded only if there is a break or leak in the water lines, or if the system does not provide adequate fire protection.

To confirm that sufficient water capacity is available for redevelopment of the Bowl-O-Drome site, it is recommended that a request with the pertinent proposed development scope be submitted to the BWS. Typically, the BWS would assess a facilities charge for the number and type of water fixtures within a development at the building permit stage.

3.3.3 Drainage Capacity

The underground drainage system in the Moiliili area ultimately discharges into the Ala Wai Canal. Because of the existing level of development in the area and the Bowl-O-Drome's existing impervious surfaces (building and paved areas), significant impacts on the drainage system are not anticipated with redevelopment of the property as multifamily housing.

3.3.4 Circulation and Parking

The Bowl-O-Drome site fronts four-lane Isenberg Street which has on-street parking on both sides of the street. The existing right-of-way is seventy feet and according to the City Department of Planning and Permitting, no additional setbacks are required. Isenberg Street intersects with King Street approximately 600 feet north of the Bowl-O-Drome site and with Date Street about 300 feet south of the property. Both intersections are controlled by four-way stoplights.

4.0

MARKET DEMAND OF DHHL APPLICANTS

4.0 MARKET DEMAND FOR MULTIFAMILY HOUSING AMONG DHHL OAHU APPLICANTS

4.1 Market Demand Study Objectives

In October 1999, SMS, Inc. conducted a telephone survey of 503 randomly selected Department of Hawaiian Home Lands (DHHL) applicants who are on the waiting list for Oahu residential homestead awards. The study's complete findings are contained in SMS's report entitled, "A Report on Multi-Family Demand Study Among DHHL Applicants" (December 1999). The general purpose of the survey was to identify the extent of demand for for-sale multifamily housing, and the preferences and concerns of those who might possibly occupy a DHHL multifamily housing project. More specifically, the questions were designed to gather information that would meet the study's primary objectives to:

- Quantify demand for for-sale multifamily units among Oahu DHHL residential applicants by location of potential DHHL multifamily housing developments:
  Moiliili: high-rise condominium building on Bowl-O-Drome site
  Makiki: mid-rise building or townhouse off Prospect Street by Punchbowl
  Waianae: townhouse complex near Waianae Comprehensive Health Center
  Kapolei: townhouse complex
- Identify beneficiaries' needs and preferences as they relate to multifamily living; and
- Record opinions of beneficiaries regarding DHHL's concepts for the development of multifamily housing.

4.2 Multifamily Housing Market Demand Findings

Market demand among DHHL's Oahu beneficiaries for for-sale multifamily housing units at the Bowl-O-Drome Site was measured on the basis of two general characteristics: 1.) "financial qualifications", and 2.) "interest" in purchasing a multifamily housing unit. The telephone survey asked a series of questions related to these characteristics to arrive at the number of "qualified interested applicants".

Of the total 503 survey respondents, 168 people (approximately 33 percent of those surveyed) met the following financial qualifications criteria as defined by DHHL:

1. Whether or not they would be interested in buying a 2 or 3 bedroom multifamily unit on DHHL land with a monthly mortgage payment of about $800 per month; ($800 was the approximate minimum monthly mortgage payment estimated to buy a multifamily unit on DHHL land)
2. That they have some savings – amount unknown, but not zero; and that the
3. Current annual applicant income – or, if married, applicant and spouse incomes – must be at least $20,000.

Table 4-1 summarizes the responses of the 168 "financially qualified" applicants when asked whether they would be interested in buying a multifamly unit as a homestead award at one of the four potential sites. Survey respondents were given the choice to answer "YES", "MAYBE", "NO" or "DON'T KNOW", and to explain why. The total of those who answered "YES" are listed in the left hand column ("conservative estimate"). The total of those who answered "YES" and "MAYBE" are listed in the right-hand column ("liberal estimate").

TABLE 4-1

"Qualified Interested" Applicants' Relative Interest Among Potential Sites

POTENTIAL SITE	"Willing to buy..." Answered "YES"	"Willing to buy..." Answered "YES" and "MAYBE"
Moiliili: high-rise condominium	17 (209)	28 (343)
Makiki: townhouse	17 (209)	33 (405)
Makiki: mid-rise condominium	17 (209)	31 (380)
Waianae: townhouse	7 (86)	12 (147)
Kapolei: townhouse	19 (233)	30 (368)

* Numbers in parenthesis () are an extrapolation of survey responses to DHHL's 10-01-99 Oahu applicant list.

Respondents were relatively equally interested in the Moiliili (Bowl-O-Drome) site as they were in the Makiki site options, although a few more people were willing to respond "MAYBE" to the Makiki location. Waianae drew the least amount of interest, and Kapolei had the most number of survey respondents who answered "YES".

When extrapolated to DHHL's Oahu residential list of 6,476 individuals (as of October 1, 1999), the 17 to 28 "qualified interested applicants" in a multifamily housing unit at the Bowl-O-Drome site translates to approximately 209 (conservative estimate) to 343 individuals (liberal estimate) who could be potential buyers, or 3% to 5% respectively of those on the list.

It should be noted that it has been DHHL's experience that a low percentage of those on the wait list - about 5% for the Waimanalo Residence Lots and 8% for the Princess Kahanu Estates - actually received loan approval status and/or close the sale on the purchase of a single family housing unit. Both projects were for-sale single-family homes (a few self-help house lots in Waimanalo) with house prices ranging from $78,700 - $146,900 at Princess Kahanu Estates, and $108,850 - $143,200 at Waimanalo Residence Lots. At the time of this writing, data were not available for the Kalawahine project as closings were still taking place.

4.3 Beneficiaries' Housing Needs and Preferences

The survey also identified some of the beneficiaries' household characteristics that have planning implications in terms of property design, unit pricing, and marketing such as:

- Potential buyers tended to have large families and preferred a unit with at least three bedrooms and two bathrooms.
- Many of the potential buyers showed interest because they assumed that a multifamily housing unit would be more affordable than a single-family house.
- The urban locations of Makiki and Moiliili developments had a strong appeal among the applicants.
- A large majority of potential buyers would not initially be looking to buy a multifamily housing unit.
- The interest in buying was more strongly influenced by the location of the applicant's current residence than the area in which they thought they wanted to live.

Section 5.0 of this report contains a discussion of four alternative housing schemes. The conceptualization of those alternatives took into consideration the survey's findings on household characteristics, and housing preferences, as well as the existing housing types in the Bowl-O-Drome area.

4.4 Beneficiaries' Opinions of DHHL's Multifamily Housing Development Concepts

About 30 percent of the overall survey respondents responded positively when asked whether they thought it would be a good idea for DHHL to build multifamily housing (townhouses and high-rise condominium buildings). People responded positively primarily because they thought that multifamily units would be more affordable than single-family homes, so qualification would be easier and more people could be taken off the waiting list. However, the preliminary development costs analysis in Section 6.3 concludes that multifamily housing units at the Bowl-O-Drome site would not be significantly less expensive than typical single-family units that are constructed for DHHL housing projects.

About 50 percent of all respondents expressed negative feelings about the idea of DHHL building multifamily housing. However, the strength of that resistance was not overwhelming. The strongest reasons for not supporting DHHL's effort to build multifamily housing was because applicants preferred a single family home – they expressed a need for land and yard space - and having neighbors within close proximity was considered a negative aspect of multifamily living. Because many of the potential buyers' family units are large and include children, they also expressed concerns regarding the safety and size of multifamily developments.

Beneficiaries were also asked about their position on DHHL developing kupuna multifamily rental housing. Over 70 percent of the respondents thought it was a good idea, however, some said they would support it only if it is affordable, safe and secure, or geared toward kupuna who need assistance. The primary reason given for opposing kupuna multifamily rental housing was that the respondents felt that the kupuna deserve to own a home and deserve better than rental housing. The second most frequent reason given for not supporting kupuna rental housing was that a high-rise type of development was not considered good or safe for kupuna.

4.5 Survey Highlights

Demographic and preference highlights of the 503 survey respondents are summarized below:

- **Income**

Income	Married (%)	Not Married (%)
Don't know / refused	7.6%	8.2%
less than $10,000	3.4	19.0
$10,000 - $19,999	10.4	22.4
$20,000 - $29,999	13.8	23.8
$30,000 - $39,999	19.1	11.6
$40,000 – $49,999	14.6	6.8
$50,000 - $59,999	10.1	4.1
$60,000 - $64,999	11.0	2.7
$75,000 - $99,999	6.7	1.4
$100,000 or more	3.4	0

- **Amount of Savings**

Married	49.2%	less than $5,000
Not Married	56.5%	less than $5,000

- **Current Residence Ownership**

Rent	48.1%
Own	42.1%

- **Current monthly shelter costs**

Current monthly shelter costs	Rent	Mortgage (incl. maintenance fees)
Less than $200	5.0%	7.1%
$200 - $499	16.1	7.1
$500 - $799	40.5	13.2
$800 – $1,099	22.3	17.0
$1,100 – $1,399	9.5	12.7
$1,400 - $1,999	2.9	18.9
$2,000 or more	1.2	14.6
Don't know/refused	2.5	9.5

- **Number of people in Homestead Family (including respondent)**

1	5.6%
2	15.3%
3	20.3%
4	22.5%
5	15.3%
6	9.9%
7	5.4%
more than 7	5.8%
refused	0.8%

- **Number of**

Number of	Bedrooms wanted	Bathrooms wanted
1	0.4%	6.2%
2	6.6%	72.0%
3	34.4%	18.9%
4	43.3%	1.6%
5	10.3%	0.2%

- **Preferred area of living**

Honolulu	23.3%
Windward	36.0%
Leeward	34.6%
other areas	6.2%

5.0

ALTERNATIVE DEVELOPMENT CONCEPTS

5.0 ALTERNATIVE DEVELOPMENT CONCEPTS

Following the completion and preliminary analysis of the telephone survey results, the feasibility consultant team met with the Department of Hawaiian Home Lands (DHHL) to review their development objectives – multifamily housing and commercial space - for the Bowl-O-Drome site. The team was directed to fully "test" the feasibility of developing multifamily housing, with and without commercial floor area, as well as a variety of multifamily housing types.

Eight alternative housing schemes were then developed: walk-up "flats", mid-rise multifamily with and without ground-level commercial retail space, a high-rise condominium building with commercial retail and office space, two- and three-story townhouses with and without individual yards, and single-story kupuna rental multifamily housing.

These alternatives were initially conceptualized with a number of factors in mind such as affordable unit prices for lower income beneficiaries, affordability to develop, beneficiaries' housing preferences, providing housing geared toward kupuna, and offering a housing configuration that had individual yards and garages.

The eight alternative housing schemes were evaluated based on Moiliili-area market prices for certain housing types and commercial space, development cost feasibility, and unit price/homebuyer affordability. Four of the eight alternative schemes were identified as those most likely to be "viable" given DHHL's development objectives.

The basic development parameters and rough cost estimates of the four alternatives are summarized in Table 5-1. Site improvement costs do not include potential sewer upgrade costs. Conceptual site plans and additional cost estimate information is contained in Appendix A.

TABLE 5-1 ALTERNATIVE DEVELOPMENT CONCEPTS

	OPTION A	OPTION B	OPTION C	OPTION D
1. Building Type	"Flat"	Mid-Rise	High-Rise Condominium	Townhouse
2. Average square feet per unit	800 net sf	1,100 net sf	850 net sf	1,100 net sf
3. Avg. allocated home cost/unit and * (#4 / #10.) required breakeven pricing/unit	$103,559	$153,956	$160,146	$141,494
4. Housing development costs paid by homebuyers*	$7,145,600	$13,394,200	$20,178,400	$4,952,300
5. Site improvement & utilities costs paid by DHHL**	$1,572,500	$4,585,400	$10,847,100	$759,600
PER UNIT Site costs to be paid by DHHL	$22,790	$52,706	$86,088	$21,703
PER UNIT Assessed Land Value ($3.15 million)	$45,652	$36,207	$25,000	$90,000
6. Commercial development costs***			$6,941,000	
7. Rough Total Development Cost Estimate (Items #4 + #5 + #6)	**$8,718,100**	**$17,979,600**	**$37,966,500**	**$5,711,900**
8. Total Residential Floor Area	67,200 sf	114,900 sf	134,400 sf	47,390 sf
9. Total Commercial Floor Area	-	-	64,200 sf	-
10. Number of Residential Units	69 units	87 units	126 units	35 units
studio	15	0	26	0
1-bedroom	42	30	74	7
2-bedroom	12	57	26	21
3-bedroom				7
4-bedroom				0
11. Number of Parking Stalls	111 stalls at-grade	196 stalls at grade + 1 level	368 stalls - 4 levels	35 garage; 39 at-grade
12. Number of Floors	3-story residential	5 levels: 3-story res. over 1 level prkg + at-grade prkg	8 -10 levels: 4 prkg levels under - 4 comrcl - 6 res.	2-story residential plus attached garage
13. Construction Type	Framed bldg. with at-grade parking	Framed bldg. over parking structure	Concrete	Framed bldg. with attached garage

* "Homebuyer costs" include: framed building, elevator for Options B and C, and attached garage for Option D

** Site improvement costs include: landscaping, walls, signage, lighting
Site utilities costs include: sewer, water, communications, and electrical
Residential and commercial at-grade parking and parking structure costs were also included as paid for by DHHL

*** Commercial development costs include: commercial building and elevator

May 2000
Townscape, Inc.

6.0

MARKET ANALYSIS

6.0 MARKET ANALYSIS

6.1 Market Analysis Study Objectives

The objectives of Mikiko Corporation's market study were two-fold: 1.) to provide a market overview and assessment for the Bowl-O-Drome redevelopment scenarios – multifamily for-sale housing, multifamily rental housing for kupuna, and mixed use multifamily housing and commercial; and 2.) to provide a comparative financial analysis of the four alternative development scenarios outlined in Section 5.0 of this report. Mikiko Corporation utilized the findings of the SMS survey and other available data in preparing the market assessment. Additional market analysis details are contained in Mikiko Corporation's "Phase 1" and "Phase 2" reports located in Appendix B.

6.2 Market Overview and Assessment

6.2.1 For-Sale Housing Assessment

According to the SMS survey findings, approximately 70 percent of the "qualified interested" homestead families who would be willing to purchase a condominium in Moiliili or a mid-rise or townhouse in Makiki earn between $30,000 to $49,000 per year. It was concluded that the development prototypes at the Bowl-O-Drome site should focus on 2- to 3- bedroom units priced from about $80,000 to $135,000 in order to provide multifamily housing awards that are affordable to this sector of beneficiaries. DHHL could provide housing units in this price range that would offer superior value to what is available on the open market and would support those beneficiaries most in need of housing assistance, namely lower income groups.

Further analysis of unit price affordability focused on viable pricing for lower income brackets because those earning more than $50,000 per year represented only 30 percent of the "qualified interested" homestead families. Also, it would not be logical, nor would it support those beneficiaries most in need of housing assistance, for DHHL to provide multifamily homesteads at prices above what is available in the open market.

Some basic financial assumptions used in the analysis included: standard mortgage loan criteria of approximately 33 percent of monthly gross income going towards housing expenses, and a mortgage lending rate of 8 percent for a 30-year mortgage. The "best case" financial analysis also assumed that beneficiaries would utilize the Office of Hawaiian Affairs (OHA) down-payment loan program and avail themselves of the maximum $20,000 offered at 3 percent annual interest amortized over a 15-year term.

6.2.2 Commercial Market

The conceptual layout for development Option C includes four floors of commercial space facing Isenberg Street on top of a four-story parking structure. Additionally, there is a small ground floor retail space fronting Isenberg Street. Nine commercial centers in the Moiliili and McCully neighborhoods were surveyed with respect to their development characteristics and market performance to evaluate comparative market data and assess the lease-up potential of Option C's commercial square footage.

The two commercial areas within Option C offer significantly different commercial opportunities. The ground floor space is very suitable for a retail or restaurant use, depending on site layout, floor area and parking. Its strongest market potential would be as a convenience store given the subject property's adjacency to Stadium Park, the density of the surrounding residential area, and its walking distance to Iolani High School. The upper level commercial or office space may be difficult to lease given that there is no good indication of a strong demand for office space in the area. As a new building, it could have modern communications infrastructure, security and other amenities that would make it more appealing for tenants such as high-tech firms compared to the older office buildings in the area.

In any case, the development of commercial/retail and office space does not appear economically viable as a mixed-use component of a multifamily development at the Bowl-O-Drome site. Lease rents would have to be above current market rates in order to carry the debt load for new construction. Also, there are long-standing upper floor vacancies already within the region such that lease-up of new spaces could take a long time - perhaps at the rate of only 2,000 to 3,000 square feet per year of the over 60,000 square feet available in Option C.

6.3 Development Costs - Comparative Analysis of Four Scenarios

The four development scenarios were re-evaluated in terms of homestead unit sales prices required to support the allocated homestead development costs with DHHL as the developer, and if a private for-profit developer were used.

Homestead development appears to be feasible at the unit pricing levels recommended in Section 6.2 for the "Flats" (Option A) and "Townhouse" (Option D) scenarios, if DHHL were to develop the units itself. However, if an outside for-profit developer is used, the additional financing costs and a reasonable profit margin make all four development scenarios significantly higher than the recommended unit pricing levels.

Table 6-1 illustrates that, with DHHL as the developer, Options A and D standout as those most likely to be able to recover the necessary development costs while serving the lower income beneficiary population that is unable to find similar housing in the open market place.

TABLE 6-1

Homestead Units' Sales Prices Required to Support DHHL Development Costs

Housing Scheme	No. of Units	Unit Pricing	Income Groups Served
Option A – Flats	69 units	$78,000 - $135,000	$30,000 - $45,000
Option B – Mid-rise	87 units	$126,000 - $168,000	$40,000 - $50,000
Option C – Mixed-use High-rise	126 units	$118,000 - $211,000	$40,000 - $60,000
Option D – Townhouse	35 units	$110,000 - $165,000	$35,000 - $50,000

When using a for-profit developer, unit pricing rises by approximately 18 percent. Table 6-2 illustrates that with the additional cost burdens, Option A might still be able to serve a relatively low income beneficiary population with incomes in the range of $35,000 to $50,000, while Option G might serve those with incomes in the range of $40,000 to $55,000.

TABLE 6-2
Homestead Units' Sales Prices Required to Support "For-Profit" Private Development Costs

Housing Scheme	No. of Units	Unit Pricing	Income Groups Served
Option A – Flats	69 units	$96,000 - $164,000	$35,000 - $50,000
Option B – Mid-rise	87 units	$153,000 - $204,000	$45,000 - $60,000
Option C – Mixed-use High-rise	126 units	$143,000 - $257,000	$45,000 - $65,000
Option D – Townhouse	35 units	$133,000 - $200,000	$40,000 - $55,000

6.4 Housing Types - Policy Considerations

6.4.1 Comparison of Options A and D

In addition to development costs and affordability considerations noted above, the conclusion as to which housing-type option is best to pursue involves other related policy issues. The relative advantages and disadvantages of Options A and D are summarized below:

- Option A advantages:
  - ✓ Lowest priced units of all options – permits affordability to more challenged segment of beneficiaries
  - ✓ Provides more units than Option D
  - ✓ Could most impact the beneficiary waiting list

- Option A disadvantages:
  - ✓ Smallest units of the four options – limited appeal to larger households
  - ✓ Relatively higher costs per square foot than other options
  - ✓ The private market offers a great deal of similarly sized product

- Option D advantages:
  - ✓ More similar to single-family home ideal clearly preferred by beneficiaries
  - ✓ More of beneficiary monthly payments applied to housing acquisition – fewer common elements = lower common area maintenance fee
  - ✓ Fewer number of units might meet with easier acceptance by the Moiliili community
  - ✓ Lower development costs and fewer number of units allows DHHL to test the multifamily market concept at lower risk than Option A

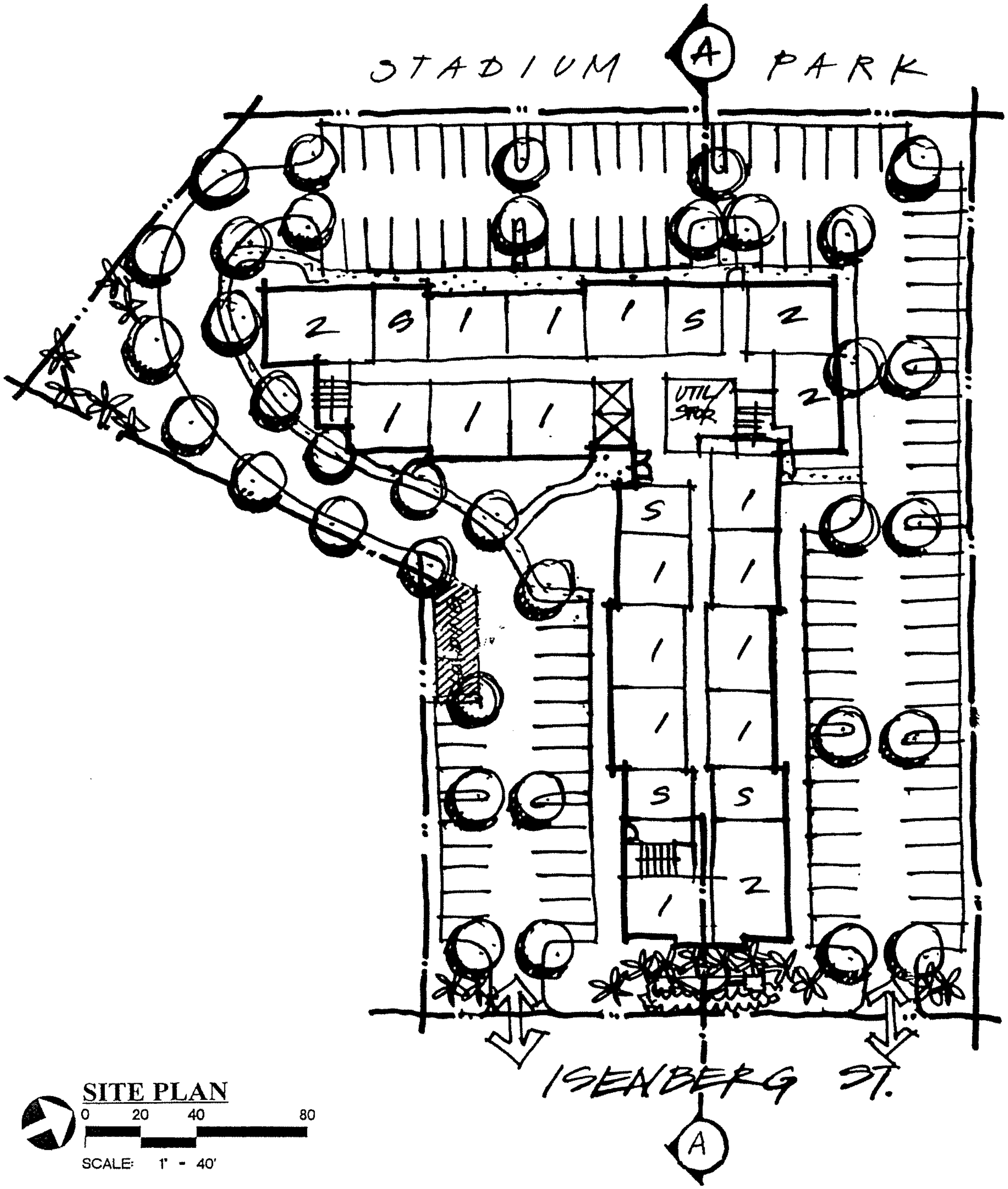
- Option D disadvantages:
  - ✓ Offers only 35 units – fewest number of units of the four options
  - ✓ "Townhouse" product relatively untested in the regional marketplace

6.4.2 Kupuna Rental Housing

Although DHHL is not proposing it at this time, the SMS survey asked applicants if they thought it was a good idea for DHHL to build multifamily housing and use it as rental housing for kupuna. Over 70 percent of those surveyed responded positively. A kupuna rental-housing project may be a possible venture at the Bowl-O-Drome site, assuming that units can be developed and operated in a secure, attractive environment at costs that are supportable by the Fair Market Rents (FMR) guidelines. However, further analysis would be required to identify market demand, operating costs and how much of the development costs would have to be financed by DHHL before such a venture could be fully evaluated.

APPENDIX A

ALTERNATIVE DEVELOPMENT CONCEPTS



SITE PLAN

0 20 40 80

SCALE: 1' - 40'

SITE SUMMARY

TMK:	2-7-08: 20 (42,493 SF) 2-7-08: 18 (40,000 SF)
TOTAL LOT AREA:	82,493 SF
ZONING:	A-2
HEIGHT LIMIT:	per zoning map
CONSTRUCTION TYPE:	V - 1 HR.

BUILDING SUMMARY Flats 96-164k

23 Units per Floor x 3 Floors = 69 Units

avg 130K

UNIT MIX:	STUDIO	= 15 Units
	1-BEDROOM	= 42 Units
	2-BEDROOM	= 12 Units
	Total Units	**= 69 Units**
AREA:	FIRST FLOOR	22,400 SF
	SECOND FLOOR	22,400 SF
	THIRD FLOOR	22,400 SF
	TOTAL AREA	**67,200 SF**

PARKING SUMMARY

REQUIRED:

APARTMENTS:

STUDIO	1 Stall x 15 Units	= 15 Stalls
1-BEDROOM	1.5 Stalls x 42 Units	= 63 Stalls
2-BEDROOM	2 Stalls x 12 Units	= 24 Stalls
GUEST	1 Stall per 10 Units	= 7 Stalls
TOTAL STALLS		**= 109 Stalls**
PROVIDED:		**= 111 Stalls**

LOADING:

APARTMENTS =1 Stall per 150 Units

COST SUMMARY	
Framed Building	$6,384,000
Parking (asphalt on-grade)	$222,000
Elevator	$112,000
Site Improvements (Landscape, walls, signage, lighting)	$123,212
Site Utilities (Sewer, water, communications, electrical)	$1,084,288
TOTAL	**$7,925,500**

÷ 69

114,862

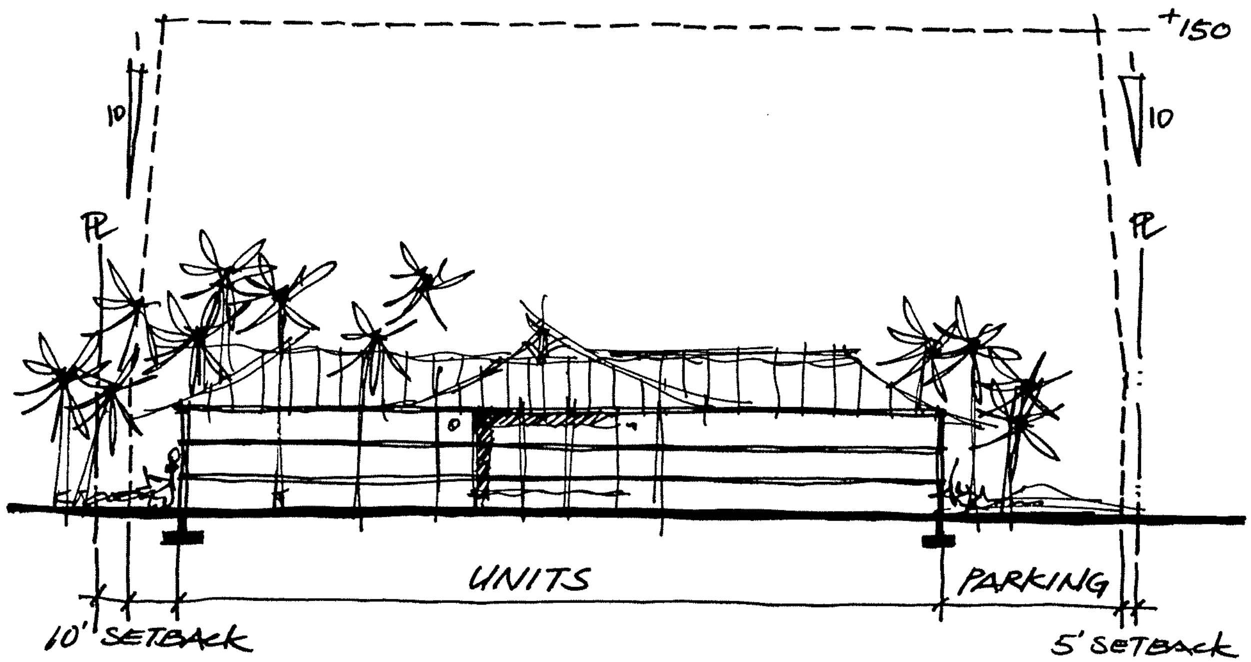
OPTION A

DHHL MULTI-FAMILY HOUSING

BOWL-O-DROME SITE

Feasibility Study February 22, 2000

Design Partners Incorporated



SITE SECTION A-A

0 20 40 80

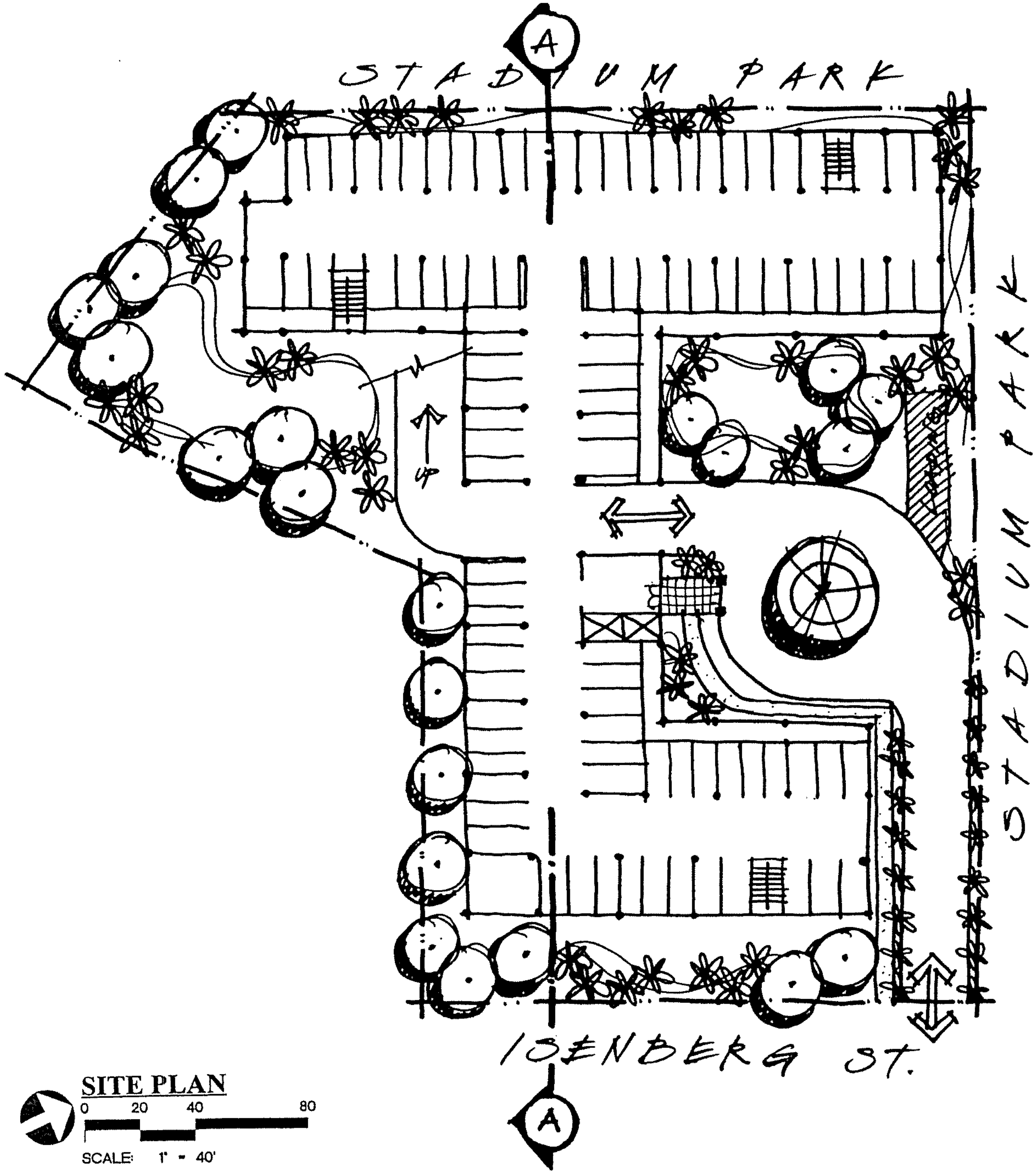
SCALE: 1" = 40'

OPTION A

DHHL MULTI-FAMILY HOUSING
BOWL-O-DROME SITE

Feasibility Study

February 22, 2000



SITE PLAN

0 20 40 80

SCALE: 1" = 40'

SITE SUMMARY

TMK:	2-7-08: 20 (42,493 SF)
	2-7-08: 18 (40,000 SF)
TOTAL LOT AREA:	82,493 SF
ZONING:	A-2
HEIGHT LIMIT:	per zoning map
CONSTRUCTION TYPE:	V - 1 HR.

BUILDING SUMMARY

Midrise 153-204k

29 Units per Floor x 3 Floors = 87 Units

Avg 178,602

UNIT MIX:	1-BEDROOM (900 SF)	= 30 Units
	2-BEDROOM (1050 SF)	= 57 Units
	Total Units	**= 87 Units**
AREA:	THIRD FLOOR	38,300 SF
	FOURTH FLOOR	38,300 SF
	FIFTH FLOOR	38,300 SF
	TOTAL AREA	**114,900 SF**

PARKING SUMMARY

REQUIRED:

APARTMENTS:

UNITS	2 Stalls per Unit	= 174 Stalls
GUEST	1 Stall per 10 Units	= 9 Stalls
TOTAL STALLS		= 183 Stalls
PROVIDED:		= 196 Stalls

LOADING:

APARTMENTS =1 Stall per 150 Units

COST SUMMARY	
Framed Building	$12,064,500
Parking (asphalt on-grade)	$196,000
Parking structure	$2,450,000
Elevator	$112,000
Site Improvements (Landscape, walls, signage, lighting)	$160,000
Site Utilities (Sewer, water, communications, electrical)	$1,362,500
TOTAL	**$16,345,000**

÷ 87

187,873

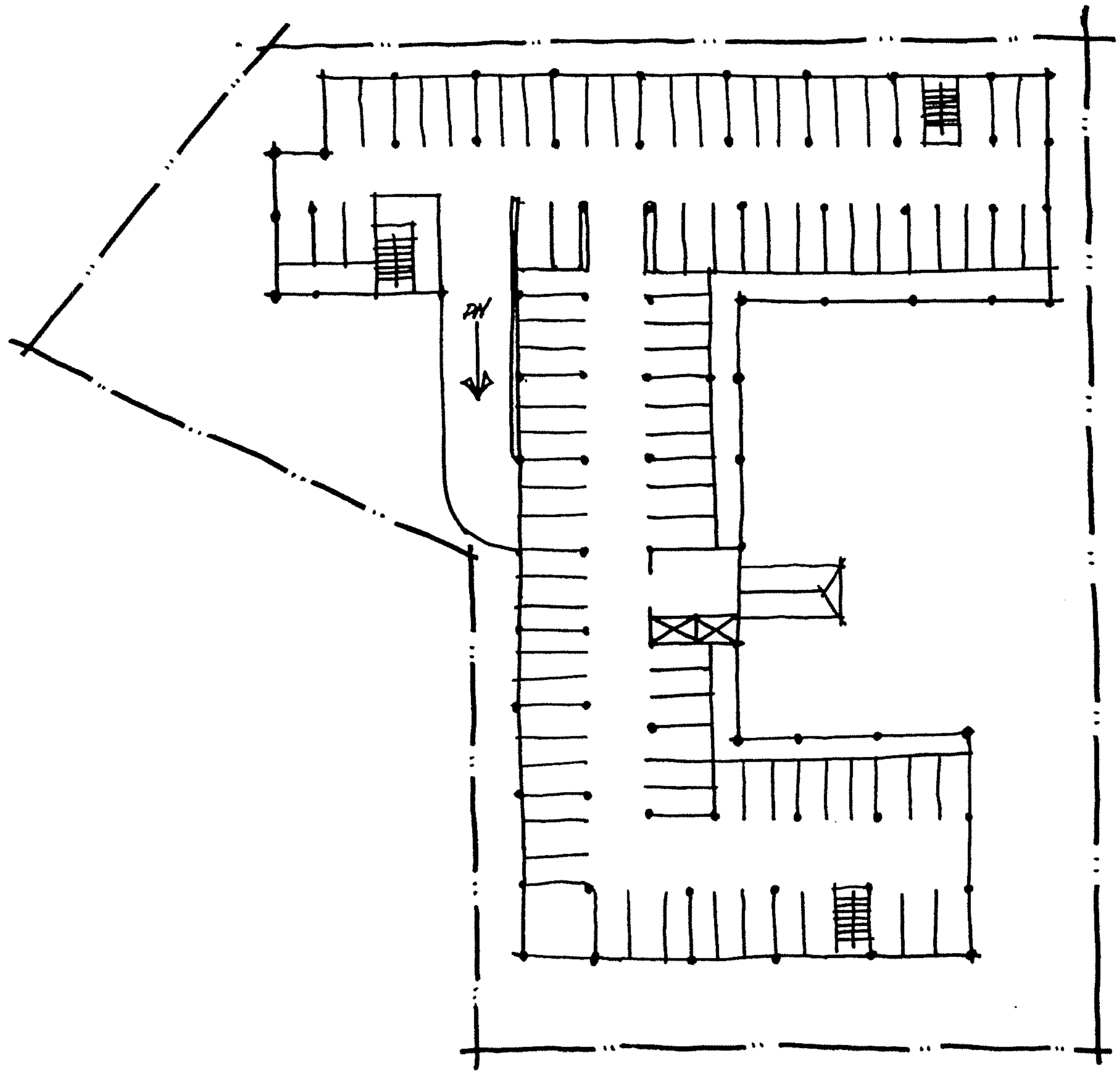
OPTION B

DHHL MULTI-FAMILY HOUSING
BOWL-O-DROME SITE

Feasibility Study

February 22, 2000

Design Partners Incorporated



SECOND FLOOR PLAN

0 20 40 80

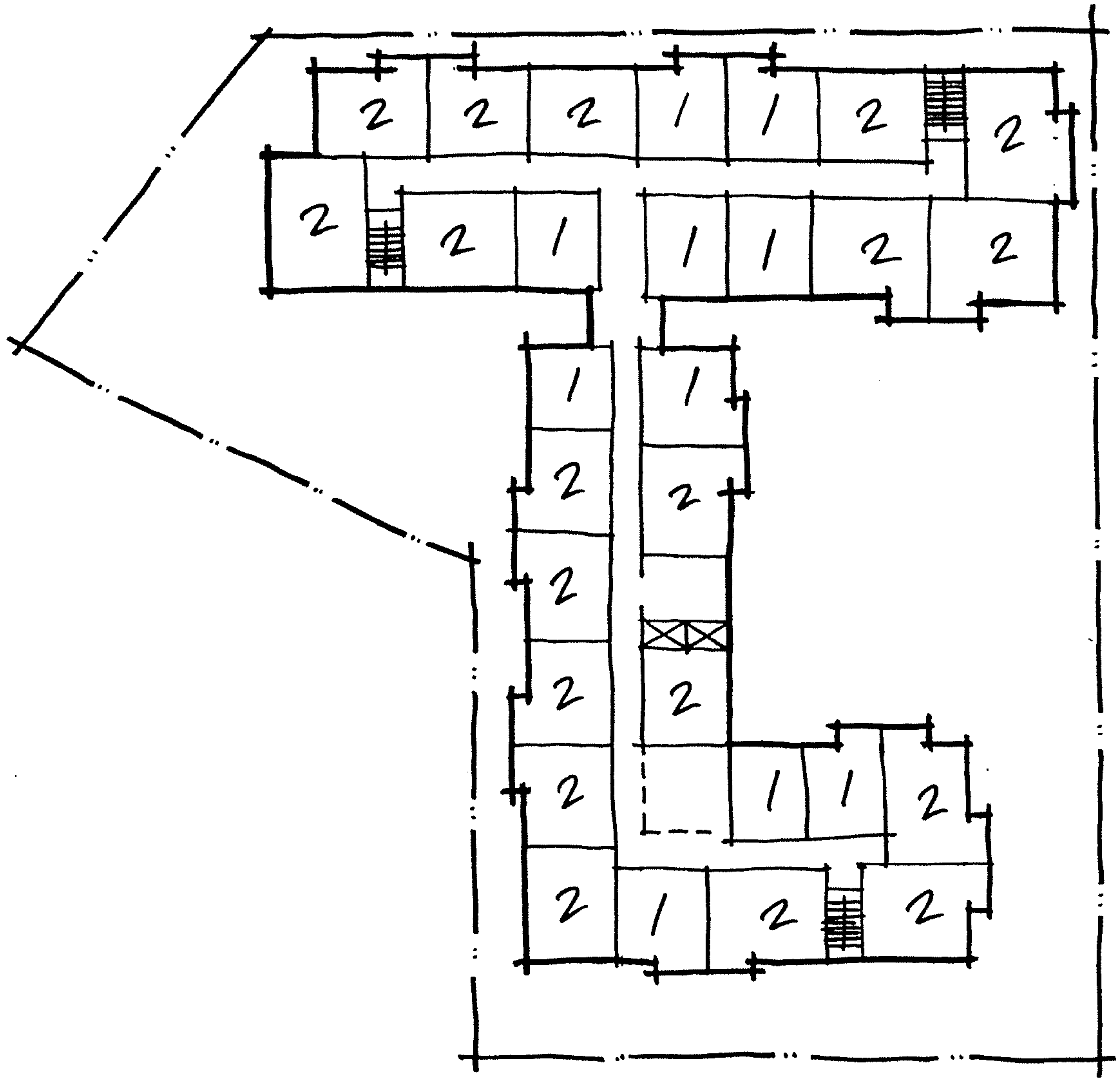
SCALE: 1' - 40'

OPTION B

DHHL MULTI-FAMILY HOUSING
BOWL-O-DROME SITE

Feasibility Study February 22, 2000

Design Partners Incorporated



THIRD FLOOR PLAN
(FLOORS FOUR & FIVE SIM.)

0 20 40 80

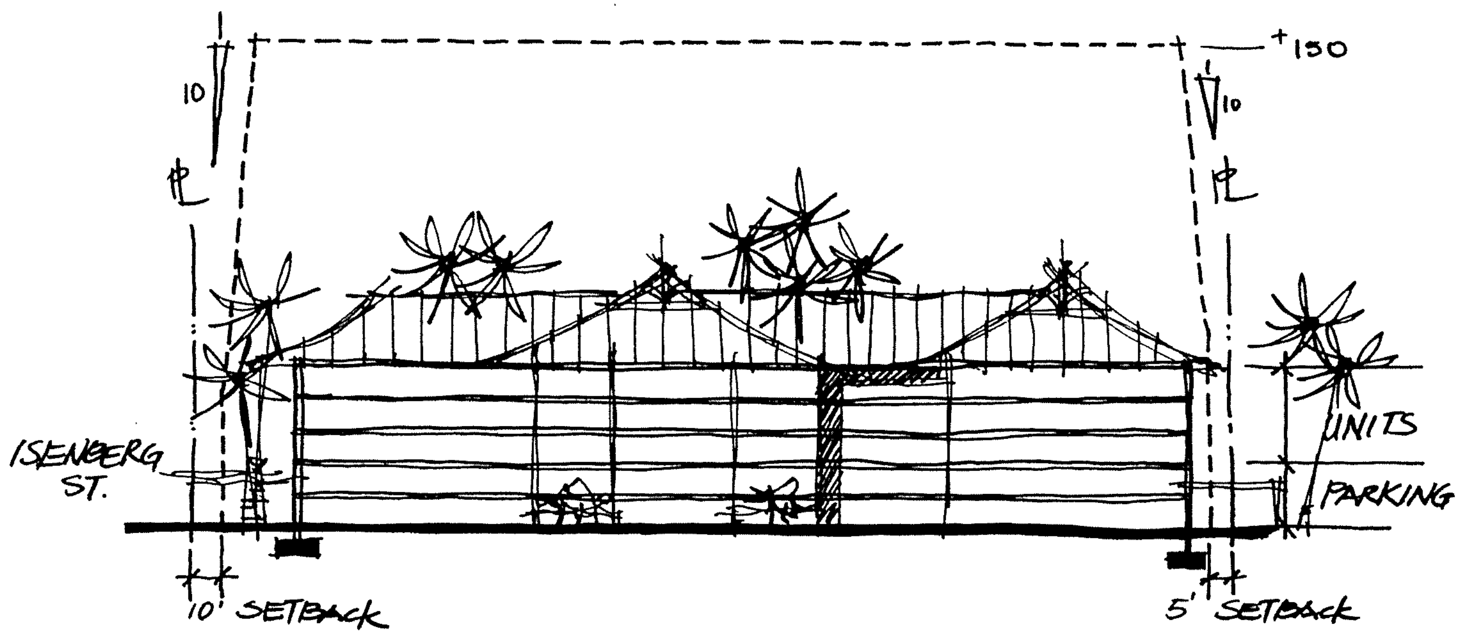
SCALE: 1" = 40'

OPTION B

DHHL MULTI-FAMILY HOUSING
BOWL-O-DROME SITE
Feasibility Study

February 22, 2000

Design Partners Incorporated



SITE SECTION A-A

0 20 40 80

SCALE: 1' - 40'

OPTION B

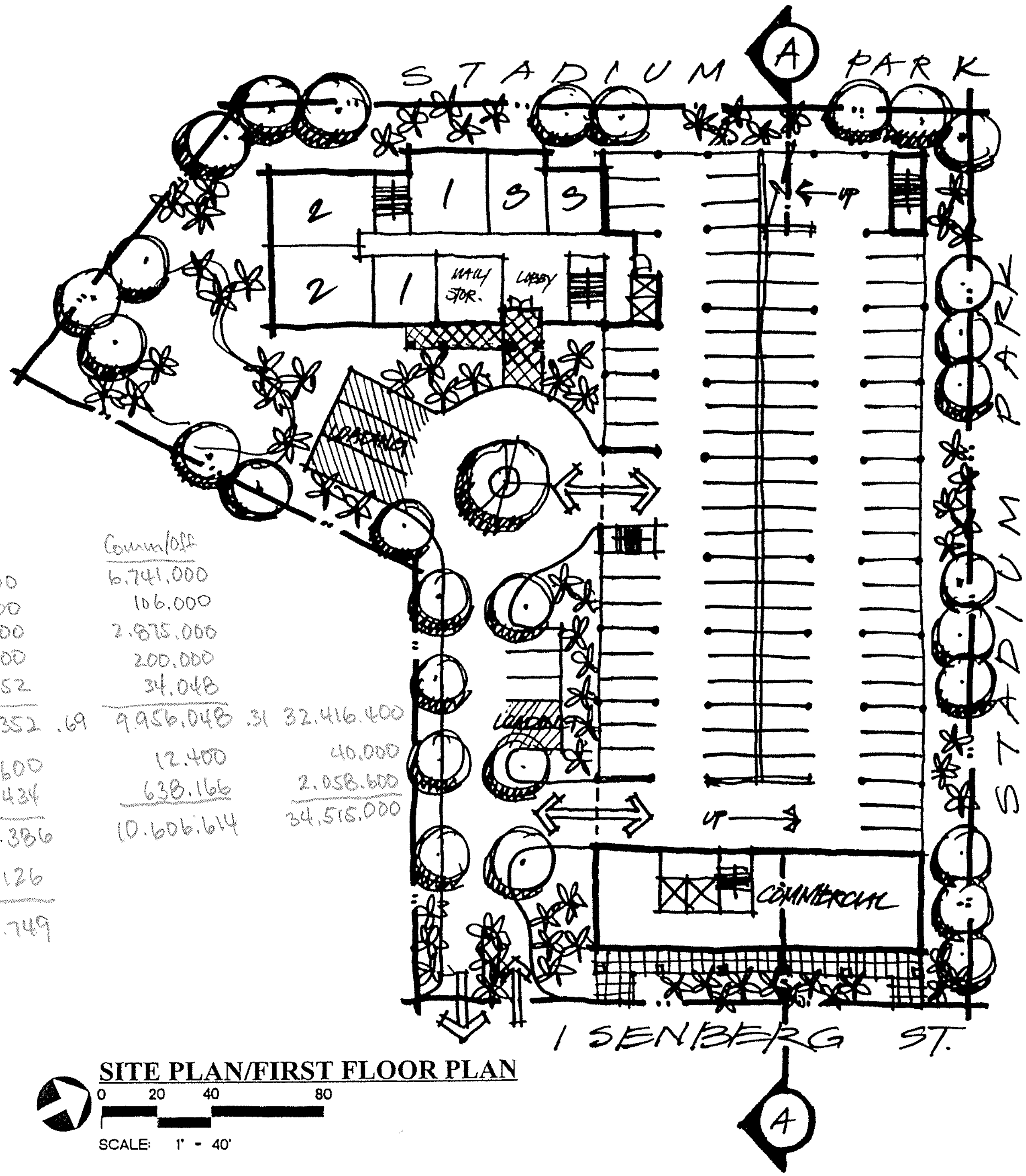
DHHL MULTI-FAMILY HOUSING

BOWL-O-DROME SITE

Feasibility Study

February 22, 2000

Design Partners Incorporated



SITE PLAN/FIRST FLOOR PLAN

0 20 40 80

SCALE: 1' - 40'

Res	Comm/Off	
18,144,000	6,741,000	
94,000	106,000	
3,950,000	2,875,000	
200,000	200,000	
72,352	34,048	
22,460,352 .69	9,956,048 .31	32,416,400
27,600	12,400	40,000
1,420,434	638,166	2,058,600
23,908,386	10,606,614	34,515,000
÷ 126		
189,749		

SITE SUMMARY

TMK:	2-7-08: 20 (42,493 SF) 2-7-08: 18 (40,000 SF)
TOTAL LOT AREA:	82,493 SF
ZONING:	BMX-3
FAR:	2.5 (3.5 max. w/ open space)
CONSTRUCTION TYPE:	1
HEIGHT LIMIT:	150' along King Street
ALLOW. FLOOR AREA:	206,232 SF
Approx. 60% Apartments:	123,739 SF
Approx. 40% Commercial:	82,492 SF

BUILDING SUMMARY

Mixed use High-rise

143-257K

avg 200K

APARTMENTS: UNIT MIX:	STUDIO	= 26 Units	
	1-BEDROOM	= 74 Units	
	2-BEDROOM	= 26 Units	
	Total Units	= 126 Units	
AREA	FLOORS 1-4:	8,400 SF	
	FLOORS 5-10:	16,800 SF	
	Total Area:	134,400 SF	
COMMERCIAL: AREA	FIRST FLOOR:	4,200 SF	
	FLOORS 5-8:	15,000 SF	
	Total Area:	64,200 SF	

PARKING SUMMARY

APARTMENTS:		
STUDIO	1 Stall x .2	= 0.2
1-BEDROOM	1.5 Stalls x .6	= 0.9
2-BEDROOM	2 Stalls x .2	= 0.4
GUEST	1 Stall x .1	= 0.1
BLENDED STALL RATIO		= 1.6 Stalls per Unit
		x 126 Units
		202 Stalls Required
COMMERCIAL:		
1 Stall per 400 SF		= 161 Stalls Required
TOTAL STALLS REQUIRED:		363 Stalls Required
TOTAL STALLS PROVIDED:		368 Stalls Provided
LOADING:		
APARTMENTS	1 Stall per 150 Units	
COMMERCIAL	3 Stalls per 20,001 - 40,000 SF 4 Stalls per 40,001 - 60,000 SF 1 Stall per additional 50,000 SF or major portion thereof	

TOTAL LOADING REQUIRED: 5 Stalls Required

TOTAL LOADING PROVIDED: 5 Stalls Provided

COST SUMMARY	
Residential Concrete Building	$18,144,000
Commercial/Office Building	$6,741,000
Parking (asphalt on-grade)	
Commercial	$106,000
Residential	$94,000
Parking Structure	
Commercial	$2,875,000
Residential	$3,950,000
Elevator	
Commercial	$200,000
Residential	$200,000
Site Improvements (Walls, signage, lighting)	$40,000
Site Utilities (Sewer, water, communications, electrical)	$2,058,600
Landscaping	
Commercial	$34,048
Residential	$72,352
TOTAL	$34,408,600

34,515,000

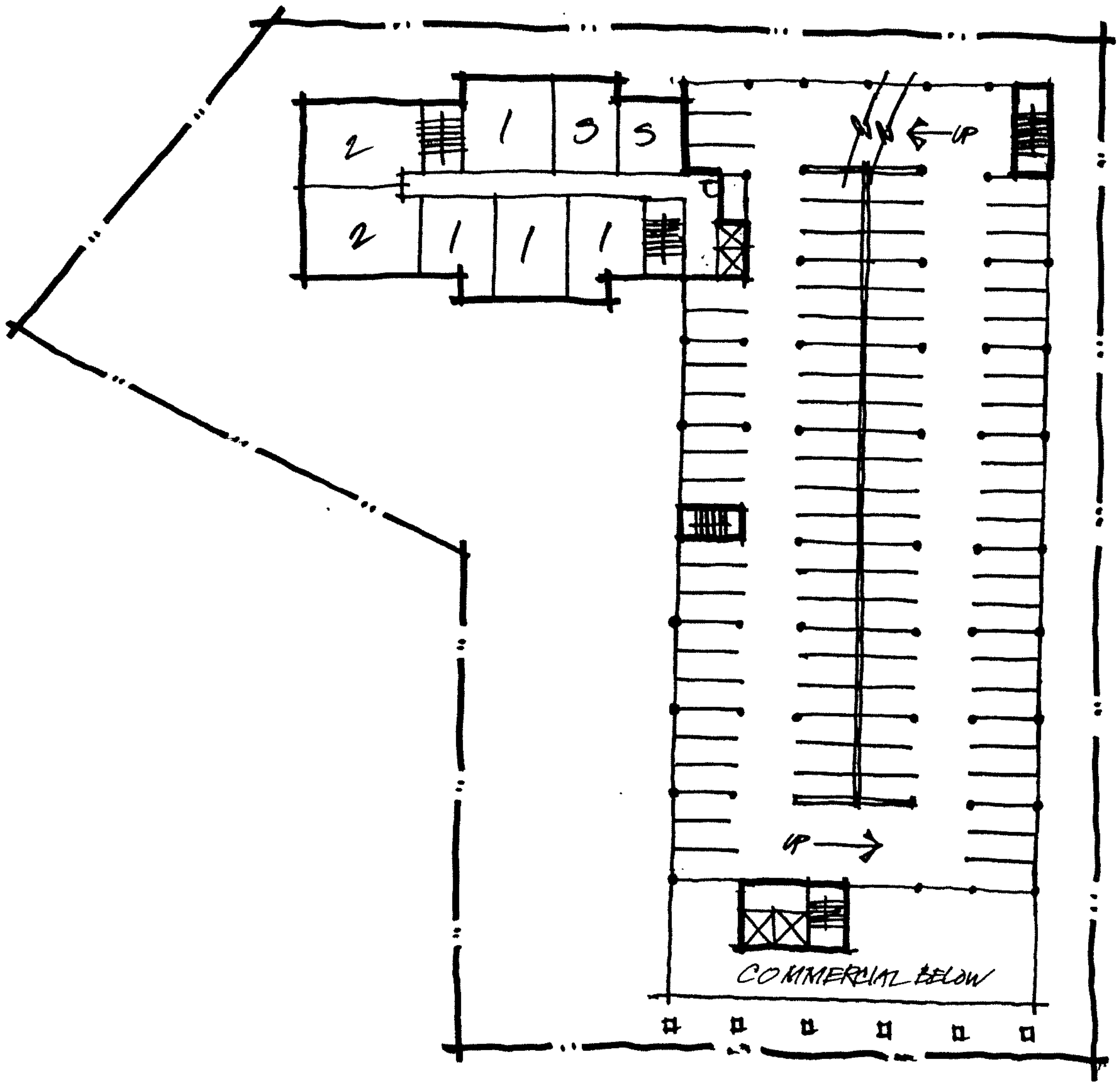
OPTION C

DHHL MULTI-FAMILY HOUSING
BOWL-O-DROME SITE

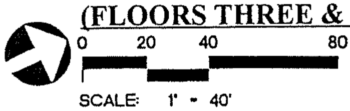
Feasibility Study

February 22, 2000

Design Partners Incorporated



SECOND FLOOR PLAN
(FLOORS THREE & FOUR SIM.)

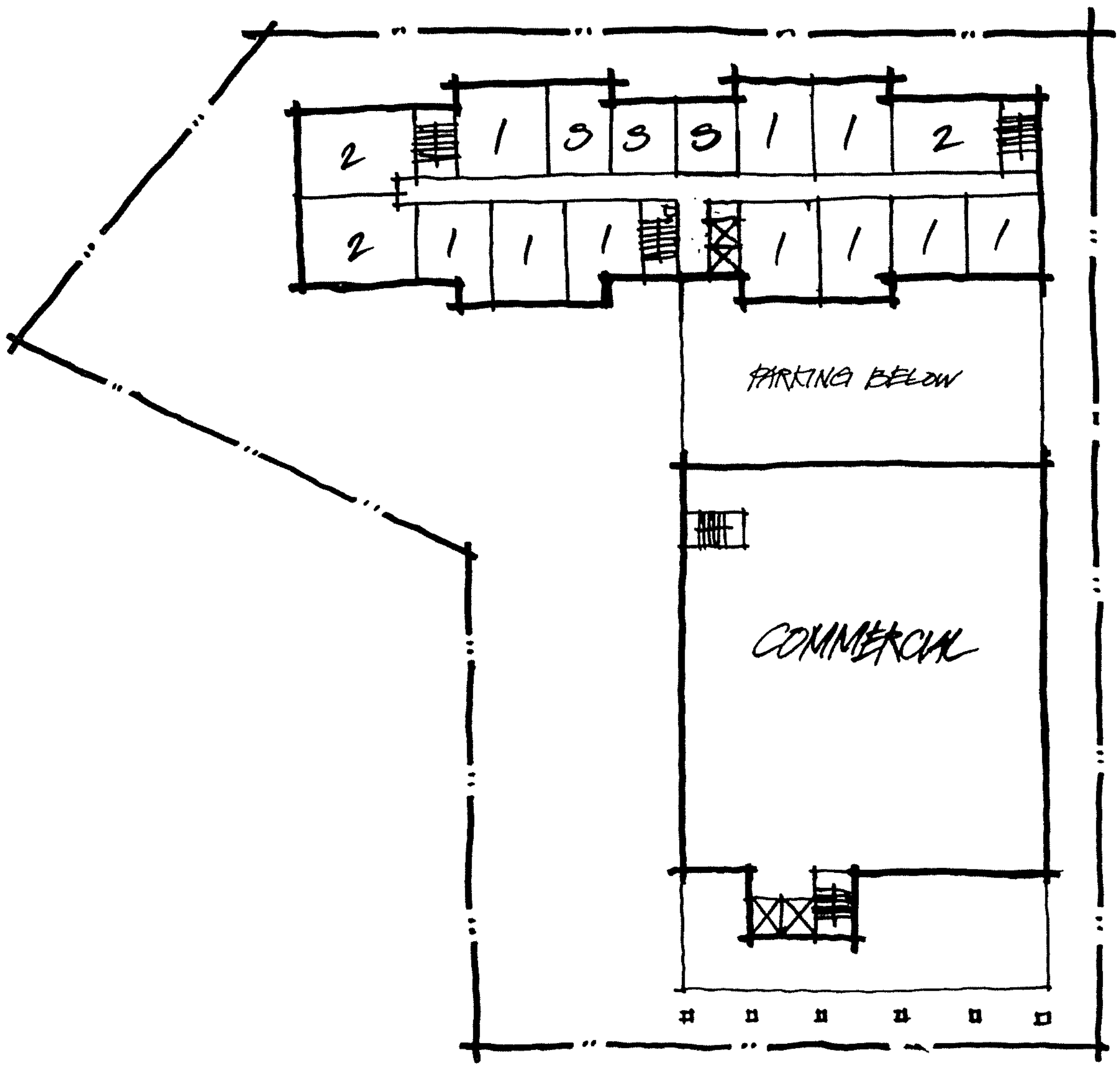


OPTION C

DHHL MULTI-FAMILY HOUSING
BOWL-O-DROME SITE
Feasibility Study

February 22, 2000

Design Partners Incorporated

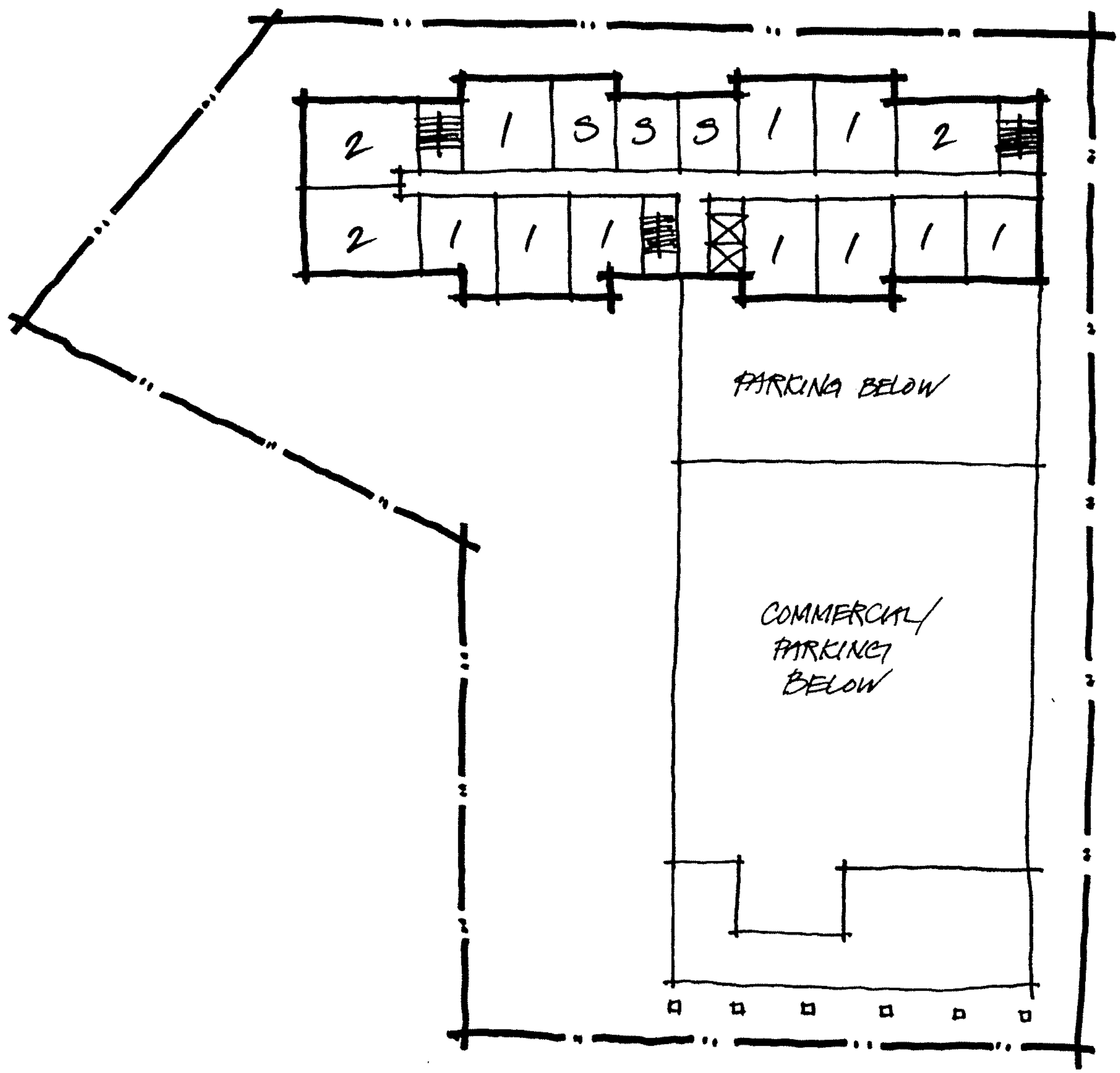


FIFTH FLOOR PLAN
(FLOORS SIX, SEVEN & EIGHT SIM.)

0 20 40 80
SCALE: 1" = 40'

OPTION C
DHHL MULTI-FAMILY HOUSING
BOWL-O-DROME SITE
Feasibility Study
February 22, 2000

Design Partners Incorporated



NINTH FLOOR PLAN
(FLOOR TEN SIM.)

0 20 40 80

SCALE: 1" = 40'

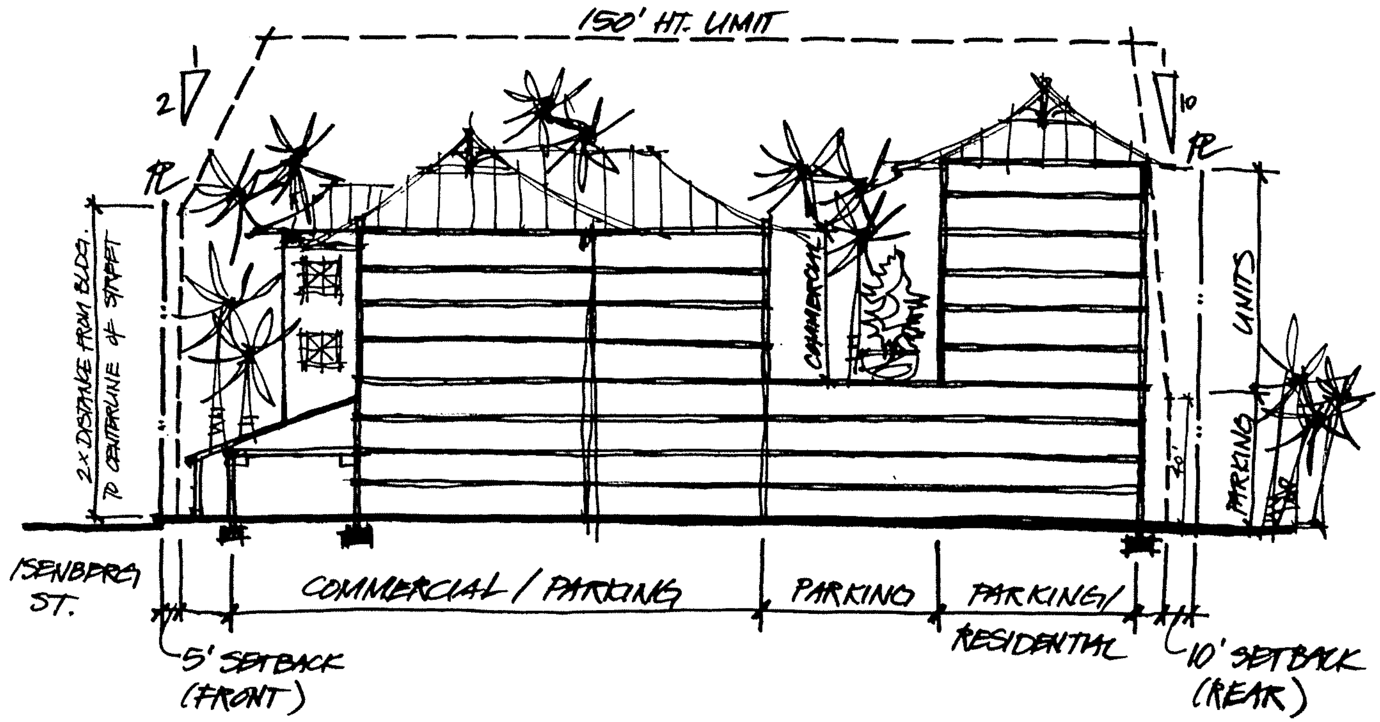
OPTION C

DHHL MULTI-FAMILY HOUSING
BOWL-O-DROME SITE

Feasibility Study

February 22, 2000

Design Partners Incorporated



SITE SECTION A-A

0 20 40 80

SCALE: 1" = 40'

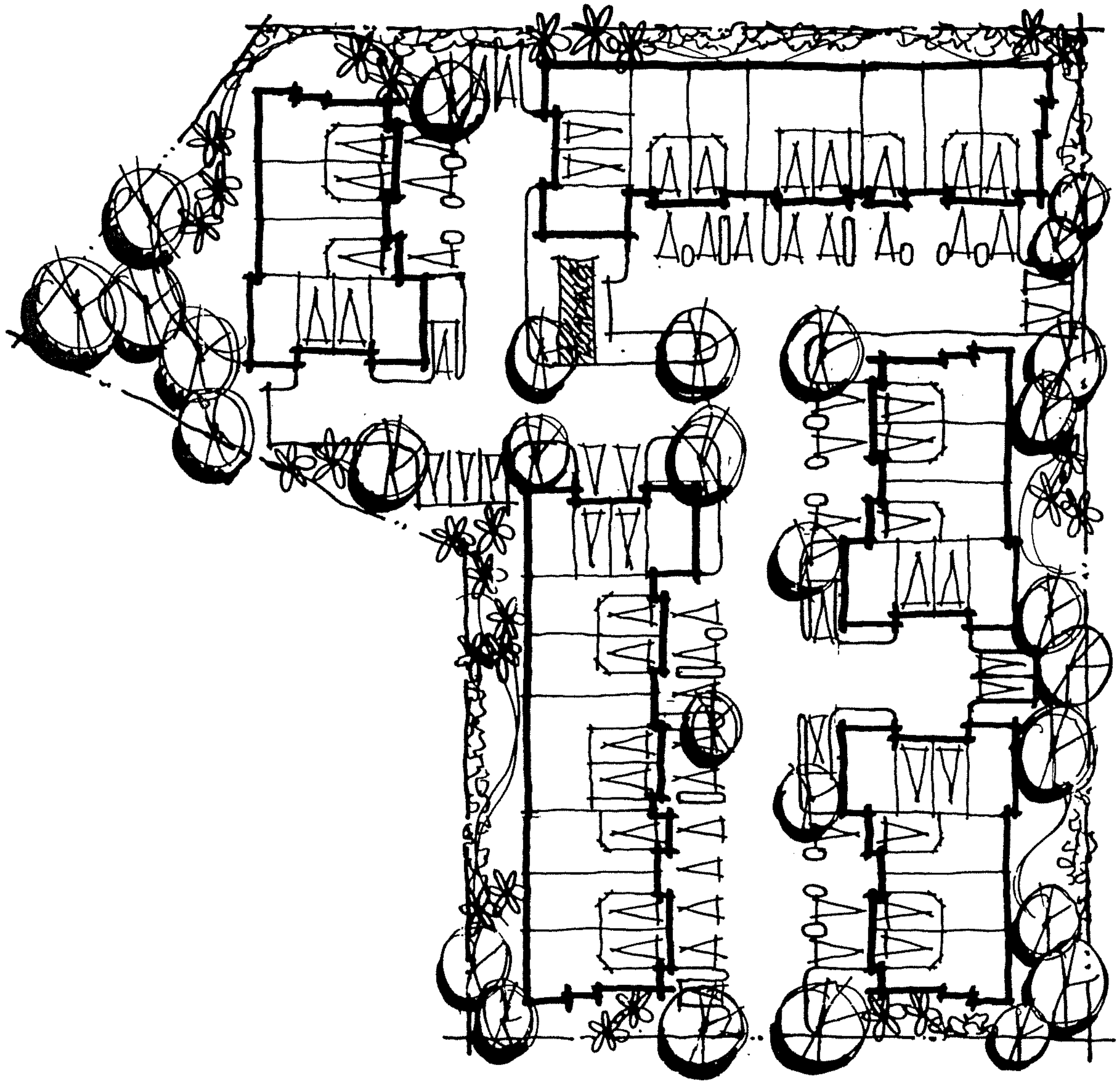
OPTION C

DHHL MULTI-FAMILY HOUSING
BOWL-O-DROME SITE

Feasibility Study

February 22, 2000

Design Partners Incorporated



SITE SUMMARY

TMK:	2-7-08: 20 (42,493 SF)
	2-7-08: 18 (40,000 SF)
TOTAL LOT AREA:	82,493 SF
ZONING:	A-2
HEIGHT LIMIT:	per zoning map
CONSTRUCTION TYPE:	V - 1 HR.

BUILDING SUMMARY

Townhouse 110-165K avg 137.5K

UNIT TYPE:	Two-Story Townhouses	
UNIT MIX:	1-BEDROOM	7 Units
	2-BEDROOM	21 Units
	3-BEDROOM	7 Units
	Total Units	**35 Units**
AREA (incl. garage)	5-Plex Building (x3)	6,770 SF
	10-Plex Building (x2)	13,540 SF
	Total Area	47,390 SF

PARKING SUMMARY

REQUIRED:		
APARTMENTS:	2 Stalls x 35 Units	= 70 Stalls
GUEST:	1 Stall per 10 Units	= 4 Stalls
TOTAL STALLS:		= 74 Stalls
PROVIDED:		= 74 Stalls
LOADING:		
APARTMENTS	=1 Stall per 150 Units	

COST SUMMARY

Framed Building	$4,502,050
Parking (asphalt on-grade)	$78,000
Site Improvements (Landscape, walls, signage, lighting)	$117,772
Site Utilities (Sewer, water, communications, electrical)	$494,728
TOTAL	$5,192,550

÷ 35
148,358

SITE PLAN

0 20 40 80

SCALE: 1" = 40'

OPTION D

DHHL MULTI-FAMILY HOUSING
BOWL-O-DROME SITE

Feasibility Study

February 22, 2000

Design Partners Incorporated

APPENDIX B

MARKET ANALYSIS REPORTS

C O R P O R A T I O N

March 28, 2000

Mr. Bruce Tsuchida
President
Townscape, Inc.
900 Fort Street Mall, Suite 800
Honolulu, HI 96813

Re: Phase 2 Report: Comparative Analysis of Four Development Scenarios for the Isenberg Site, in Mo'ili'ili, Island of Oahu

Dear Mr. Tsuchida:

This letter report concludes Phase 2 of our contract regarding planning for the Department of Hawaiian Home Lands (DHHL)'s site on Isenberg Street in Honolulu. This letter report presents further analyses to the findings shown in our Phase 1 report, which was dated February 9, 2000.

The first section of this report presents an executive summary of the Phase 2 findings. Subsequent sections provide the study background and detailed findings, as follows:

Following this letter are exhibits that support the analyses upon which the conclusions are based.

2300 Pauahi Tower 1001 Bishop Street Honolulu, Hawaii 96813
Telephone 808 942 5493 Telefax 808 942 7638 Email mikiko@pixi.com

EXECUTIVE SUMMARY

Homestead development appears to be feasible at the pricing levels recommended in the Phase 1 study, for Options A and D, if DHHL were to develop the units itself[1]. However, if an outside for-profit developer is used, the additional financing costs and required profit margin make all four development scenarios unfeasible at the recommended price levels.

Re-evaluating the four scenarios in terms of the homestead unit sales prices required to support the allocated homestead development costs reveals the following:

	OPTION A		OPTION B		OPTION C		OPTION D	
Number of units	69		87		126		35	
Allocated costs per unit[2]	$103,559		$153,956		$160,146		$141,493	
	Low	**High**	**Low**	**High**	**Low**	**High**	**Low**	**High**
***Unit pricing*:**								
As recommended	**$75,000**	**$130,000**	**$105,000**	**$140,000**	**$75,000**	**$135,000**	**$110,000**	**$165,000**
Breakeven – DHHL	$78,000	$135,000	$126,000	$168,000	$118,000	$211,000	$110,000	$165,000
Breakeven – For-profit entity	$95,000	$164,000	$153,000	$204,000	$143,000	$257,000	$133,000	$200,000
HF income groups served:								
As recommended	**$30,000**	**$45,000**	**$35,000**	**$45,000**	**$30,000**	**$45,000**	**$35,000**	**$50,000**
Breakeven – DHHL	$30,000	$45,000	$40,000	$50,000	$40,000	$60,000	$35,000	$50,000
Breakeven – For-profit entity	$35,000	$50,000	$45,000	$60,000	$45,000	$65,000	$40,000	$55,000
***HF income as % median*[3]:**								
As recommended	**49%**	**74%**	**58%**	**74%**	**49%**	**74%**	**58%**	**82%**
Breakeven – DHHL	49%	74%	66%	82%	66%	99%	58%	82%
Breakeven – For-profit entity	58%	82%	74%	99%	74%	107%	66%	90%

Options A and D continue to stand-out as those most likely to be able to recover the necessary development costs while serving a beneficiary population unable to find similar housing in the open marketplace. Even with the additional cost burdens posed by using a for-profit developer, Option A might still serve a population with incomes in the range of 58% to 82% of the Oahu

[1] This assumes DHHL would develop the project with "cash" and no margin or commission would be allocated from unit sales proceeds to support general Department activities. Based on "allocated homestead costs" only; see remainder of text and Exhibit 5.

[2] Costs to be borne by homestead sales. Excludes site work, infrastructure, landscaping and costs related to commercial uses, if any. The latter items to be absorbed by DHHL outside of this homestead budget. See Exhibit 5 for detail. Budget is without consideration of a profit allowance, financing or other conditions relevant to outside for-profit developer.

[3] Incomes of primary homestead family groups served, as a percent of Oahu median family income as of March 9, 2000 (when the Oahu median family income was $60,900 per U.S. Department of Housing and Urban Development.)

median family income, while Option D might serve a population at about 66% to 90% of the median.

The conclusion as to which option is best to pursue involves the financial considerations noted above, but also other related policy issues. Market comparisons of Options A and D include the following:

- **Option A advantages**:
  - Lowest priced units of all options, making it most likely to find qualified beneficiaries, and permitting affordability to a more challenged segment of beneficiaries;
  - Provides more units than Option D; and
  - Combining first two considerations, could most impact the beneficiary waitlist.

- **Option A disadvantages:**
  - The smallest units of the four options considered, with 21% 1-bedrooms at approximately 600 square feet net interior space, and the largest units approximately 1,000 square feet, compared to 1,200 for Option D;
  - Related to the above, the small unit sizes would restrict the project's appeal to relatively larger households;
  - Relatively higher cost per square foot than other options (but still below marketplace); and
  - The private market offers a great deal of similarly sized product.

- **Option D advantages**:
  - Townhouse product offers relatively larger units with enclosed, dedicated parking adjacent to each unit;
  - In light of the above, the townhouse product is more similar to the single-family ideal that is clearly preferred by beneficiaries;
  - Townhouse product allows more of beneficiary monthly payments to be applied to housing acquisition, since it would have fewer common elements to upkeep than low-rise Option A;
  - Townhouse design and fewer number of units overall might meet with more community acceptance than Option A; and
  - Detached units, fewer number of units and lower development costs overall would permit DHHL to test the multifamily market model at lower risk than under Option A.

- **Option D disadvantages:**

  - Offers only 35 units; and
  - A product (townhouse) relatively untested in the regional marketplace.

Although not evaluated in this study, in the event of an outside developer, it is likely that it would be preferable to use a nonprofit rather than a for-profit entity. This could require DHHL to structure the development agreement to permit this, and could allow the developer access to special grant and/or HUD funds.

PHASE 2 STUDY BACKGROUND

DHHL holds title to some 82,493 square feet of land on Isenberg Street, underlying the former "Bowl-O-Drome" facility in Mo'ili'ili, Oahu. In accordance with its mission, DHHL is evaluating the feasibility of redeveloping the site to offer housing awards to its beneficiaries.

Several redevelopment scenarios are being considered for the site. These include multifamily for-sale housing, multifamily rental housing targeted at kupuna (elderly Native Hawaiians), and a mixed use scenario combining multifamily housing and commercial development.

As per our study agreement and discussions during and subsequent to our progress meeting with DHHL on February 17, 2000, this Phase 2 report provides a means of comparing four for-sale development scenarios in terms of their housing affordability for beneficiaries.

Development Scenarios Analyzed

Based on information provided by your consultant Design Partners, Incorporated (DPI), the four scenarios considered can be characterized as follows:

- **Option A** – Three-story building with elevator and surrounding on-grade parking. This scenario yields 69 one-, two- and three-bedroom units.

- **Option B** – Four-story structure with ground level parking and residential units on levels two through four. This scenario also includes an elevator and yields 87 two- and three-bedroom units. The units would be somewhat larger than similarly configured units under Option A.

- **Option C** – A parking structure and twin "towers," one with commercial uses and the other residential. Each tower would have its own elevator and entryway. This scenario yields 126 one-, two- and three-bedroom units.

- **Option D** – Two-story townhomes with adjacent as well as enclosed on-grade parking for each. This scenario yields 35 two-, three- and four-bedroom units.

Special Terms and Other Considerations

As in our Phase 1 report, this letter uses certain unique terminology:

1. **Homestead family** - The term "homestead family," was put forth by SMS, Inc. in its 1999 report on a survey of DHHL beneficiaries. A homestead family is defined as the household unit that would consider moving to a new unit offered by DHHL. Thus, the affordability analyses presented herein are based on the estimated resources of these homestead families. As defined by SMS:

    A homestead family refers to the group of all people, including the applicant himself or herself, who will move to the homestead when the award is given. A homestead family is often the applicant's current household, but it may also include those currently living outside of the applicant's household. It is also possible that the homestead family consists of a smaller number of people than the applicant's current household [4].

2. **Qualified applicant** – Since the intent of the SMS survey was to identify potential interest in purchasing a leasehold interest in multifamily housing, respondents were also evaluated with respect to their ability to pay for such housing. Considering the various special programs and options available to Native Hawaiians, the standards for determining financial qualification are more lenient than those that might apply in the open marketplace. According to SMS, DHHL defined a "qualified applicant" to be one who[5]:

    - Expects to pay $800 or more per month on a mortgage, assuming he or she were to build or buy within 4 or 5 years;

    - Has some savings (amount undetermined, but more than $0); and

[4] SMS, Inc., "A Report on Multi-Family Demand Study Among DHHL Applicants," December 1999, page 3.

[5] Ibid, page 5.

- Had an annual before-tax income (self and spouse, if married) of at least $20,000 at the time of the SMS survey.

Based on these criteria, 168 of the 503 applicants surveyed were considered financially qualified.

Summary of For-Sale Multifamily Housing Findings (Exhibit 1)

As presented in our February 9, 2000 report and at the progress meeting on February 17, 2000, the Phase 1 findings regarding for-sale multifamily housing units can be summarized as follows:

- **Affordable multifamily purchase prices** for qualified applicants are estimated to range from about $81,000 or $86,000 and up.
  - Key assumptions include use of the current OHA program for the down payment and mortgage interest rates (assumed 8% FHA-insured).
  - The variation in affordable prices derives from the amount of the assumed homeowners' association (HOA) fees, which would be lower for a townhouse as compared to a standard condominium type of development.
- **The overall recommended price range** was about $80,000 to $135,000 for predominantly two- to three-bedroom units (1999 dollars).
  - This price range would be targeted at the nearly 70% of qualified and interested beneficiaries with $30,000 to $49,000 in annual income, as estimated by SMS.
  - The area marketplace offers a selection of fee simple units in this price range, but they tend to be smaller and to be one- and two-bedroom units in older buildings.
  - DHHL buyers who can afford to purchase a unit priced at significantly more than $135,000 already have ample multifamily choices in this and nearby areas.

PRODUCT AND PRICING RECOMMENDATIONS

Development Mix and Unit Sizes (Exhibit 2)

Because of the generally large size of beneficiary households and their tendency to prefer larger and even single-family units, it is recommended that the multifamily product considered offer larger units than prevalent in the area marketplace. Based on consultation with DPI, the four scenarios could yield a range of product sized from about 600 square feet for one-bedroom flats, to 1,300 square feet for four-bedroom townhomes. The majority of units offered under all scenarios would be two- and three-bedroom units.

Within each development scenario, the average unit offered would range from abut 800 to 1,000 square feet for the first three scenarios (which are "flats"), and would average 1,170 square feet for the townhomes of Option D. These would represent significantly larger units than offered elsewhere in the area, where the average mid- to low-rise building listed for sale as of January 20, 2000 was only 631 square feet.

Supportable Unit Pricing (Exhibit 3)

Based on the Phase 1 market findings, Mo'ili'ili/McCully area market benchmarks, and possible unit sizes, the four development scenarios might yield a range of product priced from about $75,000 for the 600 square foot one-bedroom flats, to $165,000 for the 1,300 square foot four-bedroom townhomes.

Options A and C, representing slightly smaller units than the other options, would be the most affordable, with prices from about $75,000 to $135,000. Because Option C is a high rise plan, some of its units might have superior views and thus warrant a slight price premium over similarly sized units in Option A.

The proposed solutions would result in greater value than suggested by the market benchmarks shown. In addition to offering new units, the recommended products would be priced significantly below the market benchmarks and/or offer more space. These advantages are considered necessary in light of the fact that the DHHL units would be leasehold and would have restrictions on their resale and use, whereas the market benchmarks reflect fee simple products where no such restrictions apply.

Per square foot, the recommended pricing would compare to the market benchmarks as follows:

- **One-bedroom units** – Recommended at $125 psf, about 65% of the market benchmark of $192 psf (based on a sample of 7 listings).

- **Two-bedroom units** - Recommended at $116 to $125 psf, about 56% to 60% of the market benchmark of $210 psf (based on a sample of 10 listings).

- **Three-bedroom units** – Recommended at $121 to $135 psf, compared to $209 psf for the single area listing in a low- to mid-rise building as of January 20, 2000.

- **Four-bedroom townhomes** – Recommended at $127 per square foot; no comparable property listing found in the market area.

BENEFICIARY QUALIFICATION (Exhibit 4)

Applying the loan qualification criteria and terms explained in the Phase 1 report, the recommended unit pricing would require down-payments and monthly mortgage payments (excluding payments made for the OHA down-payment loan, if any) as shown on Exhibit 4.

Referring back to the affordability analyses shown in Exhibits 4 and 5 of the Phase 1 report, these purchase requirements would imply that the units, as planned, should be affordable to and could be most appropriately targeted at the following beneficiary groups[6]:

- **Option A** – Homestead families with approximately $30,000 to $45,000 in annual income, representing the approximately 55% of qualified homestead families least able to qualify for market housing opportunities.

- **Option B** – Homestead families with about $35,000 to $45,000 annual income, probably serving a significantly smaller share of homestead families than Option A, due to the slightly higher income threshold required by the more expensive minimum mortgage payment. Thus, this option is estimated to most effectively serve about 35% of those believed to be qualified and interested.

- **Option C** – Similar beneficiary profile to Option A.

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[6] The Phase 1 analyses include a budget for payment on the assumed OHA down-payment loan program. Additionally, the share of qualified and interested homestead families that could be served by each development scenario is based on the survey results reported by SMS, Inc. (ibid.)

- **Option D** – Would need to serve a higher income group than the other options, with its larger unit sizes and townhome configuration. However, due to the probably lower HOA fees associated with a townhome as compared to a standard condominium development, the smaller units might still be affordable to homestead families with incomes as low as $35,000.

ESTIMATED DEVELOPMENT COSTS (Exhibit 5)

DPI estimated total development costs for the four scenarios to range from about $5.7 million for Option D, to $40.0 million for Option C, including the latter's commercial aspects. However, since DHHL customarily absorbs site work and infrastructure in its residential developments, such costs, and their associated indirect costs, are not anticipated to be recovered by homestead sales. Additionally, the costs associated with commercial development would also be absorbed in a separate accounting.

Therefore, the development costs that DHHL would seek to recover in its homestead sales represent those associated with the residential building(s) and elevator, as relevant. As shown in Exhibit 5, this reduces the costs to be borne by residential sales to the range of $4.9 million for Option D, to $20.2 million for Option C.

On a per unit basis, the allocated homestead development costs are least under Option A, at about $104,000, and the most under Option C, at $160,000.

COMPARATIVE FINANCIAL ANALYSES

DHHL as Developer (Exhibit 6)

It is assumed that DHHL would cover its development costs with cash or an equivalent instrument, thus it would not incur any financing costs. Also, it is assumed that the entire gross proceeds of homestead sales would be budgeted to cover their allocated costs. That is, no allowance is provided for a "fee" or "commission" on homestead transactions. Likewise, it is assumed that the Department would not budget for any profit margin on the homestead sales. Therefore, a simplistic means of evaluating the feasibility of the housing elements of the four development options is to compare their gross sales proceeds with their allocated homestead development costs.

As shown in Exhibit 6, under Options A, B and C, the allocated development costs exceed the gross sales proceeds at the recommended pricing levels. Under Option D, the two figures are approximately equivalent.

The four options were also re-evaluated in terms of the homestead sales prices required to recover the allocated development costs. This shows that the average unit could be priced within the recommended range for Option D, but would have to be up to 157% more costly, on average, under Option C. Compared to the recommended levels, the prices required to cover the allocated development costs would range as follows:

- **Option A** – Required prices $78,000 to $135,000 vs. $75,000 to $130,000 as recommended.
- **Option B** – Required prices $126,000 to $168,000 vs. $105,000 to $140,000 as recommended.
- **Option C** – Required prices $118,000 to $211,000 vs. $75,000 to $135,000 as recommended.
- **Option D** – Required prices are at the recommended levels of $110,000 to $165,000.

The higher required prices for Options A, B, and C would push their affordability into higher income groups than recommended. This in turn would result in their serving smaller shares of the estimated pool of qualified and interested beneficiaries.

Outside For-Profit Developer (Exhibit 7)

The analysis for an outside for-profit developer differs in that the developer would finance as much of the development costs as possible, and would require a return on the funds "loaned" to the project, as well as a developer's fee (or general and administrative expenses) and a profit margin. Use of an outside developer might also require DHHL to prepare and administer a Request for Proposals (RFP). The Department is assumed to absorb such costs rather than to pass them on into the allocable homestead costs.

According to lenders active in this area, construction financing would be limited to 80% of appraised value as completed (in this case considered to be the gross sales proceeds at the recommended pricing levels.) Since DHHL is assumed to absorb some of the actual project costs, the loan proceeds should also not exceed 80% of the developer's project expenses. Additionally, loan terms are typically 1 or 2 points over the prime lending rate, with the lower margin offered to established developers with good track records and good relationships with the lending institution. The rate could go as low as prime for a very good client of the lending institution, but for this analysis, it is assumed to be 1 point over prime, or 10% at current rates. The loan terms presented here assume DHHL take several steps to prevent the developer from having to resort to a more costly non-recourse loan (since the lands are to be retained by DHHL and not collateralized.)

Key assumptions to estimating the costs relevant to a for-profit developer include:

- Recommended DHHL steps to enhance developer's loan options and reduce marketing risk:
  - Provide pre-qualified buyers under binding contract for all units prior to commencement of building construction;
  - Offer a buy-back provision where, after some "drop dead" date, DHHL is prepared to buy any units that may have fallen out of sale;
  - Subordinate their improvements to the lender; and
  - Structure the development agreement in a way that allows the lending institution to claim Community Reinvestment credits for the loan.

- The required term for all funds is assumed to be one year for all options, basically a conservative construction period plus some sales contract-processing period only[7].
- DHHL's provision of buyers, subsidy of a significant portion of development costs, and other enhancements noted above are considered to reduce the construction and marketing risk for the developer, compared to typical market deals. This enables a provision for relatively modest (5%) profit margin, as shown in the exhibits.

Despite the above advantages, use of an outside for-profit developer results in all four options being unfeasible at the recommended range of prices.

Considering the sales prices required to recover the development costs shows that units would have to be priced between 121% (Option D) and 191% (Option C) over the recommended prices, on average. Compared to the recommended levels, the prices required to cover the allocated development costs would range as follows:

- **Option A** – Required prices $95,000 to $164,000 vs. $75,000 to $130,000 as recommended.
- **Option B** – Required prices $153,000 to $204,000 vs. $105,000 to $140,000 as recommended.
- **Option C** – Required prices $143,000 to $257,000 vs. $75,000 to $135,000 as recommended.
- **Option D** – Required prices $133,000 to $200,000 vs. $110,000 to $165,000 as recommended.

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[7] Note: a lender might require the builder to develop Option D in phases if a contingent report with pre-qualified buyers under binding contract were not provided up-front, and/or DHHL were unable to provide a buy-back guarantee. This could significantly increase interest rate charges and developer risk, hence profit expectation.

STUDY CONDITIONS

This report and the findings and conclusions stated herein are subject to the following standard study conditions:

- MC has no responsibility to update this report for events and circumstances occurring after the date of this letter report.
- This report is for the internal planning purposes of DHHL and its consultants. It is not to be used for solicitation of investment or any other third party purposes.
- The statements of fact and data reported used in this report are true and correct to the best of my knowledge. However, much of the information presented has been gathered from interviews with knowledgeable persons or from secondary sources that I deem reliable. While I have no reason to believe any such information presented here is incorrect, no responsibility is assumed for inaccuracies in reporting by government agencies, published or electronic data sources, interviewees, or any other data source used in preparing this study.
- I have no present or prospective interest in the property that is the subject of this report, and have no personal interest or bias with respect to the parties involved.
- My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

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Thank you for the opportunity to assist Townscape and the Department of Hawaiian Home Lands on this important planning project.

With best regards,

Ann M. Bouslog
President

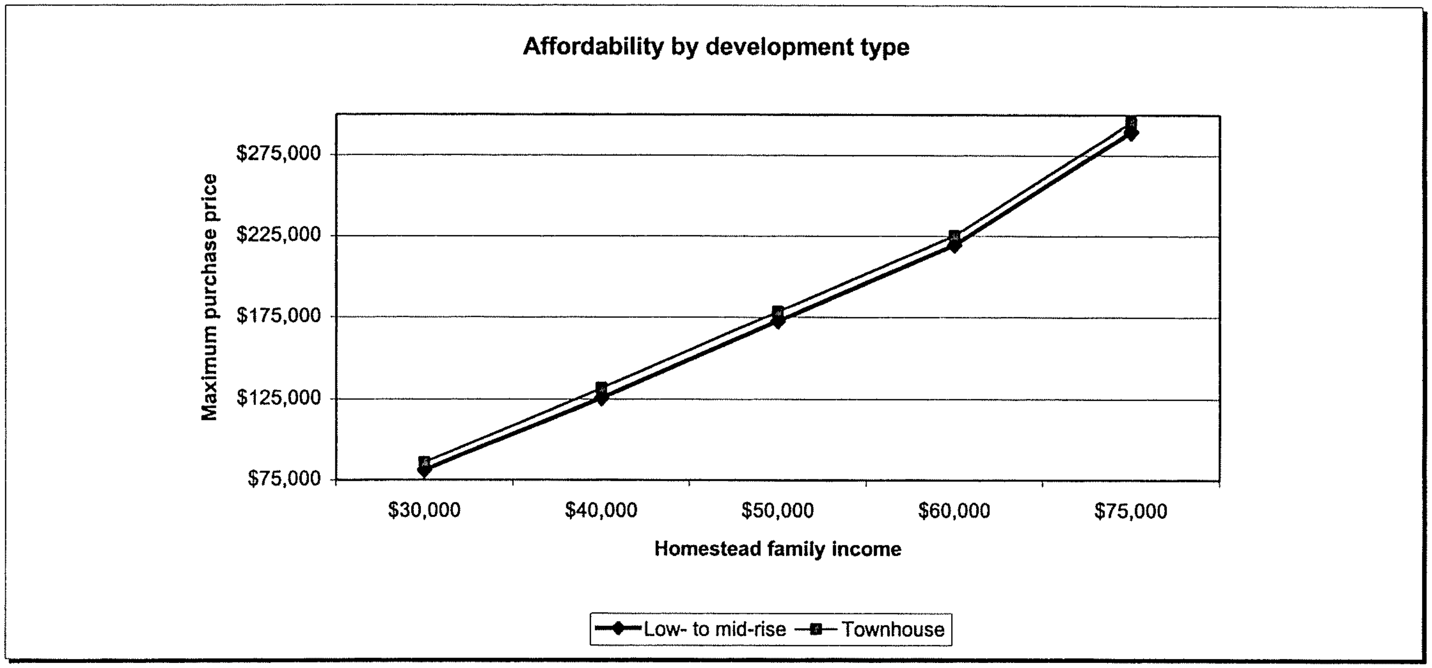
Enclosures: Referenced exhibits

Exhibit 1

Homestead Family Purchase Affordability Analysis for Low- to Midrise and Townhouse Development Types

1999 DOLLARS

	Bases/assumptions	Before-tax annual income [1] $30,000	$40,000	$50,000	$60,000	$75,000
Estimated distribution of qualified and interested homestead families [1]		40%	30%	15%	10%	5%
Maximum homestead purchase amount [2]						
Low- to midrise development	Exhibit 4	$80,947	$125,531	$172,379	$219,226	$289,497
Townhouse development	Exhibit 5	$85,717	$131,494	$178,341	$225,189	$295,460



[1] *Based on minimum income of categories established in a survey of beneficiaries, as reported in SMS, Inc., "A Report on Multi-Family Demand Study Among DHHL Applicants," December 1999, page 13. Figures represent the minimum of the range of before-tax incomes for those applicants (including their spouses, if married) considered financially qualified and interested in a condominium award. None of the qualified, interested parties reported incomes less than $30,000. Approximate income distribution based on Exhibit 1 of Mikiko Corporation report dated February 9, 2000.*

[2] *Incorporates assumptions and development types as detailed in Exhibits 4 and 5 of Mikiko Corporation report dated February 9, 2000. The difference in affordability arises from lower assumed maintenance fees under townhouse configuration, which have fewer common elements to upkeep.*

Exhibit 2

Proposed Residential Unit Mix and Sizing Under Four Development Scenarios

ISENBERG SITE

	Market indicator [1]	Proposed DHHL development scenarios			
Residential type	*Flats, 7 stories or less*	**Option A** Flats, 3-story bldg	**Option B** Larger flats, 4-story bldg	**Option C** Flats, high-rise	**Option D** Townhomes, 2-stories
Number of units [2]					
1-Bedroom	*7*	15	0	26	0
2-Bedroom	*10*	42	30	74	7
3-Bedroom	*1*	12	57	26	21
4-Bedroom	*0*	0	0	0	7
Total	*18*	69	87	126	35
Net interior unit size (s.f.) [2]					
1-Bedroom	*445*	600	--	600	--
2-Bedroom	*653*	800	900	800	950
3-Bedroom	*1,714*	1,000	1,050	1,000	1,200
4-Bedroom	*n/a*	--	--	--	1,300
Weighted average	*631*	791	998	800	1,170

(1) *Number and median size of Moili'ili/McCully fee simple unit listings in buildings of 7 stories or less, as shown in Honolulu Board of REALTORS® web site, as of January 20, 2000.*

(2) *Design Partners, Inc. January 23, 2000 and communications on March 22, 2000.*

Exhibit 3

Estimated Supportable Multifamily Unit Pricing Under Four Development Scenarios

ISENBERG SITE: FIRST QUARTER 2000 PRICES

Residential type	Market indicator [1] Flats, 7 stories or less	Proposed DHHL development scenarios: Option A Flats, 3-story bldg	Option B Larger flats, 4-story bldg	Option C Flats, high-rise	Option D Townhomes, 2-stories
Unit price [2]					
1-Bedroom	*$89,000*	$75,000	--	$75,000	--
2-Bedroom	*$155,450*	$100,000	$105,000	$100,000	$110,000
3-Bedroom	*$245,000*	$130,000	$140,000	$135,000	$145,000
4-Bedroom	*n/a*	--	--	--	$165,000
Average	*$125,000*	$99,800	$127,900	$102,100	$142,000
Unit price per square foot [3]					
1-Bedroom	*$192*	$125	--	$125	--
2-Bedroom	*$210*	$125	$117	$125	$116
3-Bedroom	*$209*	$130	$133	$135	$121
4-Bedroom	*n/a*	--	--	--	$127
Average	*$208*	$126	$128	$128	$121

(1) *Median list prices of Moili'ili/McCully fee simple unit listings in buildings of 7 stories or less, as shown on Honolulu Board of REALTORS® web site, as of January 20, 2000.*

(2) *Preliminary figures based on findings reported in Mikiko Corporation letter report to Townscape, Inc. dated February 9, 2000.*

(3) *Based on net interior unit sizes as shown in Exhibit 2.*

Exhibit 4

Analysis of Financial Qualification of DHHL Beneficiaries Under Four Development Scenarios

ISENBERG SITE: FIRST QUARTER 2000 DOLLARS

	Assumptions/ bases [1]	Proposed DHHL development scenarios			
		Option A	Option B	Option C	Option D
Estimated down payment/unit [1]	*20% down*				
1-Bedroom		$15,000	--	$15,000	--
2-Bedroom		$20,000	$21,000	$20,000	$22,000
3-Bedroom		$26,000	$28,000	$27,000	$29,000
4-Bedroom		--	--	--	$33,000
Average		$19,960	$25,580	$20,420	$28,400
Required monthly payment [2]	*8.00% 30 yr FHA*				
1-Bedroom		$440	--	$440	--
2-Bedroom		$587	$616	$587	$646
3-Bedroom		$763	$822	$792	$851
4-Bedroom		--	--	--	$969
Average		$586	$751	$599	$834
Homestead family population served					
Primary market by HF income [3]	*In thousands*	$30 to $45K	$35 to $45K	$30 to $45K	$35 to $50K
Approx. percent of Oahu median [4]	*$60,900 FY00*	49% to 74%	58% to 74%	49% to 74%	58% to 82%
Est. percent of qualified and interested homestead families eligible [5]		55%	35%	55%	50%

(1) Based on indicated share of estimated purchase prices shown on Exhibit 3. Assumes use of $20,000 OHA down-payment loan program, with $2,000 of loan proceeds applied to points and/or closing costs of mortgage loan. Additional down payment amounts to be provided by homestead family.

(2) Assumes 80% of purchase price shown previously is financed at mortgage rate and term shown.

(3) Affordability by income group accounts for payment for OHA loan and HOA fees. See February 9, 2000 report, Exhibits 4 and 5.

(4) FY2000 Oahu median family income, effective as of March 9, 2000, as shown on the U.S. Department of Housing and Urban Development web site.

(5) Derived from estimated distribution of qualified and interested homestead families by income range, as presented in Exhibit 1.

Exhibit 5

Analysis of Estimated Development Costs Allocable to Residential Unit Buyers

ISENBERG SITE: FIRST QUARTER 2000 DOLLARS

	Option A	Option B	Option C	Option D
Summary of development costs				
Direct construction costs	$7,925,500	$16,345,000	$34,515,000	$5,192,550
Indirect costs (10% of directs) (1)	$792,550	$1,634,500	$3,451,500	$519,255
Total development costs	**$8,718,050**	**$17,979,500**	**$37,966,500**	**$5,711,805**
Costs to be borne by DHHL				
Parking - on grade (1)	$222,000	$196,000	$200,000	$78,000
Parking - structure (1)	$0	$2,450,000	$6,825,000	$0
Site improvements (2)	$123,212	$160,000	$146,400	$117,772
Site utilities (3)	$1,084,288	$1,362,500	$2,058,600	$494,728
Commercial building	$0	$0	$6,741,000	$0
Commercial elevator	$0	$0	$200,000	$0
Indirect cost allocation	$142,950	$416,850	$1,617,100	$69,050
Total "absorbed" costs	$1,572,450	$4,585,350	$17,788,100	$759,550
Costs to be borne by homestead sales				
Residential building	$6,384,000	$12,064,500	$18,144,000	$4,502,050
Residential elevator	$112,000	$112,000	$200,000	$0
Indirect cost allocation	$649,600	$1,217,650	$1,834,400	$450,205
Total homestead costs	**$7,145,600**	**$13,394,150**	**$20,178,400**	**$4,952,255**
Average allocated homestead cost/unit	**$103,559**	**$153,956**	**$160,146**	**$141,493**

(1) *Includes architectural, planning and engineering fees, legal and accounting, permits, licenses and fees, bonding, testing and inspection, insurance, project management and construction administration.*

(2) *Including residential and commercial allocations.*

(3) *Includes all landscaping, walls, signage, lighting.*

(4) *Includes sewer, water, communications, electrical utilities.*

Source: Based on cost estimates and development programs provided by Design Partners Incorporated, February 23, 2000.

Exhibit 6

Comparative Analysis of Four Development Scenarios
"In-house" Development Costs and Sales Proceeds

DEVELOPMENT BY DHHL: FIRST QUARTER 2000 DOLLARS

	Bases/ assumptions	Option A	Option B	Option C	Option D
NUMBER OF UNITS	*Design Partners, Inc.* (1)	69	87	126	35
REVENUE/COST ANALYSIS AT ASSESSED PRICES (2)					
Allocated development costs	*Exhibit 5*	-$7,145,600	-$13,394,150	-$20,178,400	-$4,952,255
Projected gross sales proceeds	*Based on Exhibit 3*	$6,948,300	$11,127,300	$12,864,600	$4,970,000
Gross margin		**-$197,300**	**-$2,266,850**	**-$7,313,800**	**$17,745**
BREAKEVEN ANALYSIS PER UNIT					
Required pricing (per average unit)					
Required average unit sales price	*Allocated costs per unit*	$103,559	$153,956	$160,146	$141,493
Required sales price as % of recommended price	*Based on wtd. averages*	104%	120%	157%	100%
Amount to be financed by buyer	*80% of sale price*	$82,848	$123,165	$128,117	$113,194
Required average mortgage payment	*8.00% 30-yr FHA*	$608	$904	$940	$831
Affordability					
Range of required unit prices	*In thousands*	$78 to $135	$126 to $168	$118 to $211	$110 to $165
Primary market by household family income	*In thousands*	$30 to $45	$40 to $50	$40 to $60	$35 to $50
HF incomes as percent of Oahu median (4)	*$60,900 FY00*	49% to 74%	66% to 82%	66% to 99%	58% to 82%
Est. percent of qualified and interested homestead families eligible	*Exhibit 1*	55%	30%	45%	50%

(1) Development programs provided by Design Partners Incorporated, February 23, 2000.

(2) Based on recommended prices as shown in Exhibit 3. Assumes DHHL pays cash or equivalent for development (no financing expenses), and all administration of tasks such as financial consulting, collection of down-payment proceeds, and the like are absorbed by the Department outside of this project's accounting.

(3) See Exhibit 4 (for Options A, B, and C) and 5 (for Option G) of February 9 report for full analysis of affordability. Analysis includes an allowance for payment of down-payment loan to OHA and for HOA fees prior to allocating funds to mortgage payment.

(4) FY200 Oahu median family income effective as of March 9, 2000, as shown on the U.S. Department of Housing and Urban Development web site.

Exhibit 7

Comparative Analysis of Four Development Scenarios "Outside Developer" Costs and Sales Proceeds

DEVELOPMENT BY FOR-PROFIT ENTITY: FIRST QUARTER 2000 DOLLARS

	Bases/ assumptions Design Partners, Inc. [1]	Option A	Option B	Option C	Option D
NUMBER OF UNITS		69	87	126	35
REVENUE/COST ANALYSIS AT ASSESSED PRICES [2]					
Expenditures/budgeted costs					
Allocated development costs	Exhibit 5	-$7,145,600	-$13,394,150	-$20,178,400	-$4,952,255
Development fee [3]	5% of alloc. costs	-$357,280	-$669,708	-$1,008,920	-$247,613
Construction financing [4]:					
Amount financed	80% of gross SP	-$5,558,640	-$8,901,840	-$10,291,680	-$3,976,000
Required private equity	Balance of allocated costs	-$1,586,960	-$4,492,310	-$9,886,720	-$976,255
Percent development costs financed		*78%*	*66%*	*51%*	*80%*
Loan fees	1% financed funds	-$55,586	-$89,018	-$102,917	-$39,760
Interest expense	10% rate, 1 year	-$555,864	-$890,184	-$1,029,168	-$397,600
Total construction financing costs		-$611,450	-$979,202	-$1,132,085	-$437,360
Allowance for profit [5]	5% of alloc. costs	-$357,280	-$669,708	-$1,008,920	-$247,613
Return on private equity loaned to project	13% of pvt. equity	-$206,305	-$584,000	-$1,285,274	-$126,913
Total budget for expenditures/costs	Sum development costs, financing, profit	-$8,677,915	-$16,296,768	-$24,613,598	-$6,011,754
Projected gross sales proceeds	Based on Exhibit 3	$6,948,300	$11,127,300	$12,864,600	$4,970,000
Gross margin		**-$1,729,615**	**-$5,169,468**	**-$11,748,998**	**-$1,041,754**
BREAKEVEN ANALYSIS PER UNIT					
Required pricing (per average unit)					
Required average unit sales price	*Allocated costs per unit*	$125,767	$187,319	$195,346	$171,764
Required sales price as % of recommended price	*Based on wtd. averages*	126%	146%	191%	121%
Amount to be financed by buyer	*80% of sale price*	$100,614	$149,855	$156,277	$137,412
Required average mortgage payment	*8.00% 30-yr FHA*	$738	$1,100	$1,147	$1,008
Affordability					
Range of required unit prices	*In thousands*	$95 to $164	$153 to $204	$143 to $257	$133 to $200
Primary market by household family income [6]	*In thousands*	$35 to $50	$45 to $60	$45 to $65	$40 to $55
HF incomes as percent of Oahu median [7]	*$60,900 FY00*	58% to 82%	74% to 99%	74% to 107%	66% to 90%
Est. percent of qualified and interested homestead families eligible	*Exhibit 1*	50%	30%	35%	37%

(1) Development programs provided by Design Partners Incorporated, February 23, 2000.

(2) Based on recommended prices shown in Exhibit 3. Assumes DHHL pays site and infrastructure costs as shown on Exhibit 5; that DHHL absorbs costs for preparation and administration of RFP, screening of applicants, and the like; and provides qualified and willing buyers for all units upon their completion.

(3) Covering general and administrative expenses for developer, and fee.

(4) Loan terms based on interview with First Hawaiian Bank commercial department. Assumes no special grant or subsidy programs are available to developer; relatively favorable terms likely offered only to experienced developer with good relationship with the bank. Assumes DHHL provides pre-qualified buyers under binding sales contracts, and other conditions.

(5) Lower than typical private sector allowance due to development and marketing risks assumed by DHHL.

(6) See Exhibit 4 (for Options A, B, and C) and 5 (for Option G) of February 9 report for full analysis of affordability. Analysis includes an allowance for down-payment loan payments and for HOA fees prior to allocating funds to mortgage payment.

(7) FY200 Oahu median family income effective as of March 9, 2000, as shown on the U.S. Department of Housing and Urban Development web site.

C O R P O R A T I O N

February 9, 2000

Mr. Bruce Tsuchida
President
Townscape, Inc.
900 Fort Street Mall, Suite 800
Honolulu, HI 96813

Re: Phase 1 Report: Market Overview and Assessment for the Isenberg Site, in Mo'ili'ili, Island of Oahu

Dear Mr. Tsuchida:

This letter report concludes Phase 1 of our contract regarding planning for the Department of Hawaiian Home Lands (DHHL)'s site on Isenberg Street in Honolulu. This letter is organized under major section headers as follows:

- Study Background and Approach - beginning below
- For-Sale Multifamily Housing Demand and Assessment – beginning on page 4; conclusions on page 7
- Commercial Demand and Assessment – beginning on page 8; conclusions on page 11
- Rental Housing Demand and Assessment – beginning on page 12; conclusions on page 12

Following this letter are exhibits that detail the market research and findings upon which the assessments and conclusions are based.

STUDY BACKGROUND AND APPROACH

DHHL holds title to some 82,493 square feet of land on Isenberg Street, underlying the former "Bowl-O-Drome" facility in Mo'ili'ili, Oahu. The property was recently recovered from the former lessee, Stadium Bowl-O-Drome, Inc. In accordance with its mission, DHHL is evaluating the feasibility of redeveloping the site to offer housing awards to its beneficiaries.

Several redevelopment scenarios are being considered for the site. These include multifamily for-sale housing, a mixed-use scenario combining multifamily housing and commercial development, and multifamily rental housing targeted at *kupuna* (elderly Native Hawaiians).

Study Team

Townscape Inc. (TSI) is assisting DHHL by coordinating the development of rules for the development of multifamily housing, and preparing comparative planning studies for the site. SMS, Inc., Design Partners Incorporated and Mikiko Corporation are assisting TSI in this effort.

The market survey and analysis firm SMS, Inc. conducted a telephone survey of multifamily housing demand among DHHL's Oahu beneficiaries. The results of this survey are summarized in their December 1999 report entitled, "A Report on Multi-Family Demand Study Among DHHL Applicants" (hereinafter, "the SMS survey.") Mikiko Corporation (MC) was asked to utilize the findings of the SMS survey in preparing this assessment.

Design Partners Incorporated (DPI) is providing conceptual planning, design studies and preliminary development cost assessments for the various development scenarios under consideration.

The services of Mikiko Corporation (MC), are detailed below.

Mikiko Corporation Study Objectives and Approach

The objectives of MC's first phase of assistance on this engagement were to support TSI's planning studies for this site, as follows:

1. **Residential for-sale market** – To estimate affordable mortgage payment amounts and multifamily home purchase prices for DHHL beneficiaries, considering financial qualification data obtained from the SMS survey, information on applicable loan terms provided by DHHL, and other factors. The scope was also expanded to include evaluation of current pricing characteristics of condominium units in the vicinity of the Subject.

2. **Commercial market** –To survey and evaluate current commercial office, retail and restaurant lease terms within the vicinity of the Subject, and based on such information, to assess the potential target markets for commercial uses at the site, including their associated rents and operating expenses. MC conducted site visits to several of the comparison developments in the area and conducted other investigations related to market conditions. CMF Consulting, a

division of Colliers Monroe Friedlander, Inc, collected much of the primary market data in this area.

3. **Residential rental market** – To survey the current availability and pricing of apartment or townhouse rental units in the vicinity of the Subject, and to compare these offerings to Fair Market Rents established by the U.S. Department of Housing & Urban Development.

In a second phase of work, MC will provide a comparative evaluation of the three to five development scenarios proposed by the study team.

Special Terms and Other Considerations

Unique terminology used in this report are defined as follows:

1. **Homestead family** - This report utilizes the term "homestead family," as put forth by SMS in its survey. This is the household unit that would consider moving to a new unit offered by DHHL. Thus, the affordability analyses presented herein are based on the estimated resources of these "homestead families." As defined by SMS:

   A homestead family refers to the group of all people, including the applicant himself or herself, who will move to the homestead when the award is given. A homestead family is often the applicant's current household, but it may also include those currently living outside of the applicant's household. It is also possible that the homestead family consists of a smaller number of people than the applicant's current household [1].

2. **Qualified Applicant** – Since the intent of the SMS survey is to identify potential interest in purchasing a leasehold interest in multifamily housing, respondents were also evaluated with respect to their ability to pay for such housing. Considering the various special programs and options available to Native Hawaiians, the standards for determining financial qualification are more lenient than those that might apply in the open marketplace. According to SMS, DHHL defined a "qualified applicant" to be one who[2]:

   - Expects to pay $800 or more per month on a mortgage, assuming he or she were to build or buy within 4 or 5 years;

[1] SMS, Inc., "A Report on Multi-Family Demand Study Among DHHL Applicants," December 1999, page 3.

[2] Ibid, page 5.

- Has some savings (amount undetermined, but more than \$0); and
- Had an annual before-tax income (self and spouse, if married) of at least \$20,000 at the time of the SMS survey.

Based on these criteria, 168 of the 503 applicants surveyed were considered financially qualified.

Finally, whereas the SMS survey queried respondents about their interest in a homestead award in a high-rise condominium unit on Isenberg Street in Mo'ili'ili, current plans are for a mid- to low-rise development at the Subject. On the other hand, the SMS survey also inquired about interest in a mid-rise or townhouse development in the Makiki area (off of Prospect Street, near to Punchbowl.) In order to avoid confusing locational from building type preferences in the survey results, this study considers both the interests expressed in the Mo'ili'ili and the Makiki sites as relevant to the developments currently proposed at Isenberg.

FOR-SALE MULTIFAMILY HOUSING DEMAND AND ASSESSMENT

Financial Qualifications of Beneficiaries (Exhibits 1 and 2)

Based on extrapolation from the survey sample to the entire population of Oahu beneficiaries, SMS estimates some 209 applicants could be qualified and interested in receiving a Mo'ili'ili or Makiki multifamily award. Within this group, all homestead families are estimated to have before-tax incomes of at least \$30,000, but the numbers drop of dramatically at higher income levels, as shown in **Exhibit 1**.

Likewise, half of these relevant homestead families are estimated to have savings of \$5,000 or less, suggesting very limited family resources that might be applied to a housing down-payment. Another 28% to 35% are thought to have savings of \$5,000 to \$25,000, but nearly 15% could have savings of \$50,000 or more, as shown in **Exhibit 2**.

Housing Preferences (Exhibit 3)

Qualified interested applicants showed a strong preference for two- or three-bedroom multifamily units, even after being asked to "compromise" their preferences based on financial or other considerations. Relatively large units would appear to be necessary given their often-larger household sizes.

Affordability Analysis of For-Sale Housing (Exhibits 4 through 6)

Exhibit 4 presents the conclusions regarding for-sale housing affordability in a low- to mid-rise development, for qualified interested applicants. The analysis considers income distribution, mortgage loan criteria, and other factors.

- **Standard mortgage loan criteria** - Based on interviews with property managers and mortgage loan officers, approximately 33% of monthly gross income should be considered toward housing expenses. Also, maintenance fees for a multi-story building with an elevator but few other amenities could be expected to range from about $200 to $250 per month.

- **Mortgage lending rate** – According to DHHL, the applicable mortgage loan term for a DHHL beneficiary are based on the Federal Housing Administration (FHA) programs, which are approximately one-half point below market rates. According to brokers, 30-year mortgages are currently slightly over 8%, and rates are expected to rise modestly through the year. Thus the 8% rate used would allow for some increases in prevailing interest rates.

- **Mortgage insurance** – Is not deducted from the homestead family housing budget because FHA loans are themselves insured.

- **Homeowners' insurance** – Is not deducted form the homestead family budget because mortgage brokers indicate that for multifamily purchases, the building maintenance fees are considered a reasonable proxy instead.

- **Real property taxes** – Are not deducted from the housing budget because, according to DHHL, the City and County of Honolulu offers beneficiaries an approximately 7-year period of real property tax forgiveness. Therefore, underwriters typically do not consider real property taxes when qualifying DHHL applicants.

- **Down payment assumptions** - According to DHHL, Native Hawaiians are eligible for down-payment loans from the Office of Hawaiian Affairs (OHA), consisting of up to $20,000 offered at 3% annual interest amortized over a 15-year term. Since these funds are offered at extremely favorable terms and can be used in lieu of the entire down-payment on a homestead acquisition, this "best case" financial analysis assumes that all beneficiaries avail themselves of the maximum $20,000.

After deducting points and closing costs, some $18,000 of this budget could remain to be applied to a down payment[3]. Any remaining down payment amounts necessary to achieve 20% down are assumed to be funded by the homestead family.

For the approximately 40% of qualified interested homestead families who would fall into the lowest income category of $30,000 to $39,999, no additional down-payment would be necessary.

Maximum affordable home purchases for higher income homestead families could require household contributions to the down payment over and above the OHA funds. These contributions could range from about $7,000 at a $40,000 annual income, to $40,000 for the 6% or so of homestead families estimated to earn at $75,000 or more annually. These contributions appear significant but not unreasonable given the distribution of homestead family savings shown previously in Exhibit 2.

In conclusion, supportable multifamily homestead purchase prices range from about $81,000 for the approximately 40% of qualified interested homestead families who earn $30,000 to $39,999 per year, to up to $289,000 for the top 6% earning $75,000 to $99,999.

Exhibit 5 reviews the analysis presented above for a townhouse development. Within this scenario, there would be less common area for an owners' association to maintain, particularly since stairwells are within each unit and thus private, and there would be no common balconies, walkways or elevators, and garden areas would likely be enclosed within each unit and private. Therefore, the budget for maintenance fees on such a property can be reduced. Consultation with lenders, developers and property managers suggests that a monthly allowance of $190 is sufficient. Compared to the analyses shown in Exhibit 4, this raises the amount of income that can be applied to housing payments, thus the maximum homestead purchase amounts are accordingly higher than shown previously.

Exhibit 6 contrasts the affordability conclusions for low- to mid-rise and townhouse developments. The lower association dues assumed for the townhouse development support affordable homestead purchase amounts of approximately $4,000 more across all five income points evaluated.

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[3] At the lower home purchase price levels. At higher levels, points and closing costs could consume more of this budget, but the homestead buyer is assumed to be capable of funding such costs from private resources.

Comparative Market Offerings (Exhibits 7 through 10)

Because it does not appear logical for DHHL to expend funds to provide homesteads priced at above what is available in the open marketplace, the above affordability analysis is re-evaluated in light of market indicators for multifamily housing in the areas surrounding the Subject. Market research shows that:

- The median list price of fee-simple units in buildings of 7 stories or less in the Mo'ili'ili/McCully area was approximately $89,000 for 1-bedroom units, or $155,000 for 2-bedroom units (there was only one 3-bedroom unit listed, at $245,000) as of late January 2000. These represent median asking prices of $192 to $210 per square foot (**Exhibit 7**).

- These fee-simple prices refer to units ranging from 445 to 653 net interior square feet, for 1- and 2-bedroom units respectively (**Exhibit 8**).

- A comparative analysis of leasehold units is difficult to make, since the particular remaining terms and other conditions of the ground leases are not available. However, listings for 5 leasehold units in the same area show prices ranging from $35,000 to $81,900 for units sized from 444 to 925 net interior square feet (**Exhibits 9 and 10**).

Conclusions Regarding Pricing of For-Sale Multifamily Housing at Isenberg

In order to provide multifamily housing awards that are affordable to beneficiaries, that offer superior value to what is available on the open marketplace, and that support those beneficiaries most in need of housing assistance, it is concluded that development at the Isenberg site should be focused on 2- to 3-bedroom units priced from about $80,000 to $135,000 for the leasehold interest. In addition to utilizing the findings of the SMS survey, this assessment considers that:

- FHA interest rates are assumed to remain at or below about 8% for 3-year amortization periods, and the availability and terms of the OHA down-payment loan program are assumed to remain as stated.

- Compared to the market comparables, the Isenberg offerings would be new and thus in superior condition. Also, its location alongside Stadium Park would offer an attractive "green belt" and recreational resource generally superior to the competitive units.

- While the marketplace offers a reasonable supply of units in the recommended price range already, they are 1- to 2-bedroom units only (see Exhibit 5). Three-bedroom multifamily unit listings were very rare. Thus, the recommended mix of 2- and 3-bedroom units would offer superior value and begin to address the stated homestead family preferences.

- Despite SMS' finding that some 209 DHHL applicants are both qualified and interested in a Moi'ili'ili or Makiki multifamily award, an estimated 197 of these applicants were still found to prefer a single-family award[4].

- A DHHL homestead is less readily re-marketed than units purchased on the open marketplace.

- Finally, the DHHL awardee would be acquiring a leasehold, not a fee-simple interest.

COMMERCIAL DEMAND AND ASSESSMENT

Proposed Commercial Development Concept

"Option C" for development of the Subject site, as conceptually laid out by DPI, includes four floors of commercial area on top of a four-story parking structure. Within the site, the commercial complex would face Isenberg Street. Additionally, there appears to be a small ground floor retail area fronting Isenberg Street. Floor plates and gross leaseable areas of these commercial areas are not yet available.

This section presents comparison market data and the assessment for lease-up of these potential commercial areas.

Area Market Conditions by Building (Exhibits 11 and 12)

Nine commercial centers in the Mo'ili'ili and McCully neighborhoods were surveyed with respect to their development characteristics and market performance. Their physical characteristics are summarized in **Exhibit 11**, while current asking rents and vacancy characteristics are presented in **Exhibit 12**. None of the centers poses a direct comparison to the commercial concept proposed for the Isenberg site, but all offer useful benchmarks.

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[4] SMS, Inc., "A Report on Multi-family Demand Study Among DHHL applicants," December 1999, page 19.

- **Similar locations** - Old Stadium Mall and the McCully Commercial Center are considered locationally most similar to the Subject in that they are not near to any major center of consumers, and each has unique issues hampering their visibility from the major thoroughfare. However, both are unlike the proposed scenario in that they are single-story buildings and offer ground level parking adjacent to the tenant spaces.

  Old Stadium Mall is also fully leased, mostly to restaurant or food service related tenants, so current asking rates are not available. The relatively small McCully Commercial Center recently lost a major tenant, and thus is showing a 38% vacancy. Asking rents for this space are $2.00 per square foot, plus common area maintenance of $0.78 per square foot. This is considered a relevant indicator for the possible ground floor area of the Subject.

  The Executive Plaza also has similar locational attributes to the Subject. Additionally, it is multistory, of relatively new construction and primarily an office complex. All of these characteristics make it physically similar to the upper floor commercial areas proposed at the Subject. However, Executive Plaza's leasing appears to be hampered by its confusing and possibly above-market asking terms, and its foreign ownership and leasing agents. It is currently showing more than half of its space as vacant. Despite these unique handicaps, the relatively poor performance of this building suggests the difficulty of attracting upper floor office tenants in the McCully or Mo'ili'ili neighborhoods.

- **University area** – The next four centers listed all benefit from their prime locations near to the UH Manoa campus and the high volume of bus, foot and automobile traffic that it generates. Varsity Center and Puck's Alley demonstrate some of the highest base rents (up to $4.00 or $4.50 for ground floor retail) of the area, and lowest vacancies, at 0% and 1.9%, respectively. These are considered high market indicators for the Subject. The vacancy at Puck's Alley is reportedly long-standing, and is for upper-floor office space.

  University Square shows lower rents due to its obsolete infrastructure, confusing circulation patterns and the run-down nature of the buildings themselves. The current asking rent of $1.00 per square foot at University Square refers to upper floor office spaces.

  The large vacancy at the Varsity Building is primarily due to the full-floor ground level vacancy created when First Hawaiian Bank moved its area branch to its new building at Isenberg and Beretania Streets. The site also offers odd configurations, since the building floor plates are round. The $1.75 per square foot asking rent noted is gross, including all CAM and other operating charges, and is for upper floor office spaces.

- **Waikiki transitional markets** - McCully Shopping Center and Kapiolani Shopping Plaza, both located at the intersection of Kapi'olani Boulevard and McCully Street, benefit from their location at the edge of Waikiki. Thus, they can attract a greater variety of personal service and recreational tenants compared to the other centers, and enjoy higher rents. Net asking rents in these centers ranged from $1.75 to $2.95 for first and second floor spaces as of December 1999. These centers also appear to have higher turnover rates, and are currently yielding vacancies ranging from about 10% to 14%.

Area Market Conditions by Corridor (Exhibits 13 and 14)

Each of the possible comparison properties noted above has unique conditions that make it less than comparable to the Subject's offerings. Thus, CMF Consulting was also asked to prepare a survey of asking rents and recently negotiated commercial space leases for the Beretania and South King Street corridors, from McCully Street to the Humane Society. This survey catches only those properties showing Beretania or South King Street addresses. Thus, for instance, it does not include University Square or Varsity Center, even though they front on South King.

- **Retail** – The corridor survey shows retail ground floor spaces asking $1.28 to $2.28 per square foot net, plus nearly $1.00 common area maintenance (CAM) charges, as shown in **Exhibit 13**. Recently transacted deals, however, show net rents in a more narrow range, from $1.40 to $2.60 per square foot, with lower CAMs **(Exhibit 14)**.

  No offerings or recent transactions of upper floor retail areas were found.

- **Restaurant** – Two current restaurant space offerings were at $2.58 and $4.23 gross, for a 4,211 square foot pad location with ample dedicated parking, and a 740 square foot infill location, respectively. Both are ground floor locations with adjacent parking.

- **Second floor office** – Currently marketing second floor office spaces range from 252 to 860 square feet, and $1.00 to $1.30 per square foot net. Thirteen recently negotiated deals show a broader range of net rents, from $0.77 to $1.80 per square foot at spaces that ranged from 166 to 1,280 square feet.

- **Third floor office** – Three third floor sites being marketed show rents up to $2.00 net, but gross rents are the same as for the other second floor spaces, at $1.45 to $2.78 per square foot. However, eight recently transacted third floor office deals in the area reflect gross rents of only $1.20 to $1.80.

Commercial Market Conclusions for the Isenberg Site

The two commercial areas shown within the "Option C" plan offer significantly different commercial opportunities.

- **Ground floor space** – The ground floor space is very suitable to a retail and possibly restaurant use, the latter depending on the actual site area and layout, particularly with respect to parking areas. Given the Subject's adjacency to the popular Stadium Park, the density of surrounding residential areas, and its walking distance to Iolani High School, it appears to be appropriate for a convenience store.

  Achieved rents for this space could be anticipated in the range of \$1.90 to \$2.00 per square foot per month, with asking prices up to \$2.20. Percentage rents would also be applied, and could range from about 7% to 8% for a retail facility, or 8% to 10% for a restaurant (the latter range referring to food and liquor sales, respectively.) Common area operating expenses and real property taxes are estimated at about \$0.75 to \$0.80 per square foot, with charges applicable to ground rent, if any, being in addition.

- **Upper floor spaces** – The four potential upper floors of commercial area are considered nearly exclusively as office spaces, with possible markets including educational support and training facilities targeted at the secondary school, college and continuing professional educational levels. Small research and development or technology-related enterprises might also find the area attractive, assuming fiber optic hook-ups and other modern infrastructure is provided. Such uses could benefit from the parking structure and do not require the street visibility of other office tenants. Professional and personal services also appear to evidence some demand in the region, and would likewise not be significantly hampered by the need to enter a parking structure, assuming validations were provided. All such tenants are likely to require a secure building.

  Achieved rents are anticipated in the range of about \$0.90 to \$1.10 per square foot net, with slightly higher asking rents. Common area maintenance charges and real property taxes are likely to be charged at the same rate as for the ground floor retail space, at about \$0.75 to \$0.80 per square foot. Ground rent, if also passed on, would be in addition.

  Given the long-standing upper-floor vacancies already within the region, lease-up of such spaces could be time-consuming, however. Approximately 2,000 to 3,000 square feet of such space might be leased per year.

RENTAL HOUSING DEMAND AND ASSESSMENT

HUD Standards for Rents

DHHL indicates that its potential *kupuna* rental units would be priced in accordance with the U.S. Department of Housing & Urban Development (HUD)'s assessment of Fair Market Rents (FMR) for the Honolulu metropolitan area. For Fiscal Year 2000 (rates effective as of October 1, 1999), these rents range as follows[5]:

- Studio units: $604
- One-bedroom units: $723
- Two-bedroom units: $851

Comparative Market Offerings (Exhibits 15 through 17)

As for the for-sale housing, rental units provided by DHHL should offer better value than what could be obtained in the open marketplace. A June 1999 survey of rental listings in the Honolulu Advertiser was obtained and analyzed, and a new survey of listings on the Honolulu Board of Realtors' Website was conducted in January 2000. Both these surveys indicate that, within the general area of the Isenberg site, at least half of marketplace offerings were at or below HUD's FMR rents for studio and 1-bedroom units. However, the area market tends to be priced higher than the Honolulu metropolitan FMR standard for 2-bedroom units, and 3-bedroom multifamily listings were rare.

Personal inspections of a number of the market listings indicate that many are in older buildings with run-down or obsolete facilities.

Conclusions Regarding Pricing of Rental Housing at Isenberg

Despite the ability of the marketplace to provide studio and 1-bedroom units within HUD's FMR guidelines, the offerings tend to be in run-down facilities without security or other amenities that might be of interest to *kupuna* beneficiaries.

[5] U.S. Department of Housing & Urban Development, "Fair Market Rents for the Section 8 Housing Assistance Payments Program – Fiscal Year 2000; Final Rule," October 1, 1999 (as presented on HUD Website).

On the other hand, the marketplace falls short of the FMR guidelines for 2-bedroom units, and 3-bedroom multifamily units are difficult to find in the Subject area. However, these larger unit configurations may not be necessary or affordable for *kupuna* beneficiaries.

In conclusion, a *kupuna* rental housing program is considered a possibly worthwhile venture at the Isenberg site, assuming units can be developed and operated in a secure, attractive environment at costs that are supportable by the FMR guidelines noted above.

STUDY CONDITIONS

This report and the findings and conclusions stated herein are subject to the following standard study conditions:

- MC has no responsibility to update this report for events and circumstances occurring after the date of this letter report.
- This report is for the internal planning purposes of DHHL and its consultants. It is not to be used for solicitation of investment or any other third party purposes.
- The statements of fact and data reported used in this report are true and correct to the best of my knowledge. However, much of the information presented has been gathered from interviews with knowledgeable persons or from secondary sources that I deem reliable. While I have no reason to believe any such information presented here is incorrect, no responsibility is assumed for inaccuracies in reporting by government agencies, published or electronic data sources, interviewees, or any other data source used in preparing this study.
- I have no present or prospective interest in the property that is the subject of this report, and have no personal interest or bias with respect to the parties involved.
- My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report.

⁕ ⁕ ⁕ ⁕ ⁕ ⁕

Thank you for the opportunity to assist Townscape and the Department of Hawaiian Home Lands on this important planning project.

With best regards,

Ann M. Bouslog
President

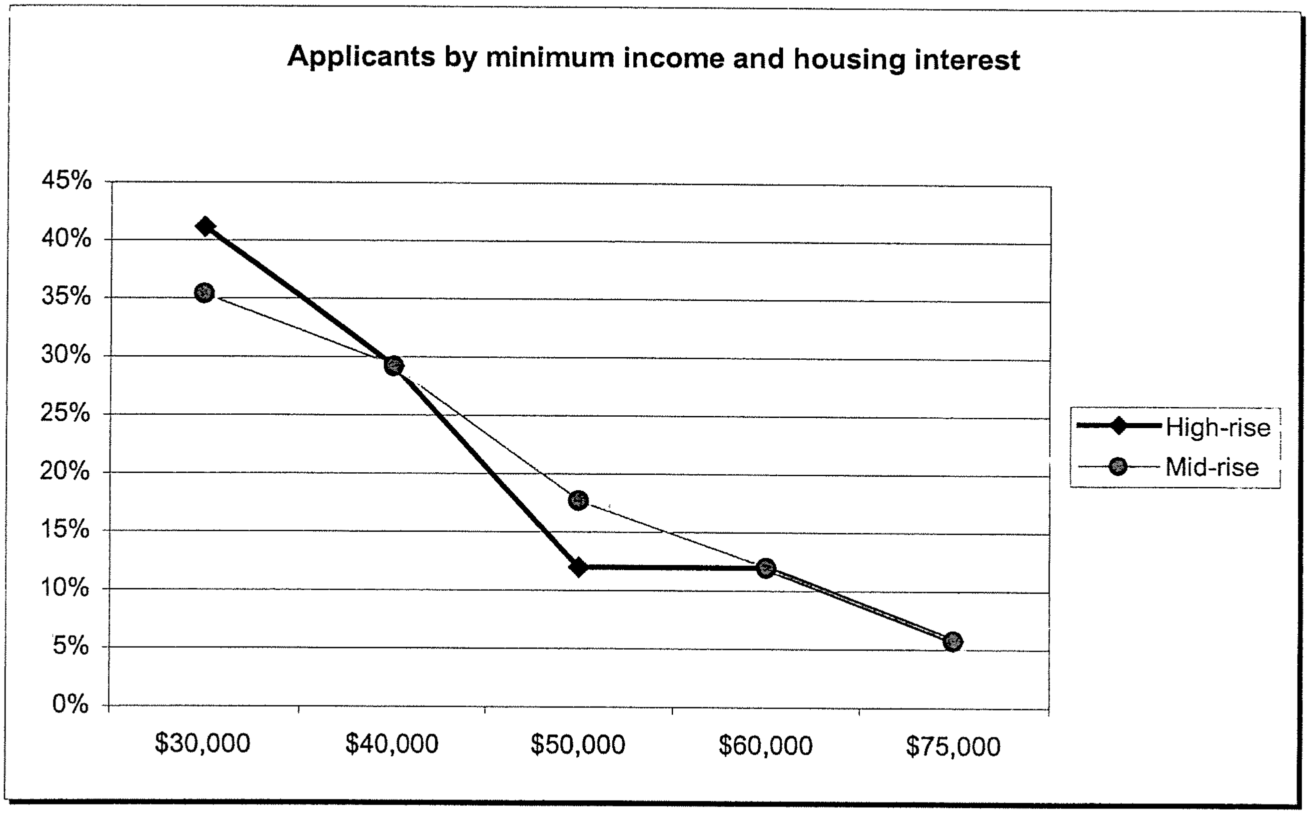
Enclosures: Referenced exhibits

Exhibit 1

Income Distribution for Qualified Applicants Stating Interest in a Condominium Award

BEFORE-TAX ANNUAL INCOME BY UNIT TYPE OF INTEREST, 1999 DOLLARS

	$30,000 to $39,999	$40,000 to $49,999	$50,000 to $59,999	$60,000 to $74,999	$75,000 to $99,999	Total
Estimated qualified interested applicants						
Mo'ili'ili high rise	86	61	25	25	12	209
Makiki mid-rise	74	61	37	25	12	209
Distribution						
Mo'ili'ili high rise	41%	29%	12%	12%	6%	100%
Makiki mid-rise	35%	29%	18%	12%	6%	100%



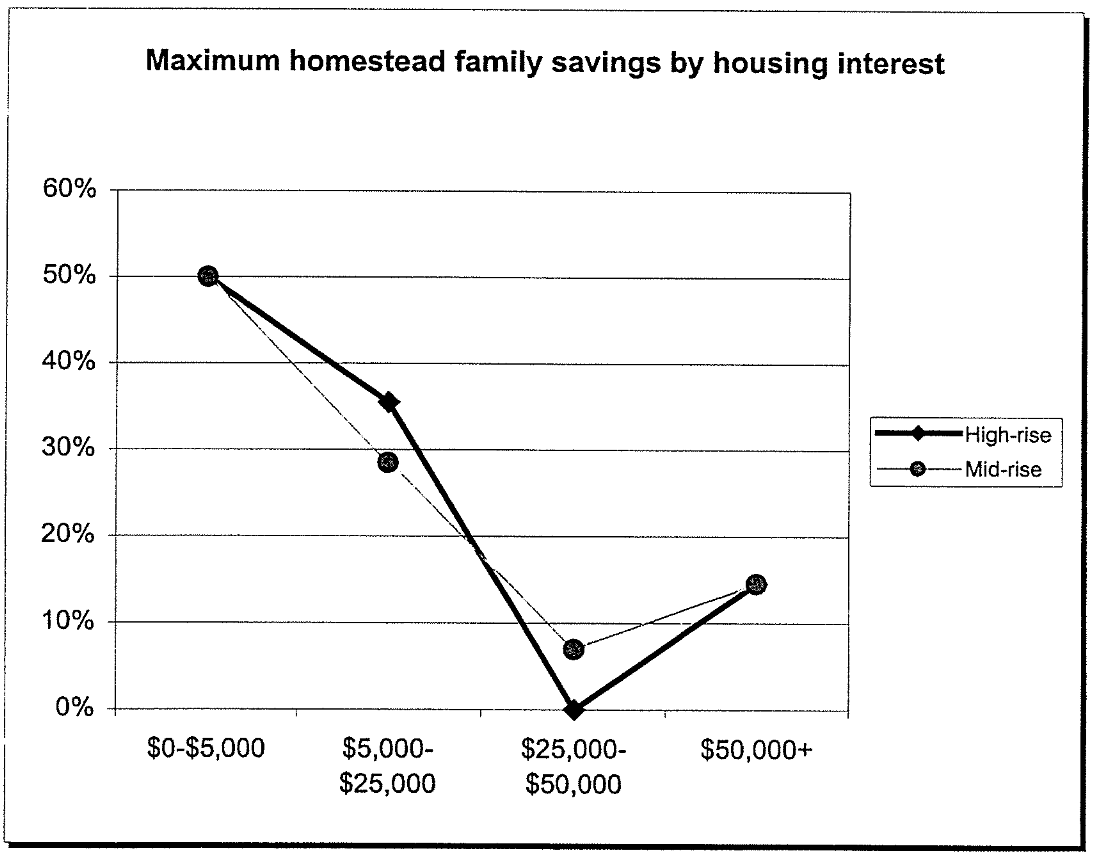
Source: SMS, Inc., "A Report on Multi-Family Demand Study Among DHHL Applicants," December 1999, page 14. Figures represent the reported range of before-tax incomes for those applicants (including their spouses, if married) who were determined to be financially qualified and who indicated interest in a Mo'ili'ili high-rise or Makiki mid-rise condominium award.

Exhibit 2

Total Homestead Family Savings by Unit Type of Interest

1999 DOLLARS

	Homestead Family savings (1)				
	$1 to $5,000	$5,000 to $25,000	$25,000 to $50,000	$50,000 or more	Total (1)
Estimated qualified, interested applicants					
Mo'ili'ili high rise	86	61	-	25	172
Makiki mid-rise	86	49	12	25	172
Distribution					
Mo'ili'ili high rise	50%	35%	0%	15%	100%
Makiki mid-rise	50%	28%	7%	15%	100%



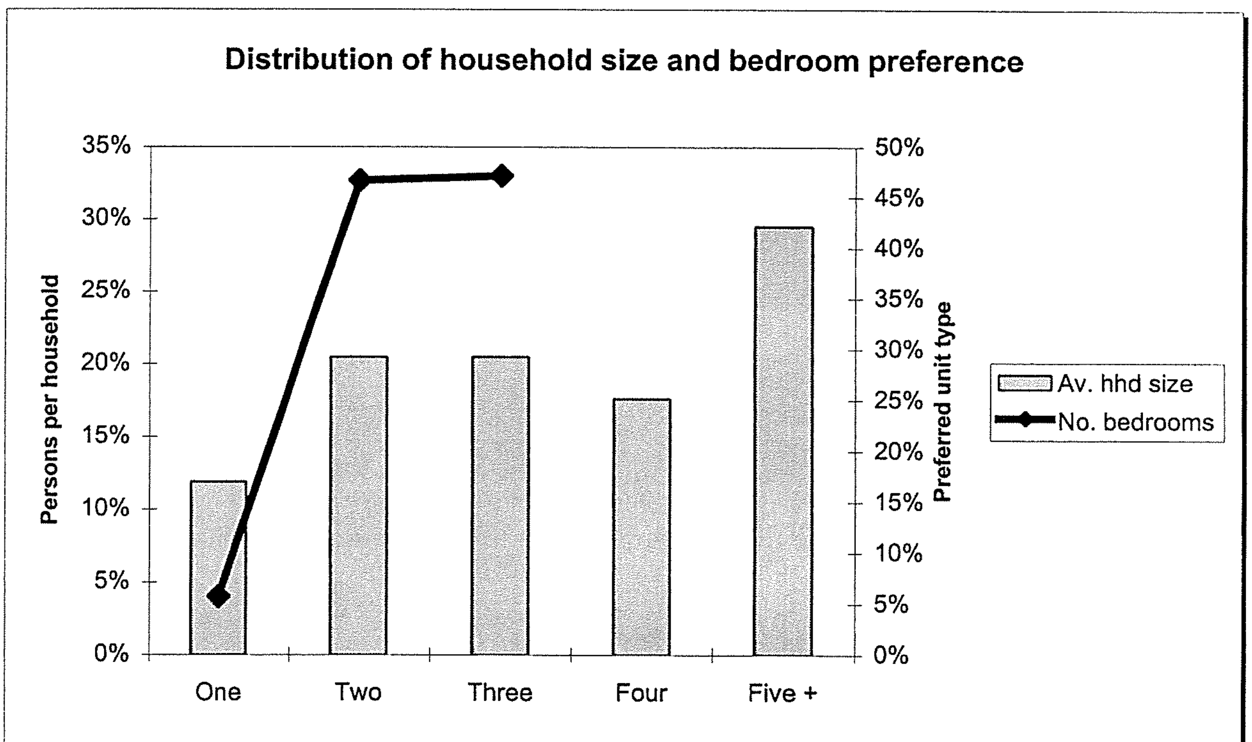
Source: SMS, Inc., "A Report on Multi-Family Demand Study Among DHHL Applicants," December 1999, page 14. Represents the reported range of total homestead family savings for those applicants (including their spouses, if married) who were considered financially qualified and who indicated interest in a Mo'ili'ili high-rise or Makiki mid-rise condominium award.

(1) *Figures do not consider those indicating the amount of their savings was unknown.*

Household Size and Preferred Unit Size

QUALIFIED INTERESTED APPLICANTS BY UNIT TYPE OF INTEREST

	Mo'ili'ili high-rise		Makiki mid-rise	
	Number	Percent	Number	Percent
Number of persons in the homestead family, including children (1)				
One	25	12%	25	12%
Two	37	18%	49	23%
Three	49	23%	37	18%
Four	37	18%	37	18%
Five or more	62	30%	62	30%
Total estimated sample	210	100%	210	100%
Preferred number of bedrooms in future home (2)				
One	12	6%	12	6%
Two	98	47%	98	47%
Three	99	47%	99	47%
Total estimated sample	209	100%	209	100%



Source: SMS, Inc., "A Report on Multi-Family Demand Study Among DHHL Applicants," December 1999.

(1) Page 17.

(2) Represents applicants' "compromised" preference, incorporating financial or other considerations. Question on which data are based was not posed in reference to multifamily housing. Page 19.

Exhibit 4

Maximum Homestead Purchase Affordability Analysis for DHHL Beneficiaries

LOW- TO MID-RISE UNIT PURCHASE, 1999 DOLLARS

	Bases/assumptions	Before-tax annual income [1] $30,000	$40,000	$50,000	$60,000	$75,000
Monthly income		$2,500	$3,333	$4,167	$5,000	$6,250
Homestead purchase assumptions (monthly) [2]						
Maximum housing payment	33% of income	$825	$1,100	$1,375	$1,650	$2,063
Less maintenance fees [3]	$225 (mid-range of $200-250)	-$225	-$225	-$225	-$225	-$225
Less payments to OHA loan [4]	3% 15-yr rate, on $20,000	-$138	-$138	-$138	-$138	-$138
Maximum to principal & interest		$462	$737	$1,012	$1,287	$1,699
Maximum mortgage amount	8.00% 30-yr FHA rate	$62,947	$100,425	$137,903	$175,381	$231,598
Standard down pmt benchmark	20% minimum	$15,737	$25,106	$34,476	$43,845	$57,899
Assumed actual down payment						
OHA down-payment program	$18,000 net of points, clsg [5]	$18,000	$18,000	$18,000	$18,000	$18,000
HF contribution	Balance, if any, to achieve 20%	$0	$7,106	$16,476	$25,845	$39,899
Total down		$18,000	$25,106	$34,476	$43,845	$57,899
Maximum homestead purchase amount		**$80,947**	**$125,531**	**$172,379**	**$219,226**	**$289,497**

(1) *Based on minimum income levels for categories established in a survey of beneficiaries, as reported in SMS, Inc., "A Report on Multi-Family Demand Study Among DHHL Applicants," December 1999, page 13. Figures represent the minimum of the reported range of before-tax incomes for those applicants (including their spouses, if married) considered financially qualified and interested in a condominium award. None of the qualified, interested parties reported incomes of less than $29,999.*

(2) *No discount for real property taxes, mortgage insurance or homeowners' insurance. See text for discussion.*

(3) *Assumes development has common area landscaping, paths, and stairwells and/or an elevator.*

(4) *Assumes maximum available under Office of Hawaiian Affairs down-payment program.*

(5) *Assumes $2,000 of $20,000 OHA loan applied to points and closing costs. More affluent Homestead Families would have to contribute additional points or closing costs to purchase at the higher-priced levels shown.*

Exhibit 5

Maximum Homestead Purchase Affordability Analysis for DHHL Beneficiaries

TOWNHOUSE UNIT PURCHASE, 1999 DOLLARS

	Bases/assumptions		Before-tax annual income [1]				
			$30,000	$40,000	$50,000	$60,000	$75,000
Monthly income			$2,500	$3,333	$4,167	$5,000	$6,250
Homestead purchase assumptions (monthly) [2]							
Maximum housing payment	33%	of income	$825	$1,100	$1,375	$1,650	$2,063
Less maintenance fees [3]	$190		-$190	-$190	-$190	-$190	-$190
Less payments to OHA loan [4]	3%	15-yr rate, on $20,000	-$138	-$138	-$138	-$138	-$138
Maximum to principal & interest			$497	$772	$1,047	$1,322	$1,734
Maximum mortgage amount	8.00%	30-yr FHA rate	$67,717	$105,195	$142,673	$180,151	$236,368
Standard down pmt benchmark	20%	minimum	$16,929	$26,299	$35,668	$45,038	$59,092
Assumed actual down payment							
OHA down-payment program	$18,000	net of points, clsg [5]	$18,000	$18,000	$18,000	$18,000	$18,000
HF contribution	Balance, if any, to achieve 20%		$0	$8,299	$17,668	$27,038	$41,092
Total down			$18,000	$26,299	$35,668	$45,038	$59,092
Maximum homestead purchase amount			**$85,717**	**$131,494**	**$178,341**	**$225,189**	**$295,460**

(1) *Based on minimum income levels for categories established in a survey of beneficiaries, as reported in SMS, Inc., "A Report on Multi-Family Demand Study Among DHHL Applicants," December 1999, page 13. Figures represent the minimum of the reported range of before-tax incomes for those applicants (including their spouses, if married) considered financially qualified and interested in a condominium award. None of the qualified, interested parties reported incomes of less than $29,999.*

(2) *No discount for real property taxes, mortgage insurance or homeowners' insurance. See text for discussion.*

(3) *Assumes development with minimal common area landscaping and parking, and no shared paths, stairways, etc.*

(4) *Assumes maximum available under Office of Hawaiian Affairs down-payment program.*

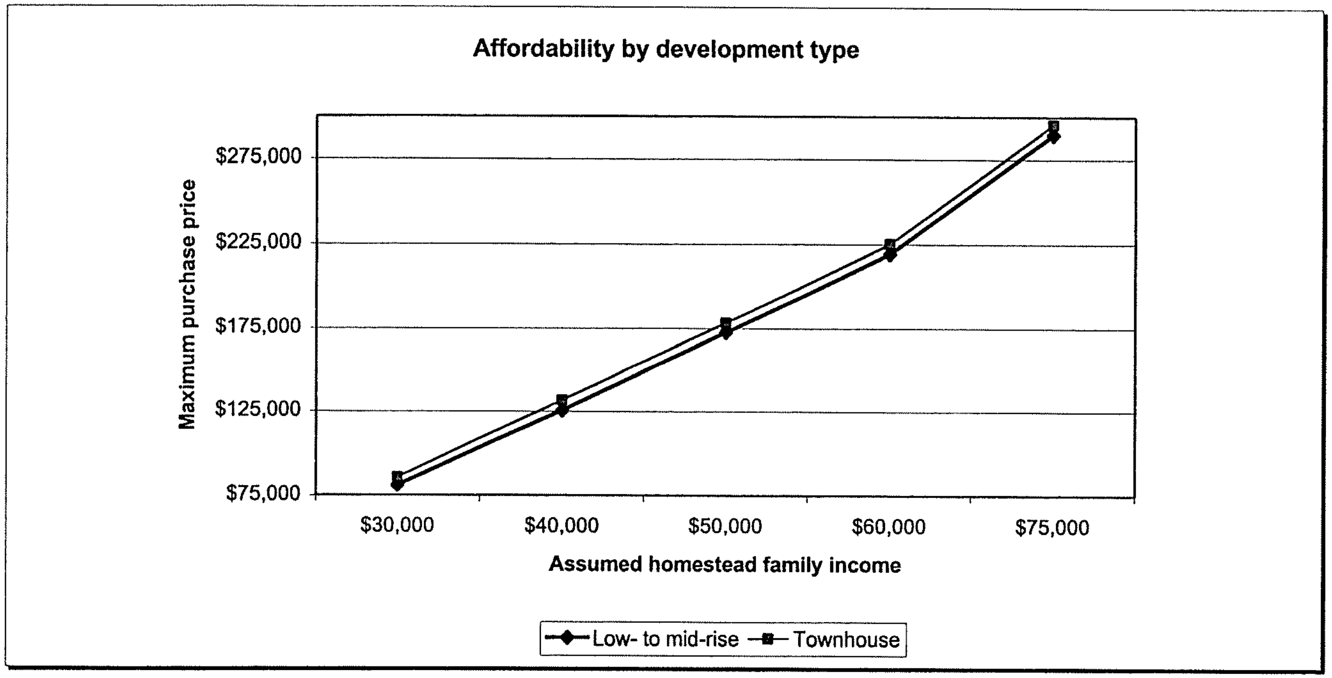
(5) *Assumes $2,000 of $20,000 OHA loan applied to points and closing costs. More affluent Homestead Families would have to contribute additional points or closing costs to purchase at the higher-priced levels shown.*

Exhibit 6

Homestead Family Purchase Affordability Analysis for Low- to Mid-Rise and Townhouse Development Types

1999 DOLLARS

	Bases/assumptions	Before-tax annual income [1] $30,000	$40,000	$50,000	$60,000	$75,000
Assumed distribution of qualified homestead families		40%	30%	15%	10%	5%
Maximum homestead purchase amount [2]						
Low- to midrise development	Exhibit 4	$80,947	$125,531	$172,379	$219,226	$289,497
Townhouse development	Exhibit 5	$85,717	$131,494	$178,341	$225,189	$295,460



[1] *Based on minimum income levels for categories established in a survey of beneficiaries, as reported in SMS, Inc., "A Report on Multi-Family Demand Study Among DHHL Applicants," December 1999, page 13. Figures represent the minimum of the reported range of before-tax incomes for those applicants (including their spouses, if married) considered financially qualified and interested in a condominium award. None of the qualified, interested parties reported incomes of less than $29,999.*

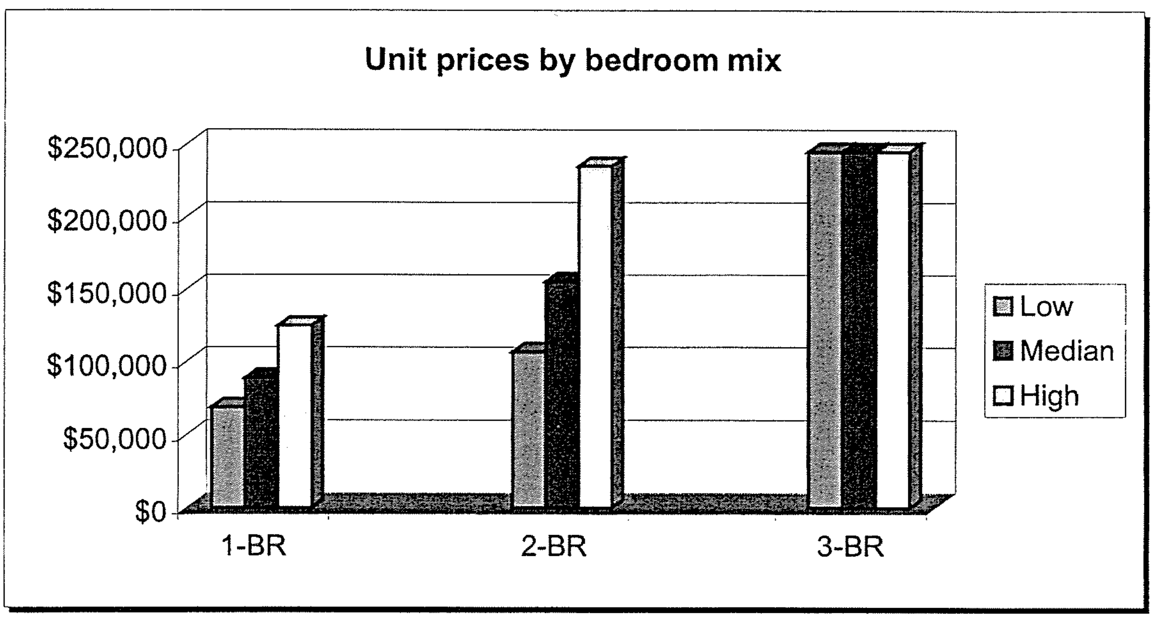
[2] *Incorporates assumptions and development types as detailed in Exhibits 4 and 5. The difference in affordability of the two development types arises from lower assumed maintenance fees under townhouse configuration, which would have fewer common elements to upkeep.*

Exhibit 7

Number and Prices of Fee-Simple Condominium Units Listed for Sale in Low- to Mid-Rise Buildings, Mo'ili'ili/McCully

UNITS IN BUILDINGS OF 7 STORIES OR LESS, AS OF JANUARY 20, 2000

	1-BR	2-BR	3-BR	Overall/ total
Number listed	7	10	1	18
List price				
Low	$69,000	$107,000	$245,000	$69,000
Median	$89,000	$155,450	$245,000	$125,000
High	$125,000	$235,000	$245,000	$245,000
List price per interior area				
Low	$139	$182	$209	$139
Median	$192	$210	$209	$208
High	$316	$277	$209	$316



Sources: Honolulu Board of REALTORS® Website: http://www.hicentral.com; personal inspection of listed properties.

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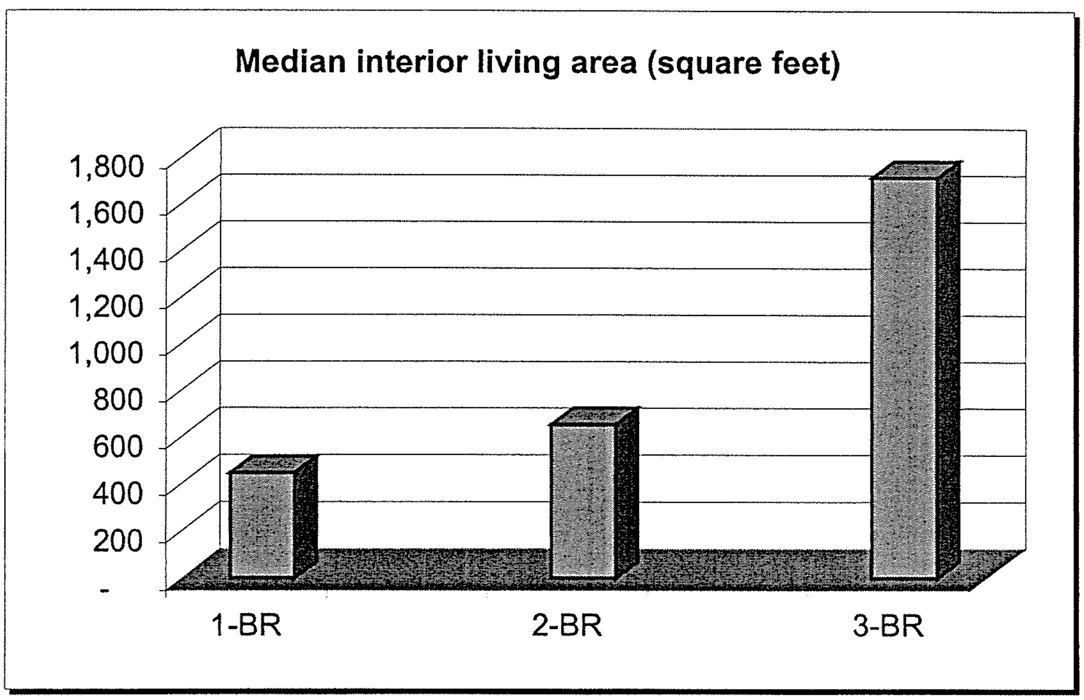
Exhibit 8

Unit Sizes of Fee-Simple Condominium Units Listed for Sale in Low- to Mid-Rise Buildings, Moili'ili/McCully

UNITS IN BUILDINGS OF 7 STORIES OR LESS,
AS OF JANUARY 20, 2000

	1-BR	2-BR	3-BR	Overall/ total
Number listed	7	10	1	18
Median unit area				
Interior living area	445	653	1,714	586
Open lanai area	48	-	-	24
Gross area	460	716	1,714	593

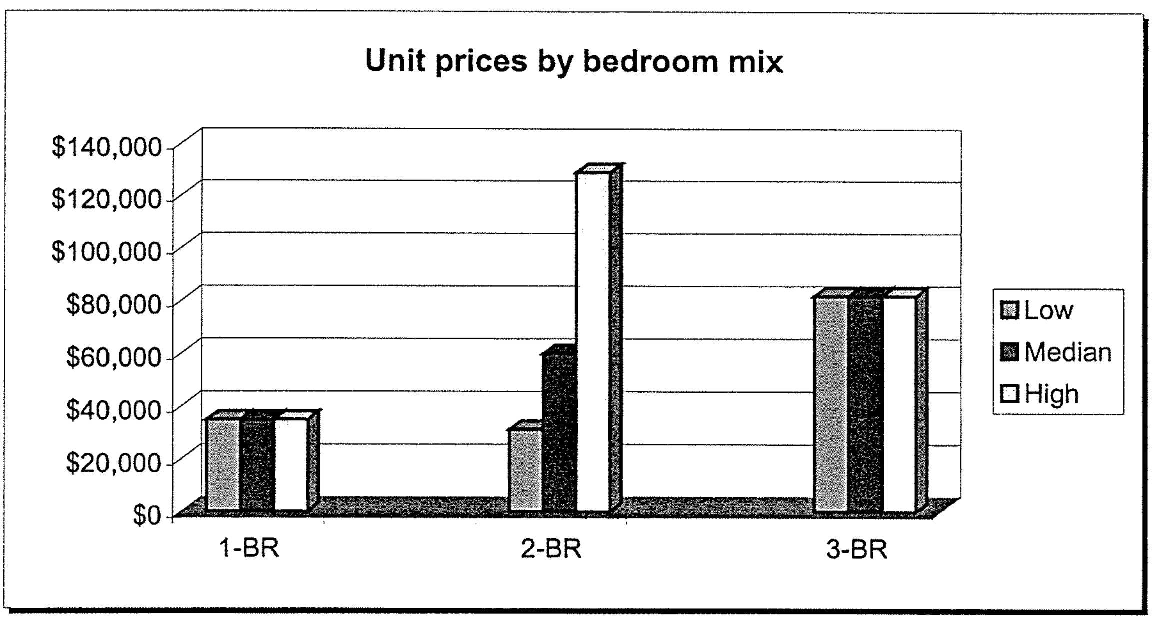


Source: Honolulu Board of REALTORS® Website: http://www.hicentral.com.

Number and Prices of Leasehold Condominium Units Listed for Sale in Low- to Mid-Rise Buildings, Moili'ili/McCully

UNITS IN BUILDINGS OF 7 STORIES OR LESS,
AS OF JANUARY 20, 2000

	1-BR	2-BR	3-BR	Overall/ total
Number listed	1	3	1	5
List price				
Low	$35,000	$31,300	$81,900	$31,300
Median	$35,000	$60,000	$81,900	$60,000
High	$35,000	$129,000	$81,900	$129,000
List price per interior area				
Low	$79	$54	$89	$54
Median	$79	$88	$89	$88
High	$79	$132	$89	$132

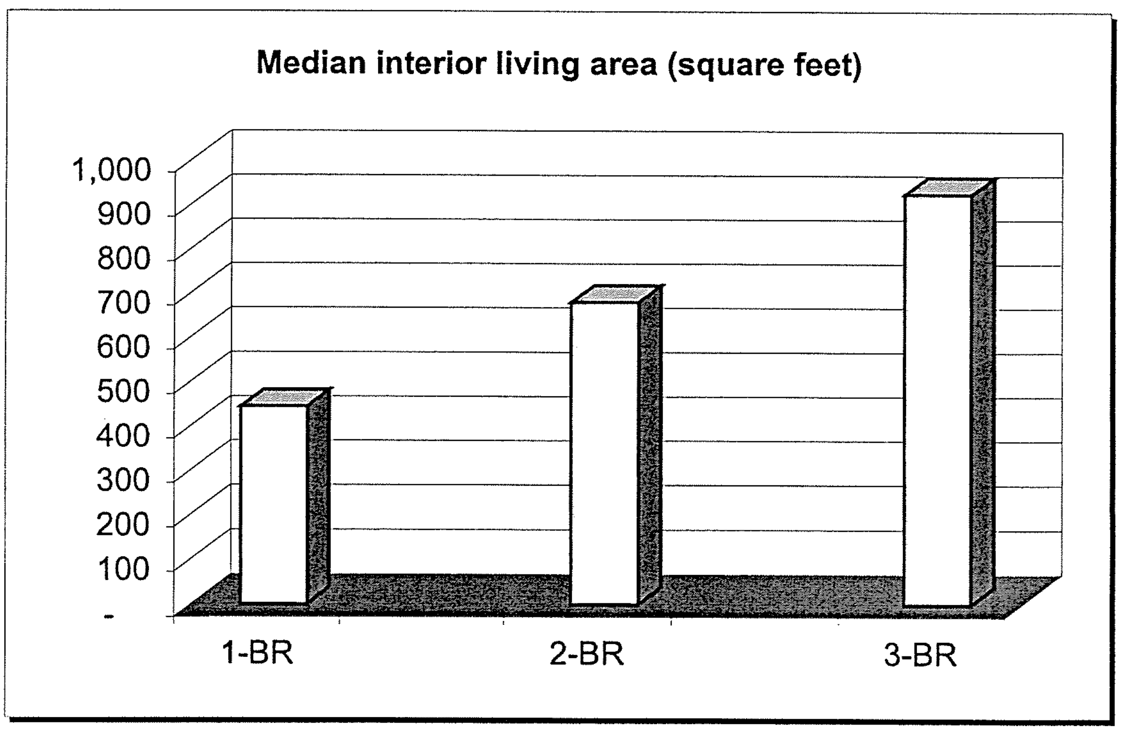


Source: Honolulu Board of REALTORS® Website: http://www.hicentral.com.

Unit Sizes of Leasehold Condominium Units Listed for Sale in Low- to Mid-Rise Buildings, Moili'ili/McCully

UNITS IN BUILDINGS OF 7 STORIES OR LESS, AS OF JANUARY 20, 2000

	1-BR	2-BR	3-BR	Overall/ total
Number listed	1	3	1	5
Median unit area				
Interior living area	444	680	925	680
Open lanai area	-	-	-	0
Gross area	444	710	925	710



Source: Honolulu Board of REALTORS® Website: http://www.hicentral.com.

Exhibit 11

Description of Representative Commercial Centers in Moi'ili'ili/McCully Neighborhoods

AS OF DECEMBER 31, 1999

Center	Address	Year built	Gross leaseable area	Stories	Pkg.	Anchors
Similar locations						
Old Stadium Mall	2320 South King St.	1987	21,000	1	37	Kozo Sushi, Domino's Pizza
McCully Commercial Center	2000 South Beretania St.	1987	4,992	1	17	Connie Gayle Beauty Salon, Dan's Guitars
Executive Plaza	1953 South Beretania St.	1991	20,096	6	66	Japan Report
University markets						
Varsity Center	1010 University Ave.	1985	10,842	1	27	Blimpies, Bank of Hawaii, Bubbies
Varsity Building	1110 University Ave.	n/a	24,240	5	n/a	Hawaii Youth Symphony, High Performance Systems, Inc.
University Square	2633-2639 & 2615-2617 University Ave.	n/a	53,095	3	80+	Central Pacific Bank, Morning Glory, Competency Tutoring Center
Puck's Alley	2600 South King St.	1965	51,201	2	168	Sushi Chef, Ba Le, Liquids Night Club
Waikiki transitional markets						
McCully Shopping Center	1960 Kapiolani Blvd.	1986	35,500	2	136	Taco Bell, 7-11, Salerno's
Kapiolani Shopping Plaza	1901 Kapiolani Blvd.	1983	16,194	2	47	Al Phillips, Supercuts
	Total gross leaseable area		237,160			

Sources: CMF Consulting, a Division of Colliers Monroe Friedlander, Inc., 2/3/2000 and 2/8/2000; personal inspections.

Exhibit 12

Market Performance of Representative Commercial Centers in Moi'ili'ili/McCully Neighborhoods

AS OF DECEMBER 31, 1999, EXCEPT AS NOTED

	Per square foot/month charges						Vacancy		
	Net asking base rent		Common area	Real property	Ground	Total reim-			
Center	Low	High	maintce.	tax	rent	bursements	Percent	Sq. ft.	Tenant profiles
Similar locations									
Old Stadium Mall	n/a	n/a	$0.52	$0.31	$0.00	$0.83	0.0%	-	Restaurant & retail
McCully Commercial Center [2]	$2.00	$2.00	$0.78	incl.[1]	$0.00	$0.78	38.2%	1,909	Personal services & retail
Executive Plaza [3]	$1.20	$1.20	$0.66	incl.[1]	$0.00	$0.66	67.0%	13,464	Office
University markets									
Varsity Center	$3.30	$4.00	$0.89	incl.[1]	$0.00	$0.89	0.0%	-	Restaurant, retail, financial services
Varsity Building [4]	$1.75	$1.75	$0.00	$0.00	$0.00	$0.00	53.9%	13,065	25% retail; 75% office
University Square [5]	$1.00	$1.00	$0.57	incl.[1]	$0.00	$0.57	7.6%	4,035	63% office; 30% retail; 7%
Puck's Alley	$1.70	$4.50	$0.44	$0.23	$0.60	$1.27	1.9%	973	Restaurant, retail, some office
Waikiki transitional markets									
McCully Shopping Center	$2.25	$2.95	$0.66	$0.37	$0.00	$1.03	13.7%	4,864	Restaurant & retail
Kapiolani Shopping Plaza	$1.75	$2.50	$0.85	incl.[1]	$0.00	$0.85	9.9%	1,603	Restaurant, retail, recreation, personal services
						Total vacancies	**16.8%**	**39,913**	

Sources: CMF Consulting, a Division of Colliers Monroe Friedlander, Inc., 2/3/2000 and 2/8/2000; personal inspections.

(1) Included in common area maintenance.

(2) As of 2/8/2000.

(3) Data as of 2/8/2000. Asking base rents increase from $1.20 in first year to $1.30 in second and $1.40 in years 3 to 5. In addition to CAM, tenant pays suite janitorial, electricity and parking ($65 to $75 per stall). Offers interphone system; is secured.

(4) Retail area (consisting of ground floor former First Hawaiian Bank area) is entirely vacant. Base rent shown is gross, including operating expenses, real property taxes and insurance, and refer to available upper floor office areas only.

(5) Data as of 1/17/2000; rents are for available upper floor office areas only. CAM shown is an estimated blended rate based on current charges of $0.45 per square foot per month for suites with window a/c units, and $0.69 per square foot per month for units with central a/c. In addition, tenant pays for electricity and parking ($35 to $55 per stall.)

Exhibit 13

Commercial Space Available, January 2000

BERETANIA AND KING STREETS, FROM MCCULLY TO HUMANE SOCIETY

	Number listings	Square feet Low	Square feet High	Est. asking net rents per sq. foot/month Low	Est. asking net rents per sq. foot/month High	Common area mtce. per sq. foot/month Low	Common area mtce. per sq. foot/month High	Asking gross rents per sq. ft./month Low	Asking gross rents per sq. ft./month High	Terms/comments
Retail										
Ground floor	5	800	2,652	$1.28	$2.28	$0.97	$0.97	$2.25	$3.25	Rent & % rent negotiable; free validated cust. parking
Second floor	0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Restaurant	2	740	4,211	$2.25	> $2.25	$0.33	$0.33	$2.58	$4.23	Free customer parking
Office										
Second floor	13	252	860	$1.00	$1.30	$0.45	$0.97	$1.45	$2.78	Rent & % rent negotiable; free validated cust. parking
Third floor	3	860	3,204	$1.00	$2.00	$0.45	$0.78	$1.45	$2.78	Rent & % rent negotiable; free validated cust. parking

Source: CMF Consulting, a division of Colliers Monroe Friedlander, Inc., 1/20/2000.

Exhibit 14

Recently Negotiated Commercial Space Leases

BERETANIA AND KING STREETS, FROM MCCULLY TO HUMANE SOCIETY

	Number	Square feet		Net rents per sq. foot/month		Common area mtce. per sq. foot/month		Gross rents per sq. foot/month		
	of leases	Low	High	Low	High	Low	High	Low	High	Terms/comments
Retail										
Ground floor	12	600	2,218	$1.40	$2.60	$0.43	$0.94	$1.90	$3.06	1-5 mo. free rent, 5-yr terms, 3-5 yr options
Second floor	0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	--
Restaurant	0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	--
Office										
Second floor	13	166	1,280	$0.77	$1.80	$0.43	$0.88	$1.20	$2.68	1-4 mo. free rent, 5-yr terms, 5 yr options, tenant improvement allowances
Third floor	8	294	1,268	$0.85	> $1.10	$0.43	$0.45	$1.20	$1.80	1-4 mo. free rent, 5-yr terms, 5 yr options, tenant improvement allowances

Source: CMF Consulting, a division of Colliers Monroe Friedlander, Inc., 1/20/2000.

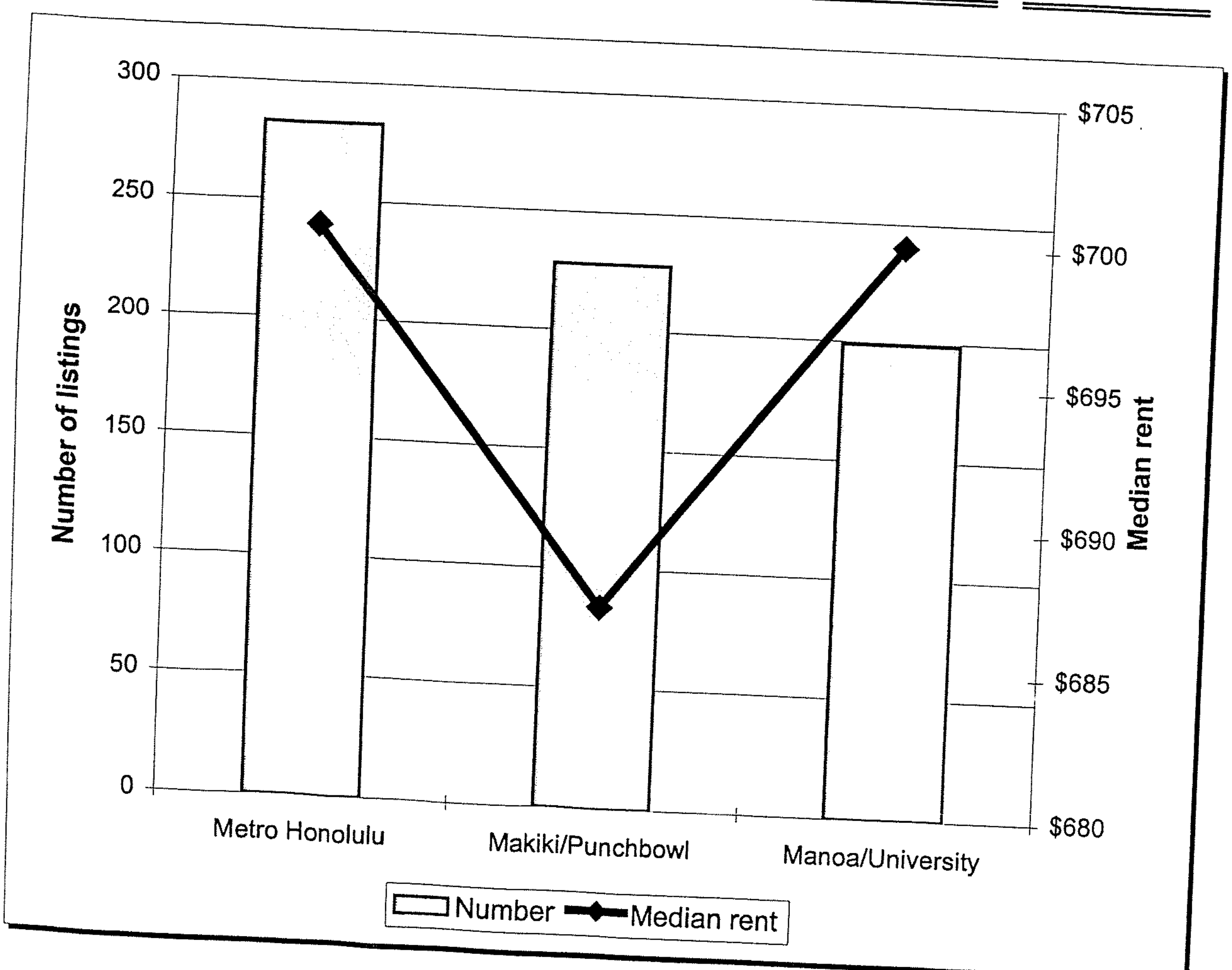
Note: Encompasses renewal and new tenant leases recently closed, with beginning terms ranging from April 1998 to November 1999.

Exhibit 15

Area Apartment Units Advertised for Rent in the Sunday Honolulu Advertiser

APARTMENTS ONLY, MONTH OF JUNE 1999

	Number	Average rent	Median rent
Metro Honolulu	283	$863	$700
Makiki/Punchbowl	228	$740	$687
Manoa/University	199	$790	$700
Total/av. of medians	**710**	**$803**	**$696**



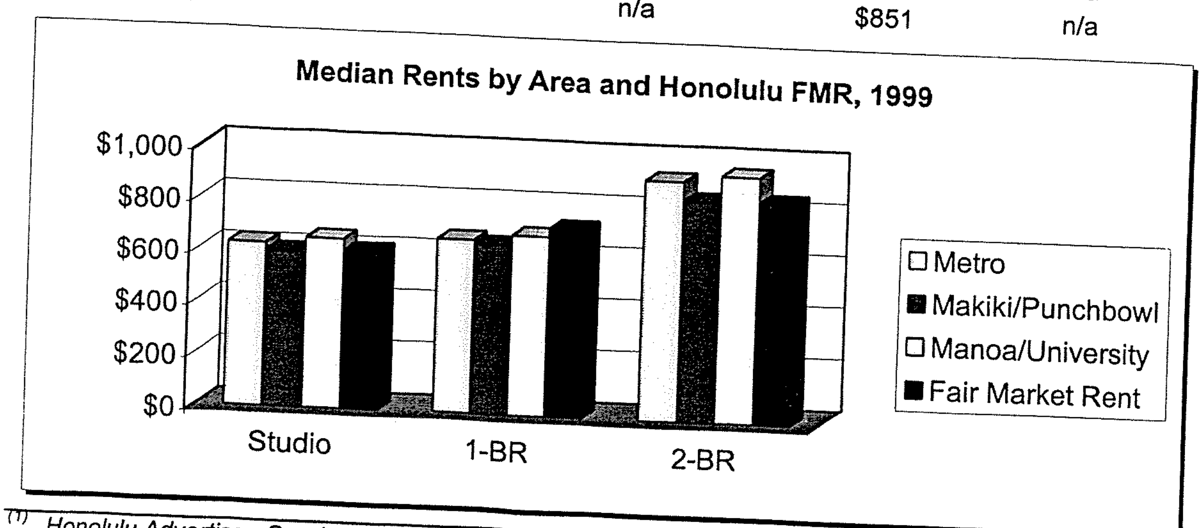
Source: Honolulu Board of REALTORS® Research Department, 10/13/99.

Exhibit 16

"Fair Market Rents" and Area Units Advertised in the Sunday Honolulu Advertiser

STUDIO TO 2-BR UNITS, JUNE AND OCTOBER 1999

	Number	Advertised average	Advertised median
Advertised units/rents (1)			
Metro Honolulu			
Studio	64	$603	$625
1-Bedroom	108	$730	$667
2-Bedroom	135	$1,060	$925
Makiki/Punchbowl			
Studio	32	$577	$597
1-Bedroom	112	$664	$650
2-Bedroom	80	$890	$850
Manoa/University			
Studio	43	$638	$650
1-Bedroom	92	$718	$690
2-Bedroom	78	$994	$950
Total/av. of medians	**744**	**$801**	**$756**
Honolulu Metropolitan Area "Fair Market Rents" (2)			
Studio	n/a	$604	n/a
1-Bedroom	n/a	$723	n/a
2-Bedroom	n/a	$851	n/a



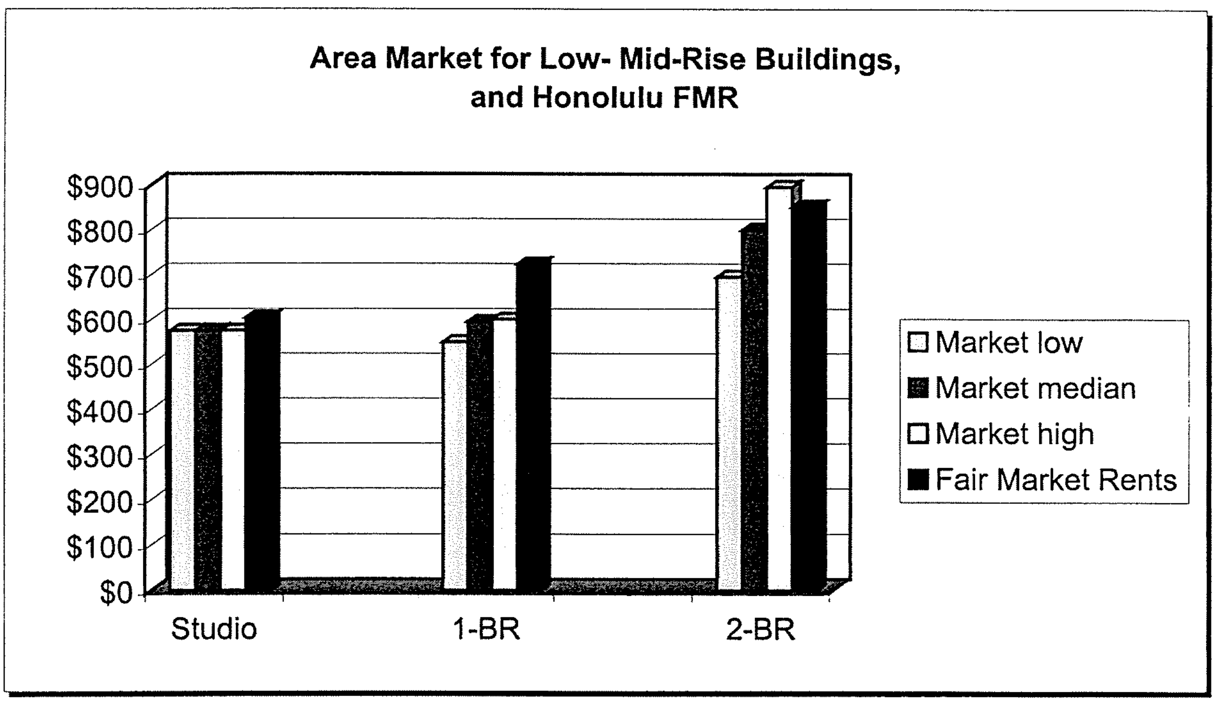
(1) *Honolulu Advertiser, Sunday editions in June 1999, compiled by the Honolulu Board of REALTORS® Research Department, 10/13/1999. Encompasses all unit types, including multifamily, single-family and townhouse.*

(2) *U.S. Department of Housing & Urban Development, "Fair Market Rents for the Section 8 Housing Assistance Payments Program -- Fiscal Year 2000; Final Rule," 10/1/1999. Figures represent the estimated 40th percentile rent of "standard quality rental housing units," as of 10/1/1999.*

"Fair Market Rents" and Advertised Rents for Units in Low- to Mid-Rise Buildings in Date, Kapi'olani, Mo'ili'ili and Makiki

ADVERTISED UNITS IN BUILDINGS OF 7 STORIES OR LESS, AS OF 1/20/2000; FAIR MARKET RENTS AS OF 10/1/1999

	Studio	1-BR	2-BR	Overall/ total
Advertised units/rents [1]				
Number listed	1	5	4	10
List price				
Low	$575	$550	$695	$550
Median	$575	$595	$800	$600
High	$575	$600	$895	$895
Honolulu Metropolitan Area "Fair Market Rents" [2]	$604	$723	$851	



(1) *Represents apartment units advertised on Honolulu Board of REALTORS® Website: http://www.hicentral.com, as of 1/20/2000.*

(2) *Represents the estimated 40th percentile rent for "standard quality rental housing units," as of 10/1/1999, as reported by the U.S. Department of Housing & Urban Development, "Fair Market Rents for the Section 8 Housing Assistance Payments Program -- Fiscal Year 2000; Final Rule," 10/1/1999.*