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Analysis of the Honolulu, Hawaii Housing Market As of January 1, 2005



ECONOMIC RESEARCH

U.S. Department of Housing and Urban Development

Foreword

This analysis has been prepared for the assistance and guidance of the U.S. Department of Housing and Urban Development (HUD) in its operations. The factual information, findings, and conclusions may also be useful to builders, mortgagees, and others concerned with local housing market conditions and trends. The analysis does not purport to make determinations regarding the acceptability of any mortgage insurance proposals that may be under consideration by the Department.

The factual framework for this analysis follows the guidelines and methods developed by HUD's Economic and Market Analysis Division. The analysis and findings are as thorough and current as possible based on information available on the "as-of" date from local and national sources. As such, findings or conclusions may be modified by subsequent developments. HUD wishes to express its appreciation to those industry sources and state and local government officials who provided data and information on local economic and housing market conditions.

This analysis takes into consideration changes in the economic, demographic, and housing inventory characteristics of the market area during three periods: from 1990 to 2000, from 2000 to the as-of date of the analysis—January 1, 2005 (Current date)—and from the Current date to a Forecast date—January 1, 2008. In the analysis, 1990 and 2000 refer to the dates of the decennial census—April 1 unless specified otherwise. This analysis presents counts and estimates of employment, population, households, and housing inventory as of the 1990 Census, 2000 Census, Current date, and Forecast date. For purposes of this analysis, the forecast period is 36 months.

The prospective demand expressed in the analysis should not be construed as a forecast of building activity; rather, it presents the prospective housing production that would maintain a reasonable balance in the demand-supply relationship given the market conditions on the as-of date of the analysis. This analysis was prepared by Lall B. Ramrattan, the Division's Field Economist in the California State Office, based on fieldwork conducted in September 2004. Questions regarding the findings and conclusions of the analysis may be addressed to Mr. Ramrattan at 415-489-6519 and at lall_b._ramrattan@hud.gov.

Housing Market Area

The Honolulu, Hawaii Housing Market Area (HMA) is defined as the island of Oahu. The Honolulu HMA is the most populous of the four counties in the State of Hawaii, with approximately 75 percent of the state's population living on about 9 percent of the state's land. Most of the economic and residential development in the HMA is concentrated in two areas: the Metro Honolulu submarket and the Ewa submarket. The Metro Honolulu submarket includes the communities of Honolulu, Waikiki, Makiki, Kapahulu-Diamond Head, Aina Haina, and Hawaii Kai. The Ewa submarket comprises the communities of Ewa Beach, Ewa Plain, Kapolei, Waipahu, Millilani, and Pearl City.

Summary

During most of the 1990s, the HMA economy was in a state of decline because of a slowdown in tourism and related activities. Tourism, especially from the mainland United States, started to increase in 1999, weakened in 2001 through early 2003, and has recently reached a record high level. Nonfarm employment also started to increase in 1999 and expanded by 6,075 jobs annually through the Current date. The unemployment rate rose during the 1990s until it peaked at 5.4 percent in 1998 and has fallen to 3.2 percent currently, approximately the level of the early 1990s.

The weak economy prevailing during most of the 1990s contributed to a slow population growth of about 4,000 people annually, or 0.5 percent a year. A major factor contributing to the slow population growth was the strong net out-migration, which averaged about 4,700 people a year during the 1990s. Since 1999, the creation of more jobs began to encourage net in-migration and somewhat faster population growth. From 2000 to the Current date, net migration has averaged 1,675 people annually. Since the 2000 Census, the population has increased annually by an average of 8,550, a 1.0-percent annual gain, which is more than double the growth rate of the 1990s.

The growing employment and population in the HMA over the past 5 years have resulted in a strong housing sales market. Annual median price increases averaged approximately 10 percent from 2000 to the Current date, and the sales inventory fell to an approximate 3-month supply for both single-family and condominium sales units. Both the affordable and high-end segments of the sales markets are very active.

Because of economic growth, increased population, and modest rental unit construction since 1999, the current state of the rental market is tight overall. Growing student and military demand, and the sales of former rental condominiums have added to the shortage of rental units.

During the forecast period, the recent trends in economic and demographic growth are expected to continue, and demand for additional new housing is expected to total approximately 5,100 rental units and 5,900 sales units.

Economy of the Area

The Honolulu HMA economic base is primarily in the tourism and related sectors, followed by defense and agriculture. After a long recession in the 1990s, the local economy started to show growth in 1999 in nearly all its industry sectors. Nonfarm employment decreased steadily from 415,800 jobs in 1991 to 395,700 jobs in 1998 and generally has continued to increase since then, reaching a record of 426,500 jobs in 2004. The trends in labor force, resident employment, and nonfarm employment by industry are presented in Tables 1 and 2.

The slow economy of the early 1990s coincided with major recessions in several Asian economies, particularly in Japan, from which the HMA gets a large share of foreign investment and tourist spending. Although nonfarm employment recovered at a strong 2.6-percent pace from 1999 to 2000, an average of only 400 jobs were added annually in 2001 and 2002, an increase of less than half a percent a year due to reductions in tourism. Growth resumed in 2003 and 2004, with employment rising by an average of 8,400 jobs, or 2.0 percent, annually.

The island of Oahu attracts tourists from all over the world. From 1990 to 2000, an average of 4,765,000 people visited the HMA annually. Approximately 47 percent came from the mainland United States. An upswing in tourism began in 1999 but was interrupted in late 2001 and in 2002 by the negative effects of the September 11, 2001, terrorist attacks on travel and slow economic conditions and, in early 2003, by the war in Iraq and the Severe Acute Respiratory Syndrome (SARS) outbreak in Asia. From mid-2003 to the Current date, improved economic conditions in U.S. and Asian economies and favorable currency exchange rates have boosted growth in tourism and the local economy. A recovering U.S. economy, the now-growing Japanese economy, and the falling dollar are creating better prospects for tourism during the forecast period.

Employment in the government sector accounts for approximately 23 percent of all nonfarm employment, followed by trade, transportation, and utilities. Education and health services, professional and business services, and the leisure and hospitality industry sectors account for 12, 13, and 14 percent of the jobs, respectively.

The U.S. military is the single largest employer in the HMA, accounting for 50,800 military and civilian jobs, with 12,300 at Schofield Barracks and 11,295 at Pearl Harbor. The remaining military jobs are located, in order of number of personnel, most to least, at Kaneohe Naval Air Station, Hickam Air Force Base (AFB), Tripler Army Medical Center, Fort Shafter, Kunia, Honolulu, Wheeler AFB, and Camp H.M. Smith. Combined military and civilian employment fell substantially during most of the 1990s but has increased by about 1,800 jobs since 1999. Military spending has been a stabilizing influence on the economy, with nearly \$5 billion in payroll and contracts in 2003, accounting for approximately 15 percent of the HMA Gross Metropolitan Product.

Household Income

According to HUD's Economic and Market Analysis Division, the fiscal year 2005 median family income in the Honolulu HMA was \$67,750, or an average annual increase of 2 percent since 1999.

Population

As of the Current date, the population of the HMA is 916,700, an average annual gain of 1.0 percent since the 2000 Census. This growth rate, which is double the rate that occurred between 1990 and 2000, is due to the substantial improvement in the local economy. Table 3 indicates population trends from 1990 through the Forecast date for the HMA.

Population growth in the 1990s was slowed by the decline in the economy. The loss of jobs during most of the 1990s resulted in a net out-migration of approximately 4,675 people annually in the decade. During that time, the net natural increase of the population (resident births minus resident deaths) had a stabilizing effect, averaging approximately 8,675 people annually. From 2000 to the Current date, the net in-migration has averaged 1,675 people annually because of improved job opportunities. Net natural increase during the period has declined, however, to an average of 6,850 people annually.

The economic and demographic trends between 2000 to the Current date are likely to continue, and the population of the HMA is expected to increase by an average of 8,550 annually to a total of 942,300 by the Forecast date.

Households

The growth in the number of households from 1990 to 2000 was slightly above the rate of population growth, averaging 0.8 percent, or 2,115 households, annually. As economic conditions began to improve in 1999, the rate of growth increased. As of the Current date, an estimated 305,050 households are in the HMA, indicating an average annual increase of 3,925, or 1.4 percent, since 2000. Table 3 presents trends in households from 1990 through the Forecast date for the HMA.

Student households at colleges and universities have been growing steadily over the past 10 years. The University of Hawaii had an estimated enrollment of approximately 21,000 students in the fall of 2004. Hawaii Pacific University has 9,900 students, Brigham Young University (BYU) Hawaii has 2,400 students, and Chaminade University of Honolulu has 1,130 students. There are approximately 4,400 units of student housing in the HMA. An estimated 85 percent of students live off campus. It is estimated that there are currently 7,000 student households in the HMA, predominantly in the rental market. Military personnel and their dependents are also an important factor in the local housing market. Of the approximately 22,000 military households in the HMA, an estimated 8,000, or 35 percent, reside in private sector housing, almost exclusively in the rental market.

Based on current characteristics of household size and the expected population growth, estimates indicate that the number of households will increase by 3,850 annually during the 3-year forecast period and total 316,900 by the Forecast date.

Housing Inventory

Between 1990 and 2000, the available housing inventory (occupied units plus available vacant housing) increased by approximately 2,925 units a year—2,005 sales units and 920 rental units.

With the job losses and out-migration that occurred during much of the 1990s, growth in the number of households was substantially below the increase in the inventory. During the decade, owner-occupied households increased by approximately 1,850 units annually, and renter-occupied units increased by an average of 275 a year. As a result, market conditions softened, and the vacancy rates for sales and rental housing increased significantly.

As of the Current date, the housing inventory is estimated to total 327,400 units. Since 2000, the housing inventory has increased annually by about 2,150 owner-occupied units and 1,750 renter-occupied units. The average annual increase in occupied units since 2000 has greatly exceeded the average annual increase in the inventory of 2,400 units, resulting in current tight market conditions. Table 4 presents the trends in inventory, tenure, and vacancy from 1990 to the Current date.

Building permit activity data since 2000 has paralleled the improved economy, increased rate of population growth, and greater demand for new housing. From 2000 to the Current date, single-family permits have averaged 2,150 annually compared with an average 1,600 homes annually from 1990 through 1999. Despite the slowdown in the economy from 2001 to 2002, the low mortgage interest rates continued to support a strong level of sales demand and new home production.

Most of the multifamily units built in the 1990s were constructed during the first half of the decade. Multifamily permit activity from 1990 through 1995 averaged 2,000 units annually. Beginning in 1996, the declining economy, softer rental market conditions, and rapidly increasing rental vacancy rates discouraged apartment and condominium construction. Multifamily permit activity declined to an average of about 660 units a year from 1996 to 1999. With the improved economy and tighter market conditions, activity has begun to increase. From 2000 to the Current date, multifamily permit activity has increased to an average of 725 units annually. Almost all of the recent activity, however, has been in condominiums rather than in rental housing. Table 5 presents residential building permit activity in the HMA from 1993 through 2004.

Condominiums and cooperatives account for approximately 30 percent of the housing inventory in the HMA. From 1990 through 1999, this inventory increased by approximately 1,500 units annually. As of the Current date, estimates indicate that approximately 35 percent of all owners in the HMA occupy condominium units.

There are currently about 17,000 on-post military housing units in the HMA, of which about 14,000 are currently occupied and 3,000 are vacant. Many of these units are in need of renovation or replacement. In recent years there has been a substantial and growing effort in the renovation or construction of new housing to replace these obsolete military housing units, mainly through public-private ventures.

Approximately 2,000 single-family and duplex housing units, many of them unoccupied, at the former Iroquois and Barbers Point Naval Stations are being renovated by a private developer and made available to military personnel and the general public. Renovations are expected to be completed on all units by the end of the forecast period. The U.S. Army is negotiating with the developer of several hundred housing units to lease the housing to accommodate one of its new

Stryker Brigades scheduled to arrive in the summer of 2005. In 2003, the U.S. Army announced a \$6.9 billion contract for its Residential Community Initiative, in which a public-private partnership will renovate and replace its more than 8,000 military family housing units on the island and maintain and operate them for 50 years. During the 3-year forecast period, approximately 800 vacant units are expected to be renovated, and up to 915 additional vacant units are planned for demolition and replacement.

Housing Vacancy

As of 1990, sales and rental vacancy rates in the HMA were 0.7 and 4.3 percent, respectively, reflecting the relatively tight market conditions at the time. Both rates increased to 1.6 and 8.6 percent, respectively, as of 2000. As of the Current date, sales and rental vacancy rates are estimated to be 1.6 and 3.8 percent, respectively.

Sales Market Conditions

As of the Current date, the sales market for single-family homes and condominium units is strong, reflecting steady improvement since 2000 due to job growth, low interest rates, and higher incomes. The strong sales market since 2000 resulted in a historically high median price of \$460,000 for existing single-family homes and \$208,500 for condominiums as of the Current date, according to the Honolulu Board of Realtors[®]. Although the median sales prices for existing single-family homes and condominiums declined from 1991 to 1999 at an annual rate of 1.8 and 3.2 percent, respectively, prices for both markets have increased at an annual rate of approximately 10 percent since 2000. The available inventory level of an average 10-month supply of single-family and 14-month supply of condominiums units in 1998 dropped dramatically to an average 3-month supply in both markets as of the Current date.

During 2004, sales activity for existing single-family homes was higher in the Ewa submarket where sales prices tend to be relatively more affordable. In the Metro Honolulu submarket, resale prices typically exceed \$600,000. Most condominium sales activity is in the Waikiki and Makiki areas of Metro Honolulu. In the HMA as a whole, the volume of condominium sales has been approximately twice that of single-family sales. Sales in fee-simple developments have generally been more active than sales in leasehold projects.

Rental Market Conditions

As of the Current date, conditions in the rental market are tight. Current information from local sources indicates a continuing deficit of rental housing supply and tighter market conditions during the forecast period. Much of the current and planned multifamily production targets the condominium sales market. Tighter market conditions have resulted in rent increases averaging approximately 7 percent annually during the past 2 years, according to the Consumer Price Index.

With the weaker economy during the 1990s, a significant number of condominium owners put their units on the rental market, further softening the market. Stronger economic conditions and increased demand for condominiums in recent years have resulted in the removal of many of these units from the rental inventory, however, further tightening the rental market. Developers

have begun to respond, and a few affordable rental developments are under construction as of the Current date; but tight conditions are expected to continue throughout the forecast period.

Forecast Housing Demand

The demand for new housing during the 3-year forecast period ending January 1, 2008, is expected to total approximately 11,000 units, of which 5,900 will be for owners and 5,100 for renters.

Table 6 presents the anticipated demand in the HMA for new rental units by bedroom size and rent level. The distribution of demand by bedroom size is based on data from the 2000 Census on renter households, recent apartment production, and current market conditions.

Table 1
Labor Force and Employment
Honolulu HMA
1993 to 2004

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Labor Force	427,700	424,000	423,300	433,400	433,800	433,800	430,200	430,200	419,000	429,300	436,400	444,000
Employment	414,500	404,300	403,900	410,500	410,800	410,500	409,000	414,100	402,100	412,700	419,541	430,000
Unemployment	13,200	19,650	19,450	22,900	22,950	23,300	21,250	16,100	16,950	16,700	16,900	14,000
Rate (%)	3.1	4.6	4.6	5.3	5.3	5.4	4.9	3.7	4.0	3.9	3.9	3.2

Note: Numbers may not add to totals due to rounding.
Source: Hawaii State Employment Department

Table 2
Nonfarm Employment (North American Industrial Categories System)
Honolulu HMA
1993 to 2004

Employment Sector	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Nonfarm Employment	414,800	411,500	408,300	404,900	403,700	395,700	396,100	412,000	412,400	412,800	419,650	426,500
Goods-Producing	38,600	36,200	33,600	31,200	30,000	23,700	23,400	30,200	29,750	29,550	30,750	31,800
Construction, Natural Resources, and Mining	25,700	23,600	21,100	18,900	18,000	17,100	16,500	17,500	17,000	17,800	19,300	20,000
Manufacturing	12,900	12,600	12,500	12,300	12,000	6,600	6,900	12,700	12,750	11,750	11,450	11,800
Durable Goods	3,600	3,500	3,400	3,300	3,100	3,500	3,700	3,500	3,700	3,350	3,300	3,475
Nondurable Goods	9,300	9,100	9,100	9,000	8,900	3,100	3,200	9,200	9,050	8,400	8,150	8,350
Service-Providing	376,200	375,300	374,700	373,700	373,700	372,000	372,700	381,800	382,650	383,250	388,900	394,700
Transportation and Utilities	86,000	85,000	85,400	84,000	82,700	80,100	79,300	81,300	80,900	76,550	76,800	78,500
Wholesale and Retail Trade	63,200	62,700	63,000	62,100	60,600	58,600	58,200	59,600	59,150	57,100	57,300	58,450
Wholesale Trade	14,100	13,800	13,600	13,300	13,100	13,200	13,000	13,400	13,550	13,500	13,750	14,050
Retail Trade	49,100	48,900	49,400	48,800	47,500	45,400	45,200	46,200	45,600	43,600	43,550	44,400
Professional and Business Services	43,700	44,700	45,300	46,300	47,100	46,900	47,700	50,200	52,450	55,250	57,000	58,200
Other Services	156,100	155,400	154,100	154,400	154,000	154,700	155,100	158,700	158,100	157,550	160,250	163,300
Information	8,200	8,600	8,500	8,800	8,900	9,100	9,200	10,200	9,950	9,450	8,600	8,500
Financial Activities	26,500	26,200	24,900	24,500	23,900	24,000	23,900	23,500	21,850	21,500	21,800	22,150
Government	90,400	90,200	89,900	89,000	89,900	90,300	90,600	91,600	91,200	93,900	94,850	94,700
Federal	30,100	29,500	29,300	29,300	28,900	28,800	28,600	28,900	28,150	28,600	29,150	29,500
State	49,800	50,200	49,300	48,200	49,400	49,900	50,500	51,300	51,400	53,700	54,300	53,650
Local	10,500	10,500	11,300	11,500	11,600	11,600	11,500	11,400	11,650	11,600	11,400	11,600

Note: Numbers may not add to totals due to rounding.

Source: Hawaii State Employment Department

Table 3
Population and Household Trends
Honolulu HMA
April 1, 1990 to January 1, 2008

	April 1, 1990	April 1, 2000	Current Date	Forecast Date	Average Annual Change					
					1990 to 2000		2000 to Current		Current to Forecast	
					Number	Rate (%)	Number	Rate (%)	Number	Rate (%)
Population										
Honolulu HMA	836,156	876,176	916,700	942,300	3,993	0.5	8,550	1.0	8,550	1.0
Households										
Honolulu HMA	265,304	286,450	305,050	316,900	2,115	0.8	3,915	1.4	3,950	1.3

Notes: Rate of change is calculated on a compound basis.
Average annual changes rounded for comparison.
Sources: 1990 and 2000—U.S. Census Bureau
Current and Forecast—Estimates by analyst

Table 4
Housing Inventory, Tenure, and Vacancy
Honolulu HMA
1990 to January 1, 2005

	Honolulu HMA		
	1990	2000	Current
Total Housing Inventory	281,683	315,988	327,450
Occupied Units	265,304	286,450	305,050
Owners	137,910	156,290	166,550
%	52.0	54.6	54.6
Renters	127,394	130,160	138,500
%	48.0	45.4	45.4
Vacant Units	16,379	29,538	22,350
Available Units	6,648	14,775	8,175
For Sale	900	2,572	2,700
Rate (%)	0.65	1.62	1.6
For Rent	5,748	12,203	5,475
Rate (%)	4.32	8.57	3.8
Other Vacant	9,731	14,763	14,175

Sources: 1990 and 2000—U.S. Census Bureau
 Current—Estimates by analyst

Table 5
Residential Building Permit Activity
Honolulu HMA
1993 to 2004

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Honolulu HMA												
Total	3,411	4,612	4,544	2,000	2,035	1,601	1,928	1,969	1,975	2,673	3,473	3,556
Single-family	1,916	2,440	2,090	1,125	1,141	1,272	1,449	1,732	1,673	1,964	2,910	1,966
Multifamily	1,495	2,172	2,454	875	894	329	479	237	302	709	563	1,590

Source: U.S. Census Bureau, Building Permits Survey

Table 6
Estimated Qualitative Demand for New Market-Rate Rental Housing
Honolulu HMA
January 1, 2005 to January 1, 2008

One Bedroom		Two Bedrooms		Three Bedrooms	
Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand	Monthly Gross Rent (\$)	Units of Demand
1,100	1,100	1,300	3,000	1,800	1,000
1,150	1,000	1,350	2,500	1,850	840
1,200	910	1,400	2,250	1,900	770
1,250	810	1,450	1,925	1,950	690
1,300	680	1,500	1,575	2,000	610
1,350	550	1,550	1,275	2,050	530
1,400	430	1,600	1,000	2,100	460
1,500	330	1,700	780	2,200	400
1,600	250	1,800	610	2,300	340
1,700	200	1,900	470	2,400	200
1,800	140	2,000	360	2,500	100
1,900 and higher	100	2,100 and higher	90	2,600 and higher	80

Notes: Distribution above is noncumulative.
Demand shown at any rent represents demand at that level and higher.

Source: Estimates by analyst