BEFORE THE LAND USE COMMISSION
OF THE STATE OF HAWAI'I

In the Matter of the Petition of:

WAIKAPU PROPERTIES, LLC; MTP LAND PARTNERS, LLC; WILLIAM S. FILIOS, Trustee of the William S. Filios Separate Property
Trust dated APRIL 3, 2000; and WAIALE 905 PARTNERS, LLC.

To Amend the Agricultural Land Use District Boundaries into the Rural Land Use District for certain lands situate at Waikapu, District of Wailuku, Island and County of Maui, State of Hawaii, consisting of 92.394 acres and 57.454 acres, bearing Tax Map Key No. (2) 3-6-004:003 (por) and to Amend the Agricultural Land Use District Boundaries into the Urban Land Use District for certain lands situate at Waikapu, District of Wailuku, Island and County of Maui, State of Hawaii, consisting of 236.326 acres, 53.775 acres, and 45.054 acres, bearing Tax Map Key No. (2) 3-6-002:003 (por), (2) 3-6-004:006 and (2) 3-6-005:007 (por).

DOCKET NO. A15-798
DIRECT TESTIMONY OF THOMAS W. HOLLIDAY
DIRECT TESTIMONY OF THOMAS W. HOLLIDAY

My name is Thomas W. Holliday. I am a real estate economist, appraiser and development consultant. I am the Director of The Hallstrom Team/CBRE Valuation and Advisory Services which offices at 1003 Bishop Street, Suite 1800, Honolulu, Hawaii 96813.

I worked in Hawaii since November 1980. My focus of practice has been in the areas of market studies, feasibility analysis, economic impact fiscal assessment and appraisals of hotel properties. For purposes of this matter, the areas of my practice involved are market studies and economic impact assessment.

I took numerous courses on appraisal of real estate and evaluation of market conditions particularly in the area of real estate valuation.

I am a Fellow of the Royal Institution of Chartered Surveyors (RICS). RICS is an international professional body that adopted standards for the valuation of real property and for the analysis of land development. Membership in RICS is by invitation and requires twenty plus years of experience in the evaluation of the value of real property, together with a foundational understanding of how real estate can be utilized in a project on a financial basis. There are about 1,800 Fellows of RICS in North and South America.
I also hold a Counselor of Real Estate designation which recognizes expertise, experience and ethics in providing advice that influences real estate decisions. The CRE designation, which again is by invitation, demonstrates peer recognition in real estate and real estate-related counseling and advisory services. As a CRE, of which there are fewer than 15 in Hawaii, I provide unbiased advice on real estate matters to facilitate determinations of whether a real estate development should proceed.

I provided expert witness testimony on the areas of market studies, economic feasibility and assessment of economic impacts before administrative bodies and arbitrations in Hawaii on at least forty occasions, including testimony on at least twenty times before this Commission since the early 1980s.

The Hallstrom Appraisal Group | CBRE, Inc. was hired to analyze the proposed Waikapu County Town (WCT) master plan from a real estate market perspective and to identify and quantify probable market and economic impacts associated with its development in light of competitive, regional, prevailing and forecast trends. To complete that assignment required us to answer four basic study questions:

1. Is there sufficient demand to absorb the various
"marketable" components of the subject community during a reasonable exposure period given competing developments and projected statewide/regional market trends?

2. Will the community be an appropriate use of the underlying site relative to market needs?

3. What will be the general/specific and direct/indirect economic impacts on Maui resulting from the subject community via employment, wages, business operations, population, and other economic activity related to the real property asset?

4. What will be the benefits to the state and county "public purse" from the tax receipts and fees flowing from its development?

These issues were addressed through a comprehensive research and inquiry process utilizing data from market investigation, governmental agencies, various Hawaii-based media, industry spokespersons/sources, on-line databases, and published public and private documents. The information was gathered from these sources and analyzed to reach conclusions on the questions being asked. The information, methodology and determinations were stated in a report that was prepared and provided to the WCT developers. A copy of the report is attached as Appendix “A” to the Final Environmental Impact
Statement which is Exhibit “25”.

I want to highlight some of the information in my report.

The initial focus is on whether the WCT master plan is appropriate for the property. The WCT property is underutilized given its central-location within an expanding/desirable area of the regional directed growth boundary and its highway-frontage.

Actualization of the WCT master plan will create a regional asset providing: a) Needed reasonably-priced housing; b) Live/work space and small business opportunities; c) A unique Country Town core; d) A wide variety of residential product from multifamily to rural house lots; e) Neighborhood-serving commercial and mixed-use components; and f) Within a relatively comprehensive, sustainable community complementary with existing Waikapu Village.

The WCT project will attract significant new capital investment, create jobs in construction and on-going business activity, and stimulate the Maui economy. This will in turn generate enhanced employment and business opportunities for island residents and companies while further expanding the tax base for the state and county.

From a market overview perspective, the proposed
development will have the necessary attributes to be compatible with, and competitive within, the Central Maui real estate sector for the following reasons.

First, the WCT Project is within an expanding, high-demand area of Maui. Wailuku-Kahului has been the historic focal point of residential (and other) development and, while South Maui is also in an expansion mode, significant additions in Central Maui will keep the region at the fore-front of the island's housing sector. The demand for residential units in the area is currently strong, and as the hub for industrial, commercial, service, transportation and government activities on Maui, it will remain a desirable, competitive market.

Second, the WCT Project is in concert with market trends. Mixed-use, master-planned developments have been part of the market in Hawaii for several decades, and they have generally provided higher-quality, more desirable housing and lifestyle opportunities than in standard subdivisions. Although many Maui projects were initially oriented heavily towards resort and upper-end development, there are newer projects in-construction and proposed which are seeking to provide more diverse product types.

WCT represents the evolving edge of such master
planning by coupling a diverse housing inventory within a fairly
comprehensive community evoking "small-town" scale, intensities
and designs; surrounded by a thousand-acre agricultural buffer.
But, having direct access to two highways and proximate to the
supporting services in Wailuku-Kahului.

Third, the WCT Project will maximize the reasonable
development potentials of a well-located parcel. Given the
superior locational and access attributes of the subject
property, within the context of an expanding Wailuku-Kahului
development core, and the housing and economic benefits which
will flow to Maui from the project, the WCT master plan is a
reasonable confluence of market and general community
objectives.

For these reasons, I am of the opinion that the WCT
master plan represents the highest and best use of the property.

Based on our analysis of the subject property, its
environs, and envisioned development we reached conclusions as
of the date of the report regarding the probable market standing
and economic impacts of the proposed WCT project. Our study
time-frame which serves as a basis for subject projections
extends two decades, although it is anticipated all the
components of the community will be fully absorbed in a shorter
period.

Hawaii has steadily rebounded from the 2008-09 recession and associated down-cycle in the real estate market and is now within an extended-term favorable economic period featuring strengthening property sectors. Maui and Oahu have enjoyed the broadest and most extensive upward trending and had regained or surpassed virtually all of the ground "lost" by mid-2015. Expectations are for continuing economic expansion within the current up-cycle during 2015-17 (and into the mid-term) resulting in increasing demand for real estate inventory within a limited supply environment.

Among the favorable economic indicators and trends on Maui, the unemployment rate has dropped to a current level of about 4.2 percent from a high of 9.1 percent during the depths of the recession; median household income has grown two percent in each of the last three years; residential sales activity and prices are moving upwards; commercial and industrial space absorption showed strong gains in 2014-15; and, total visitor days and spending have had annual escalations averaging more than 5 percent and 10 percent respectively since 2010. Only the commercial space market continues soft in some regions of the island.
Regardless of the point in the economic cycle, there remains a chronic unmet demand for additional affordably-priced housing on Maui. While numerous directed projects have been proposed, along with other mixed-use developments with a workforce housing component, they have been slow to reach fruition; and, those in-development are failing to meet all demand segments in the upwardly-moving market.

The "Wailuku-Kahului Study Area" (or "Central Maui") is the center for government, transportation and non-visitor economic activity on the island, and its most populous district. In addition to its historic standing as the location of a significant share of urban uses, it has again become a focal point for light industrial, commercial and residential development over the past two decades, with numerous major projects actively adding inventory, in-construction or proposed. The proximity to services, goods, transportation facilities, businesses and employment opportunities, ready access to the island's highway system, and a desirable climate will facilitate continuing demand for real estate into the long-term; although it will "lose" some of its market dominance as development continues in South (primarily) and West Maui.

There were some 57,618 residents in the Wailuku-
Kahului region as of mid-year 2015, and projections of the resident population during our study period time-frame based on County and State forecasts range from circa 78,800 to 97,100. There are an estimated 19,200 housing units in Central Maui of which some twelve percent are owned by non-residents as second/vacation homes. The average resident household size is just under 3.50 persons and is forecast to decline meaningfully in coming decades as a result of family/household trends and a changing mix of unit types from new development.

There are an estimated twelve million square feet of gross leasable light industrial and commercial floor space in Central Maui, about three-quarters of the island-wide total, but a limited visitor-oriented component with only 462 total transient units (just 2.3 percent of the island total) and limited tourist-dominated retail.

Waikapu is potentially a highly competitive location within the Maui housing market. It is considered to have distinctive, unique characteristics relative to nearby Wailuku and Kahului, although it represents the southerly boundary of their greater urban sphere. All of the just over 900 units of residential inventory built in the Waikapu Village area to date (less than five percent of the regional total) have been
successfully absorbed, and the number of units available for
resale is typically limited with only six active house listings
at the report date, or just 0.66% of the total units in the
community. It is considered desirable for its relative ease of
access to the Wailuku/Kahului commercial and service centers as
well as the resort employment areas in West and South Maui; for
its cooler climate; panoramas across the isthmus to Haleakala;
and, small town ambience.

The subject property is a superior location for the
proposed development in regards to access, views, topography,
shape, consistency with nearby uses and land planning
objectives, climate, and ability to provide a quality lifestyle
and business opportunities for a wide-range of owners and end-
users. It will have the attributes necessary to be highly
competitive in all its product sectors, and will capture a
reasonable market share during its offering period.

We estimate the demand for new residential units in
the Wailuku-Kahului study area will be from 9,647 to 16,814
units over the study period, including allowances for non-
resident purchasers and vacancies, with a mid-point demand of
13,230 units. The number of existing unsold and planned
resident housing units within the regional "Directed Growth
Boundary", excluding the proposed WCT product, totals some 7,296 units. This indicates there will be a shortfall in the sector of from 2,351 to 9,518 new residential units; with a mid-point under-supply of 5,935 units. Our analysis indicates there will be sufficient unmet demand to readily absorb the 1,433 units of subject inventory during the projection period.

The median price for a single-family home in Central Maui (which includes many smaller, older homes/units) during the first half of 2015 was $507,300 and at $308,750 for a multifamily unit. Both indicators show meaningful appreciation since prices reached a post-recessionary nadir in 2011. Median prices are anticipated to increase into the long-term as thousands of higher priced new units manifesting the higher costs of land, construction, impact fees and entitlement, are added to the inventory, and appreciation (though cyclical) continues.

We estimate approximately 75 percent of the demand for resident housing in the Wailuku-Kahului Study Area will be for units with a current price of $660,000 or less; the upper-price threshold for meeting County affordability standards (160 percent of median household income), with 30 percent of demand for units having a current price of less than $330,000 (the 80
percent of median household income threshold).

Multifamily units will comprise an increasing proportion of the total regional inventory, moving from the current 25 percent level to 45 percent over the coming two decades; by which time they will represent almost half the new product being added. About 73 percent of the proposed subject product is currently envisioned to be single family (homes or lots) and 27 percent multifamily units; a mix reflecting the lower-intensity/rural nature of WTC relative to other Central Maui developments. However, the master plan and Project District Ordinance will allow for adjustments in the unit mix as the market evolves over-time and should demand for multifamily units in the community increase.

Pricing for the subject inventory will comply with the County of Maui "Residential Workforce Housing Policies". At this time, based on prevailing construction costs and interest rates, proposed lot sizes, and market conditions, the developer projects as much as 85+ percent of the inventory could potentially have prices meeting affordability guidelines for households with 140 percent or less of median household income on the island.

Based on the limited availability of alternative
Central Maui supply relative to demand and the favorable competitive characteristics of the subject location and proposed community, we estimate the 1,433 proposed residential units of WCT will require about 10 years to be fully absorbed following anticipated commencement of pre-sales, or at an average rate approaching 150 units annually. This represents only some 20 percent of total regional mid-point demand during the sales period; a moderate perspective which could readily be swifter if some proposed projects fail to reach fruition and the market standing of WCT achieves expectations.

The WCT master plan will provide the potential for up to 146 "ohana" units in the community, although their location has yet to be determined. It is assumed the ohana units will be used for long-term rentals and/or permanent housing for Maui residents. In light of the well-documented long-term demand for affordable housing on the island (particularly rentals), coupled with the results of our general market analysis, we have assumed there will be sufficient demand to readily absorb the ohana units and have not completed a specific assessment. As there is no certainty when or where the units will be built in the project, we have analyzed their economic and fiscal impact within our models assuming maximum build-out of the 146 units
between 2021 and 2030.

Although the WCT holding has superior characteristics for general commercial development, including extensive frontage on two highways (and proposed connector road), and a gateway/intercept location, it is not the intent of the developers to compete for a broad spectrum of retail, restaurant and service tenants. Beyond a typical, appropriately-scaled village center to meet the daily "neighborhood" shopping needs of residents, guests and workers within a sustainable community, the remaining added commercial spaces are envisioned as creating a low-intensity, design-controlled, small-town environment similar to Makawao, Paia, Lanai City Square, Hanalei, or as seen in the exiting shops within Maui Tropical Plantation, with additional opportunities for live/work spaces and galleries.

We estimate the demand for neighborhood commercial space by WCT residents and day workers at build-out will be some 85,100 square feet, with patronage by guests in the community, other Waikapu households, and passers-by contributing an additional 34,000 square feet of demand on a stabilized basis. The remaining 50,500 square feet (of the total 169,600 square feet proposed) will be modestly absorbed over-time with specialized/niche businesses, many with cross-over appeal to
residents and visitors, and keeping with the small-town context. The developers are hopeful the existing on-site Tropical Plantation shops will remain at WCT. We estimate it will require about 12 years for the proposed subject commercial space to be fully absorbed.

In addition to the market study, we constructed a model depicting the economic impact of the WCT project on the Maui and Statewide community during the course of its "lifespan" from anticipated ground-breaking, through build-out and full absorption, and reaching full "stabilization". The model builds on the absorption estimates and data contained in our market study. The potential ohana component at maximum build-out of 146 units is included.

The WCT development will bring in $644.3 million of new, direct capital investment and significant indirect expenditures into the island's real estate market during its build-out over a 12-year period for the "base" 1,433 units with an additional circa three years to complete the 146 unit ohana units. It will generate some $817.2 million in total "new" Maui economic activity during the construction and initial operations period, and some $32.1 million in annual new economic activity on a stabilized basis thereafter.
The construction of the WCT components will directly create an estimated 2,476 "worker-years" of employment (the equivalent of 52 work weeks at 40 hours per week) in the trades and associated businesses during build-out, averaging about 165 worker years annually, with an estimated $201 million in wages (averaging about $13.4 million per year).

The on-going operations and maintenance of the business commercial, and residential components will directly provide an estimated 4,251 worker-years and $151.6 million in total wages over the 13-year period from opening of the first businesses until full absorption and stabilization are achieved (2018 to 2030). The operating businesses and maintenance of the housing units will support a projected 531 "full-time equivalent" positions following stabilization (many of which are anticipated to be held by WCT residents) with annual wages of $2.2 million.

Associated secondary/off-site employment during the overall development and absorption time-frame will total 1,789 worker-years with wages of $91.3 million. After "stabilization" the community will contribute to the support of some 149 secondary/off-site positions with $7.6 million in yearly wages off-site.
We project that from 5.9 percent (in 2020) to 22.6 percent (in 2030) of gross commercial sales in the project stores and restaurants will be new spending on Maui, growing to a stabilized level of $23 million annually. The total base economic impact on Maui in new monies will total at least $814.1 million during build-out/absorption and $32.1 million annually upon stabilization.

These figures do not include the direct and off-site employment, wages and business activity generated by the in-place 29,000 square feet of the Tropical Plantation commercial spaces.

At completion, the de facto population of the community will be some 4,085 persons, comprised of 3,921 full-time residents (with an overall average household size of 2.87 persons among all unit types) and some 163 part-time residents and second home owners. The cumulative resident household income during the 13-years of residential occupancy and absorption of the modeling period will total $1.3 billion, and will stabilize at $156.6 million annually thereafter. Discretionary expenditures into Maui businesses by the WCT de facto population will be some $707.4 million during build-out and average $83.1 million per year on a stabilized basis.
However, these for the most part will not be new earned and
spent monies flowing into the Maui economy, merely the
relocation of the household earning/spending it.

The part-time second home de facto residents will be
bringing new money and spending to Maui, totaling $21.7 million
during project build-out and stabilizing at $4.8 million per
year.

Application of the State Input-Output Model macro
multipliers depicting direct, indirect and induced economic
impacts arising from development of WCT results in significantly
higher economic out-flow indicators than those from our direct,
subject-specific micro model.

The total State economic impact from construction of
the project would reach $1.37 billion, there would be 8,911
total worker-years of jobs created, and the total increase in
earnings statewide would be $406.1 million. The State model
also estimates the total annual additional new economic output
from business operations within WCT would be more than double
the gross revenues at $67.1 million annually on a stabilized
basis, the total number of worker years attributable to the
subject dollars flowing through the economy would be 609
positions annually, and the increase in direct earnings would be
$21.2 million per year.

In addition to the primary impacts on Maui’s economy, the WCT project will have minor impacts on the socio-economic aspects of the surrounding community that relate to real estate issues. First, the proposed residential components will be compatible with existing and proposed housing developments located within the Directed Growth Boundary northerly of the property in regard to inventory type, pricing and market standing.

Second, the proposed commercial component will be appropriate in scale, design and uses within a "small town" context; intended to support the WCT residents and provide unique, low-intensity business opportunities. It will not contain big box or regional-type retailers, or is not intended to be directly competitive with on-going major commercial development in Wailuku and Kahului.

Third, about 1,070 acres mauka and southerly of the village center will be kept in the Agricultural District (800 acres within perpetual agricultural easement) as a buffer from the urban uses for further outlying agricultural and conservation lands.

Fourth, property values in the Central Maui are
largely driven by external, cyclical economic factors within an existing (and expanding) cumulative mass, not any single new project. WCT will not, in itself, drive regional market values or real property assessments of nearby real estate upwards.

Fifth, it is not expected there will be meaningful in-migration to Maui as a direct result of the operating components of the project. A significant percentage of the WCT residential inventory is anticipated to be sold at prices consistent with Maui County workforce housing guidelines, providing new, competitively-priced inventory across a broad-spectrum of purchaser demographics; contribute impact fees (and a school site) in support of regional civic and educational facilities; and provide live/work opportunities in a sustainable, appropriately-scaled project.

Sixth, residents and patrons of the community will have frontage along at least one major highways providing direct access to many areas of Maui without having to travel through, and increase the congestion of, the Wailuku-Kahului urban core.

As a part of the fiscal impact analysis, I looked at the impact of the WCT project on local and state taxes. The County of Maui will realize new Real Property Taxes ($27.7 million), other secondary receipts, and impact fees totaling
$47.9 million during the 15-year projection period, and $4.9 million annually on a stabilized basis thereafter. After new per capita costs for services are considered the County will earn a net "profit" $42.2 million during build-out and $4.2 million annually after stabilization.

Similarly, the State of Hawaii will receive new Gross Excise and Income taxes, secondary revenues, and impact fees of $95.4 million during the 2016-2030 period, and $4.4 million per year thereafter. Overall, after new per capita governmental costs are deducted, the State will generate net benefits of $82.6 million during build-out and $2.9 million annually on a stabilized basis.

Given the existing emergency services and social services infrastructure available in nearby Wailuku and Kahului, the provision of a school site within WCT, payment of impact fees, and young age of the project components, it is likely the "actual" public cost burden associated with the project would be less than the per capita assessment or independently require the need for major new public facilities.

Based on the analysis conducted, it is my opinion that the WCT Project will result in needed housing, business opportunities, increased employment, gains in economic
activities, and tax benefits to the County of Maui.

Thank you for the opportunity to speak to you.


[Signature]

THOMAS W. HOLLIDAY