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HOUSING POLICY STUDY, 2006: HOUSING PRODUCTION ISSUES

Prepared for the:

**Hawaii Housing Finance and Development Corporation and
Housing Officers/Administrators for Honolulu, Maui, Hawaii, and
Kauai Counties**

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**Prepared by:
SMS Research & Marketing Services, Inc.
February, 2007**



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Dear Directors/Administrators:

We are pleased to submit this report on the results of the Hawaii Housing Production Survey conducted on behalf of the Hawaii Public Housing Authority. We believe the results will provide insight into this process and aid in future planning.

Thank you for the opportunity to work on this important project, and we look forward to working with you in the future.

Please call if you have any questions about this report.

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Alan Barker Associates
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Sincerely,

James E. Dannemiller
Executive Vice President

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EXECUTIVE SUMMARY

Current records indicate that developers have sought approval from county planners for more than 125,000 new units statewide. This figure is not a comprehensive list of planned developments. It does not include smaller projects¹ and developments that have not begun the formal approval process. Housing planners have reported that the number of planned housing units on record rarely meshes with what actually gets produced. In fact, actual production has typically fallen short of what is forecasted by these records. For this reason, SMS set out to develop a more accurate estimate of housing production. In the end, we were not able to develop as detailed an estimate as we had originally hoped. However, we believe that this study reveals several key components of housing production and will pave the way for more accurate estimates in the future.

Each county maintains detailed records on planned developments. Honolulu and Maui Counties have assembled these records into detailed databases. Planners from Honolulu and Maui use this information to forecast local development and generate more accurate estimates of countywide future production. These databases contain several pieces of information including a project's status in the permitting and entitlement process. Honolulu planners also have developed a modeling technique that considers several components including population growth and production history. These practices have led to more comprehensive estimates of future production.

Unfortunately, only Honolulu and Maui planners provided this level of detail and even these extensive databases do not contain developer contact information. It was difficult to contact developers without this information. Records of future production should be assembled so that detailed databases exist containing developer contact information, projected completion dates, project status, and general information about the project. These records will allow researchers to more efficiently gather detailed information from major developers and forecast statewide future development.

Interviews with developers indicate that perceptions of the market are generally favorable. Developers of higher-end units are less optimistic than those developing mid-range homes. There is a general consensus that high-end demand is flattening and is likely to diminish even further. Developers believe that mid-range and affordable homes will continue to be in high demand due to a current lack of supply. Developers keep a close watch on interest rates, sales and "time on market" to determine the economic feasibility of projects. Developers constantly assess the market using these indicators and note that slips in the market will significantly reduce production rates.

¹ County of Hawaii figures do not include developments smaller than 100 units. County of Honolulu records do not include developments smaller than 25 units. County of Kauai figures only include affordable housing developments.

Developers report that the permitting and entitlement processes also have an impact on production. The process is reported to take anywhere from one to more than ten years. This leaves some developers unable to expedite developments in reaction to favorable market conditions. Most developers reported that they are able to plan around this process using a “develop as you go” model. In many cases developers convert raw land and develop infrastructure in lieu of the final permits and approvals.

Developers typically do not begin feeling comfortable that a project will be completed as scheduled until they have received the final building permit or approval. Some Maui developers indicated that land use entitlements are a major hurdle. However, the new Residential Workforce Housing Policy has recently changed that perception. Now, Maui developers must reach an agreement under the conditions set by Ordinance 3418 before they can receive final permits and approvals. The affordable housing requirement set forth by this ordinance is likely to cause many developers to reevaluate planned production and may result in a significant reduction in production in the County of Maui.

Future production is not solely dependent on the ability of developers to move a project through the permitting and entitlement process. Developers are constantly reviewing the market and many developers are simply unable to forecast development across an extended time frame. The position of a project in the entitlement process can help forecast future development, but in the end product rollout will be dependent upon the market conditions of the day.

These findings, combined with the findings presented by the Hawaii Housing Policy Study 2006 and the Housing Demand Model, suggest that future production will be far lower than that which is currently reported by developers. Shrinking demand and an overall subsidence in the housing market is likely to reduce future production. Recent County of Maui affordable housing requirements will also limit production. Other counties have also considered similar affordable housing requirements and future legislation on this issue could potentially cut into housing production.

FINDINGS

PRODUCTION PROCESS

The information presented in this section was obtained through executive interviews conducted by SMS with officials from the county planning offices. A copy of the discussion guide used in these interviews can be found in Appendix A of this report. These discussions helped to paint a picture of the production process in each county and aided in the development of the producers survey.

City and County of Honolulu

Informants in all counties have suggested many reasons why actual production might fall short of the number of units on the schedules. In the City and County of Honolulu, detailed schedules of major housing projects are available and updated each year. These figures are routinely reported as part of the Community Plan Update process. They include several pieces of useful information and our observation was that the schedules reflected the most detailed information available on planned developments. The County agreed. However, the City and County of Honolulu Department of Planning and Permitting produces their own estimates of the actual number of units they expect to be built by 2030. These estimates result in a notably lower year-by-year production than the number of units on record. Tables 1 and 2 display the units scheduled for production and county production estimates.

Table 1: City and County of Honolulu Production Units on Record

Area	2007	2008	2009	After 2009	Total
Central Oahu	381	142	350	11,780	12,653
Honolulu	1,096	2,247	917	226	4,486
Ewa Plain	1,210	2,521	2,929	22,662	29,322
West Oahu	814	677	1,020	6,611	9,122
Windward Oahu	54	59	120	643	876
Oahu Total	3,555	5,646	5,336	41,922	56,459

Note: Does not include developments under 25 units

Source: Department of Planning and Permitting August 2005 Survey, Advertiser Research

Table 2: City and County of Honolulu Production Estimates

Area	2007	2008	2009	2009 to 2030	Total
Oahu Total	3,670	3,670	3,670	75,222	86,506

Source: City and County of Honolulu Department of Planning and Permitting

The production data (Table 1) shows that more than 56,000 units are currently on record and the bulk of the units are scheduled for completion after 2009. It is important to note that these figures do not include developments smaller than 25 units or developments that have not begun the formal approval process. Therefore, the figures presented in Table 1 are not precise enough for long-range estimates. However, they can provide production rates over the next few years. The records indicate an average production level of approximately 5,000 units per year over the next three years. If this pace were to continue beyond 2009 there would be more than 111,000 new units built between now and 2030.

Estimates from the Department of Planning and Permitting predict fewer units will be built. They expect a production level of approximately 3,700 units per year. City estimates are based on several factors including projected population growth and previous development patterns. These figures are considered by City planners to be a much more accurate representation of future development. City estimates indicate that many fewer units, approximately 86,500, will be produced between now and 2030. It should be noted that these estimates are updated annually based on several factors and are subject to fluctuation.

County of Maui

The housing environment in each county is unique, but many counties echo the opinion that the amount of development on the books is higher than the amount that will actually be produced. Maui County, for instance, is in the midst of revising its General Plan. That process will take many months to complete and will be followed by revisions for the Community Plans. Outcomes of those procedures are likely to affect at least some of the scheduled projects. In addition, the County Council has been very concerned about the pace of development in Maui County and has twice moved to place a moratorium on development. The newly elected Mayor and her staff have noted that housing development will be an important focus of their first year in office, and have suggested that changes may be in the offing.

Most recently, a Residential Workforce Housing Policy (Ordinance – 3418) was enacted. This ordinance will have an impact on planned developments. Developments that have not yet obtained a building permit or subdivision approval will be required to meet the requirements of this ordinance. Developers will be required to provide 40 to 50 percent of new units at a price affordable to those with incomes below 160 percent of HUD median income². This will cause many developers to reevaluate project plans and make adjustments to account for the new affordability requirements. Some developers may not be able to proceed with planned developments under these conditions.

² United States Department of Housing and Urban Development determines the percentage of median income based on household income and household size.

County of Maui planners keep detailed records of housing production including the entitlement status of each project. Table 3 displays planned production in Maui County.

Table 3: Maui Production Data

Area	2007	2008	2009	After 2009	Total
East: Hana	60	60	60	315	493
South: Kihei to Makena	374	374	374	11,848	12,968
Upcountry: Makawao/Pukalani/Kula	110	110	110	3,701	4,032
North: Pai'a to Ha'iku	6	6	6	514	533
West: West Maui	971	971	971	19,189	22,103
Central: Wailuku-Kahului	1,094	1,094	1,094	11,466	14,749
Maui Total	2,616	2,616	2,616	47,032	54,878

Source: County of Maui Department of Planning

Projects that have secured all three major land use entitlements³ are considered “committed”. County planners estimate that these projects will be completed within the next 15 years. All other projects have yet to secure one or more of the major land entitlements and are unlikely to be completed within a 15-year time frame. Production figures for Maui have been allocated using linear projections. That is, annual estimates are simply proportionate to the 15-year estimates provided by county planners.

Ordinance 3418 will have a significant impact on Maui development. Projects that are “committed” may not happen as scheduled due to these new affordable housing requirements combined with changing market conditions. Previously, the major hurdle was obtaining the three major land use entitlements. However this new law will require developers to reach an affordable housing agreement before the issuance of a final building permit or subdivision approval. This may result in a lower level of production in upcoming years. A more detailed description of how this ordinance impacts Maui developers can be found in the Developers Survey section of this report.

County of Hawaii

The situation in Hawaii County is similar to that on Maui. Administration and Council members are concerned about the pace of development and have called for a slow-down over the next several months.

³ The three major land use entitlements include approval from the Land Use Commission, the Planning Commission, and zoning approval from County Council

In addition to the political environment, recent months have brought a leveling of housing prices and a decrease in sales. Rental prices have ceased to rise -- fallen in some classifications -- and local demand is not high. Depending on out-of-state demand, the future for housing development may not be as lucrative as has been the case for the past three years. All of these factors and more will have important effects on developers' willingness to commit major resources to new housing in the next five years.

County of Hawaii planners were unable to provide a detailed database of planned developments. The list provided contains the number of units on the books, but a specific timeline was not available. No records were provided that indicated a project's entitlement status, so estimates based on position in the development queue were not possible. County planners are currently working to develop a more detailed database of planned developments including a projected completion date and project status.

SMS attempted to contact Hawaii Island developers and determine a timeline for the projects listed by county planners. After many months of effort, approximately 30 percent of these developers were contacted. Table 4 displays the County of Hawaii production data.

Table 4: County of Hawaii Production Data

Area	2007	2008	2009	After 2009	Unknown	Total
Hawaii Total	1,382	1,919	1,928	1,921	8,066	15,216

Note: Excludes projects of less than 100 units

Source: County of Hawaii Office of Housing and Community Development

These estimates are not as precise as those produced for Maui and Honolulu Counties. The completion date for many projects remains unknown. Some developers were unable to provide completion dates, as they simply were not far enough along in the planning process to know an exact date. Therefore, it is reasonable to assume that many "unknown" projects will come online beyond 2009. However, some of these "unknown" developments may be completed on a shorter time frame.

This list is by no means complete and does not represent all planned developments in Hawaii County. County planners are currently working on assembling a more detailed database of planned developments. Once the county planners have assembled a more detailed database, the precision of these estimates will improve.

County of Kauai

The County of Kauai shared with us a list of all affordable housing development projects for the County. The number of units in this category was relatively high, and there were none who felt that the County might fall short of this list. The County was unable to produce a list of all scheduled developments and their position in the production queue by the time of this publication. It is unclear when planners will be able to assemble a detailed database for the County of Kauai. Until that time, it is impossible to provide an accurate estimate of future production. Table 5 displays a list of planned affordable housing units.

Table 5: Affordable Developments – County of Kauai

Area	2007	2008	2009	After 2009	Total
Hanalei				75	75
Kawaihau	5				5
Koloa	67		90	107	264
Lihue	319	235			554
Waimea				315	
Kauai Total	391	235	90	497	1,213

Note: Only includes affordable developments
Source: County of Kauai Department of Planning

Recommendations

The review of County data showed that the precision of future production estimates depends on the availability of comprehensive production databases. If in the future housing planners need to have this kind of data on production, considerable effort must be expended. Planners from each county would need to work toward developing and maintaining databases on future production. These databases would contain at minimum:

- Project name
- Area of the island
- Developer contact information
- Developer specified target completion dates
- Project entitlement and permit status
- Number of units planned by type of unit
- Affordability data

To these data we would have to add the building permits issued (or applied for) that are not included in the large projects. And to that, developer estimates of projects not yet in the approval process.

The process of estimating production can be improved in the future. That would substantially improve the ability of housing planners to anticipate the rate at which units suited to different market segments will emerge from the production queue. It will also require a substantial effort on the part of people at the County planning departments, coordinated to assure comparability across counties.

PRODUCERS' SURVEY

The original intent of the producers' survey was to gather information from a large sample of housing developers and builders in 2006. The survey was designed to gather data on producers' expectations with respect to the scheduled development lists gathered from the Counties. Throughout the course of this study it became clear that we would not be able to proceed as we originally intended. Even when we were able to locate the right developers, it was very difficult to contact them. In many cases fifteen or more attempts were made without successful contact.

In the end, we settled for a set of informal conversations, similar to those conducted with county planners, with a smaller sample of housing producers. The purpose of this investigation was to gather some over-the-top views on the prospects for development over the next several years. Without asking them for many specifics on a given development, we gathered their impressions and expectations for the coming years. A total of 15 ten-to-twenty minute interviews were conducted. Those findings are reported in the following sections.

Perceptions of the Housing Market

There is a general consensus among developers that the housing market is still favorable for new development. This is especially true on the neighbor islands where developers believe housing is in short supply. Many developers, especially those building in areas with high demand, do not anticipate a drop in sales prices. However, not all developers share this opinion.

Some developers have become wary of the changes in the housing market. They reported that a key figure in assessing the market is "time on market". Increases in time on market indicate a slowdown in sales in falling prices. Some developers reported that units have begun to stay on the market longer than during the last three years. In fact, the time on market has been increasing and this trend is likely to continue to inspire wariness among developers.

Developers of mid-range homes were more optimistic than up-scale developers. The recent run-up has left some developers thinking that demand will subside from the top down. That is, high-end developers will begin to feel the crunch long before those developing homes for residents with lower incomes. Across all counties, developers of mid-range projects believe that a shortage in affordable and gap group housing will bolster the effects of a slipping market.

Most developers reported that the market was still favorable for development. However, no developer believed that the market was so favorable that they would rush to get units built. At the same time, no developer reported that the market was so unfavorable that they would pull units back from the schedule. These findings show that although developers have not formed any drastic impressions about the current market, they are monitoring it more vigorously.

Many developers noted that they constantly monitor the market and perceptions can change quickly. They noted that sharp increases in interest rates could have a detrimental impact on any planned development. Interest rate increases will lead to a significant reduction in sales price and this could make a project financially unfeasible. Some developers are concerned that Hawaii interest rates are at the bottom and can only increase in coming years.

Developer perceptions of the housing market can help us to develop better estimates of future production. It is clear that future development is contingent upon the robustness of the housing market. Developers mention several indicators that can result in a reevaluation of project plans. Researchers may be able estimate local housing production using these indicators in future studies. The market appears to be turning and developers are watching events closely.

Permitting and Entitlements

The housing market is not the only component that affects developers' planning and decision-making. The status of the project in terms of permitting and entitlements also plays a key role. The process of seeking all necessary land use and building permits differs from county to county and project to project. However, in every county the developers characterize the process as lengthy.

Developers are mindful of this process during their planning and budget accordingly. They report that the process takes an average of 3 to 8 years. Some Hawaii County developers reported that they were able to work through the process in less than one year, but this was an uncommon assertion. Other developers mentioned that some projects have been stuck in the process for several decades.

The time needed for permitting could potentially wreak havoc on project plans. To the contrary, few developers report this as a major issue. Developers note that they are able to accomplish phases of development during this permitting process using a "build as you go" model. In some cases, raw land can be developed and infrastructure can be put into place while the developer is waiting for the next set of permits.

Although this impact does not appear to be widespread, the lengthy permitting process harms some developers. Some developers complained that the permitting process does not keep pace with the housing market. That is, the developer is not able to expedite the process when the market is favorable. Also, a project may be conceived under conditions that are drastically different once it is fully permitted. In the past, this has led some developers to hold off on breaking ground for fully approved developments.

Most developers agreed that a project could get held up at any phase of the approval process. Most do not feel comfortable that a project will be completed as scheduled until they obtain the final building permit. Land use entitlements were also mentioned as key hurdles. This was especially true in the County of Maui.

Maui developers often mentioned that once the three major land use entitlements were obtained a project was likely to move forward as planned. These entitlements were described by some as the final hurdles in the process. However, in more recent interviews Maui developers reported that the environment has changed substantially with the passage of Ordinance 3418.

Developers believe that this ordinance will have a larger impact on smaller projects, which will not be able to compensate for the revenue lost by building affordable units. Developers also believe that this ordinance will have a more detrimental affect on smaller companies and independent developers. It seems clear to developers that this new ordinance and any similar future affordable housing legislation will substantially reduce housing production.

MILITARY PRODUCTION

Hawaii has a large military population centered in the City and County of Honolulu. All branches of the military have bases in Honolulu County and provide housing for active duty military and their dependents. This supplies military personnel with economical housing opportunities and helps to alleviate demand for residential units.

In late 2003 the military turned over all military housing to private LLCs. These companies have since begun demolishing uninhabitable units, building new military units, and renovating out-of-date units. Table 6 displays military inventory and planned production.

To date, there are slightly fewer military units than were originally handed over in 2003. Demolition moved faster than new construction and this has resulted in a shrinking inventory during this period. More than 3,300 units are planned and this production will increase inventory in coming years. However, the total planned inventory of military units (14,801 units) will still fall slightly short of the number handed over in 2003. Although unit inventory will decrease, this process will eliminate derelict military units, increase occupancy rates and result in the availability of more inhabitable units than existed in 2003.

Table 6: Military Housing and Production

	Current Inventory	Planned Production	Total Planned Inventory
Air Force	1,134	222	1,356
Army	8,088	(194)	7,894
Marines	100	975	1,075
Navy	2,160	2,316	4,476
Total	11,482⁴	3,319	14,801

In coming years the military housing inventory will contain larger units and more single-family units. These are considered improvements to the inventory, as it will better serve the needs of larger military families and more closely match housing preferences. These improvements in military inventory are clearly evidenced in the plans for future production. Table 7a and 7b illustrate the future make-up of military housing for the Army.

⁴ 2006 figures are much lower than those reported in previous iterations of this study. Prior to 2006, military inventory included bed space in barracks. In 2006, bed spaces are not included in the inventory. This change results in numbers that are more effective for housing planners and future iterations of this study will report military inventory in this manner.

Table 7a: Military Housing Size – Army

	Current Inventory	Planned Production	Total Planned Inventory
<i>Unit Size</i>			
2 Bedroom	3,043	(1,762)	1,281
3 Bedroom	2,644	2,952	5,596
4 Bedroom	2,238	(1,456)	782
5 Bedroom	162	72	234
6 Bedroom	1	-	1
Total	8,088	(194)	7,894

Table 7b: Military Unit Type – Army

	Current Inventory	Total Planned Inventory
<i>Unit Type</i>		
Single-family	5%	54%
Multi-family	95%	0%
Duplex	0%	46%

In the end, the military inventory will include more desirable units in terms of size and type. As shown in Tables 7a and 7b, the Army plans to increase the number of three bedroom or larger units by more than 1,500 units. The Army also plans to eliminate 4-plex or more multi-family buildings and convert these into single-family or duplex units. The Air Force, Navy, and Marines are moving inventory in a similar direction.

In the future the military inventory in the State of Hawaii will better suit the needs of military personnel. This will help alleviate demand for residential units. Currently the LLCs are focused on renovating and rebuilding the current stock. Once this is completed, new units that match the needs of military personnel are expected to come online as the need arises.

APPENDIX

APPENDIX A: INTERVIEW GUIDE FOR DISCUSSIONS WITH COUNTY PLANNERS
October, 2006

Primary Objectives:

1. To understand factors that have an impact on whether a development comes down the pipe on schedule
2. To better understand the permitting requirements and the length of time to takes to get through the permit phase of project development

Subject	Time
<p>GENERAL INTRODUCTION</p> <ul style="list-style-type: none"> ➤ Explain to all participants the importance of the Housing Policy Study and the specific problem we need help solving ➤ General introductions 	5 minutes
<p>GENERAL INFORMATION ABOUT HOUSING</p> <ol style="list-style-type: none"> 1. What are developers required to do before they can break ground? 2. What are the major hurdles or the permits/zoning requirements that are the most difficult to attain? 3. Is there a point/several points in the process where a development becomes much more likely to come down the pipe on schedule. At what point/s? 	20 minutes
<p>ATTITUDES ABOUT CURRENT MARKET</p> <ol style="list-style-type: none"> 1. What portion of the units planned for your county (x units are planned) do you think will actually be developed on schedule (within a year)? 2. How will the current housing trends (leveling prices, less short-term investment opportunity, etc.) impact the number of units that come out of the pipe? 3. Is there a certain type of unit more likely to be built right now? 4. Are there factors that make a particular type of unit more likely come out on schedule? What factors? 	20 minutes
<p>ATTITUDES ABOUT DEVELOPERS</p> <ol style="list-style-type: none"> 1. Is there a particular approach that will increase our chances of getting candid information from developers? 2. Are there certain developers that are more or less likely to develop units on schedule? 3. What are developers required to tell the county in terms of planned units? Is the county informed of delays, etc. How often do delays happen? 	30 minutes
<p>OTHER SUGGESTION</p> <ol style="list-style-type: none"> 1. Is there anything else that you can add? 	10 minutes

Thank you.

APPENDIX B: PRODUCERS SURVEY

Introduction: Hello I am interviewer name with SMS Research. We are conducting a Housing Policy Study for the State of Hawaii, and we would like to talk to you about housing in Hawaii. I would like to get a sense of how planned developments come down the "pipeline" and what factors speed-up/slow down this process.

State and County planners have given us a database of planned housing developments and we would like to talk to you about PROJECT NAME.

1. Now, I understand that you are the developer the PROJECT NAME. Is that correct?

- 1 Yes [SKIP TO QUESTION 3]
- 2 No

2. [IF NO] Who is the developer?

- 1. Name: _____
- 2. Phone # _____

TERMINATE AND ADD THIS PERSON TO THE LIST

3. I have received information from state and county planners about this project. I would like to verify that my information is correct. [Verify Correct Information, Record Changes Below]

- 1 Number of Units _____
- 2 Target Completion Date _____
- 3 Type of Units _____

4. In general, would you describe the Hawaii housing market as favorable or unfavorable for developers? And why so you so that?

- 1 Favorable [GO TO QUESTION 5]
- 2 Unfavorable [SKIP TO QUESTION 7]
- 3 NOT SURE [SKIP TO QUESTION 9]
- 4 REFUSED

5. If FAVORABLE, Do you think that this favorable housing market will lead you to complete your project ahead of schedule?

- 1 Yes
- 2 No [SKIP TO QUESTION 9]
- 3 Not Sure [SKIP TO QUESTION 9]
- 4 Refused [SKIP TO QUESTION 9]

6. IF YES, How early do you think you will finish?

- 1 A few months
- 2 3 to 6 Months
- 3 7 months to 1 year
- 4 1 to 3 years
- 5 More than three years

7. If UNFAVORABLE, do you think that the housing market is so unfavorable that it you will delay PROJECT NAME?

- 1 Yes
- 2 No [SKIP TO QUESTION 9]
- 3 Not Sure [SKIP TO QUESTION 9]
- 4 Refused [SKIP TO QUESTION 9]

8. If YES, How long do you think this project will be delayed?

- 1 A few months
- 2 3 to 6 Months
- 3 7 months to 1 year
- 4 1 to 3 years
- 5 More than three years

9. As you know there are several steps involved with developing new housing in Hawaii. Often a delay in permits or zoning can lead to a delay in the completion of a project. Is there a certain permit or phase of project planning where you begin to feel comfortable that the development will happen as scheduled?

- 1 Yes
- 2 No [SKIP TO QUESTION 13]
- 3 Not Sure [SKIP TO QUESTION 13]
- 4 Refused [SKIP TO QUESTION 13]

10. If YES, and at what point is that?

11. And have you reached that point with this project?

- 1 Yes [SKIP TO QUESTION 13]
- 2 No

12. IF NO, When do you think you will reach that point?

- 1 In the next few months
- 2 Within the next six months
- 3 Within the next year
- 4 Within the next two years
- 5 More than two years from now

13. How close are you to obtaining all the permits/zoning you need to break ground for this project?
Would you say..

- 1 You will have them all now
- 2 Will have them in the next few months
- 3 Next six months
- 4 Next year
- 5 Next two years
- 6 More than two years from now

Okay those are all the questions I have. Thank you for your time. If you have any questions about the legitimacy of this project you can contact the President of SMS Research James Dannemiller at 808-440-0701.