

TRANSIT-ORIENTED DEVELOPMENT, WAIPAHU: OVERVIEW OF MARKET ANALYSIS AND ECONOMIC IMPACTS

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1. LOCATIONAL AND OTHER ADVANTAGES FOR DEVELOPMENT IN WAIPAHU

a. Central Location and Access to Other Communities

- Waipahu is centrally located within the urbanized portion of O'ahu (i.e., East Honolulu to 'Ewa and Central O'ahu).
- Waipahu businesses and residents have good access to Honolulu, 'Ewa, Central O'ahu and Windward O'ahu via H-1, H-2, H-3, Farrington Hwy, Kamehameha Hwy, Fort Weaver Rd, and Kunia Rd.
- The transit system will improve access to communities between the City of Kapolei and downtown Honolulu, and to Honolulu International Airport.
- Waipahu is an excellent location for:
 - Residents who work in Waipahu and who commute to jobs in 'Ewa, Honolulu, and other urban areas in Central O'ahu.
 - Students who commute to UH West O'ahu, Leeward Community College, and other schools.
 - Companies that serve Waipahu and surrounding communities (e.g., vehicle sales and servicing).
 - Light-industry serving island-wide markets (e.g., construction, manufacturing, and warehousing companies at Mill Town Center and the industrial areas below Farrington Hwy).

b. Low Value of Existing Buildings

- Most of the buildings along Farrington Hwy are good candidates for replacement, since most occupy only a fraction of their lots, are one-story, and currently are nearly 20 years old or older.

c. Other Advantages for Development Near the Leoku Station

- Bus service to the station will draw commuters from Royal Kunia, Village Park, West Loch Estates, 'Ewa Villages, 'Ewa Gentry, Ocean Pointe, 'Ewa Beach, and Iroquois Point. These commuters will also become potential customers for businesses near the station.
- Three organizations own most of the land near the station and fronting Farrington Hwy, and lots are relatively large. This will simplify the effort to assemble land for development.

- The proposed station is near St. Francis Medical Center – West, making Leoku an attractive location for doctors who desire a location near a major medical facility.

d. Other Advantages for Development Near the Mokuola Station

- Bus service to the station will draw commuters from Waikele and Waipi'o Gentry. These commuters will also become potential customers for businesses near the station.
- About 40% of the land near the station and fronting Farrington Hwy is owned by a few organizations, and lots are relatively large. This will simplify the effort to assemble land for development.

2. ANTICIPATED DEVELOPMENT

a. Assumptions

- Anticipated development near the two transit stations in Waipahu is based on the amount of building space within the community defined "areas of change" (blocks shown in color on the Refined Station Area Alternative Plans, January 2008). These "areas of change" are mostly within a 1/4-mile radius of the transit station, although some are within a 1/2-mile radius. Estimated building space is based on average floor area ratio (FAR), which is the ratio of the total floor area of a building to the land area. For the Leoku and Mokuola Stations, the assumed FARs are 1.32 and 1.04, respectively.
- It is further assumed that, at full development, about 57% and 69% of the space at the Leoku and Mokuola stations, respectively, will be used for homes, while the remainder will be used for commercial and industrial space.
- For the Leoku Station, the assumed split between commercial and industrial at full build-out is about 75% and 25%, respectively. The current split is about 51% commercial and 49% industrial.

b. Homes (number)	<u>Leoku</u>	<u>Mokuola</u>	<u>Total</u>
Anticipated	3,240	2,060	5,300
Less Existing	<u>- 220</u>	<u>- 540</u>	<u>- 760</u>
Increase	3,020	1,520	4,540
c. Commercial/Industrial Space (million sq. ft.)			
Anticipated	3.415	0.971	4.386
Less Existing	<u>- 3.366</u>	<u>- 0.971</u>	<u>- 4.337</u>
Increase	0.049	-	0.049
Commercial (retail and office)			0.666
Industrial			- 0.617

d. Comments

- As noted, the amount of commercial and industrial space at the two Waipahu stations will increase by an estimated 49,000 sq. ft. Most new businesses in the area will serve area residents and commuters. Existing industrial activities serve island-wide markets.
- Since some of the existing industrial space will be developed for mixed-use residential/commercial buildings, the amount of commercial space is expected to increase by about 666,000 sq. ft., while the amount of industrial space will decrease by about 617,000 sq. ft. For comparison, Waikele has 748,000 sq. ft.

3. ABSORPTION RATES

a. Homes

- Development of the new homes near the two Waipahu transit stations over a 20-year period would require absorption at about 227 new homes per year (4,540 new homes ÷ 20 years).
- Assuming that about 10 transit stations will have major residential components, and that they will have similar absorption rates, then about 1,135 new homes will be built annually near transit stations over a 20-year period (10 x 227/2).
- This amounts to about 28% of the 4,000 or so new homes projected annually for O'ahu for the 2010-to-2030 period. This percentage rate is consistent with that experienced for mainland communities that have new transit systems.

b. Commercial Space

- Development of the new commercial space near the two Waipahu transit stations over a 20-year period would require absorption at about 33,000 sq. ft. per year (666,000 sq. ft. ÷ 20 years), which is reasonable

4. CHARACTERISTICS OF RESIDENTIAL REDEVELOPMENT

a. Resale Home Prices, Waipahu (9/06 to 8/07)

	<u>Low</u>	<u>Median</u>	<u>High</u>
• Single-family (SF) Homes	\$425,000	\$619,000	\$860,000
• Multi-family (MF) Homes	\$118,500	\$183,000	\$230,000
• Waipahu's median SF home price is competitive with median prices in nearby communities, but the median MF home price is significantly lower:			

	<u>SF Price</u>	<u>MF Price</u>
— 'Ewa	\$524,000	\$320,500
— Mililani	\$655,000	\$300,000
— Pearl City/Aiea	\$649,888	\$309,000

b. Existing and Anticipated Types of New MF Homes

- Waipahu’s low MF home prices reflect the fact that most MF homes are small and fairly old (2 bedrooms and 1 bath of 580 to 710 sq. ft., and built in the 1960s).
- The new homes near the Waipahu transit station are expected to offer a wider choice of sizes, amenities, and prices than is currently the case for Waipahu’s MF homes.
 - Homes are likely to range from small studio apartments for singles to 3 bedroom/2 bath MF homes for larger families.
 - Prices and rents are expected to range from affordable to luxury levels.

c. Anticipated Prices of New MF Homes Near Waipahu Transit Stations (2007 prices)

	<u>Low</u>	<u>Median</u>	<u>High</u>
• 1 bedroom, 1 bath, 500 sq. ft.	\$220,000	\$250,000	\$290,000
• 2 bedrooms, 1 bath, 700 sq. ft.	\$260,000	\$290,000	\$330,000
• 2 bedrooms, 2 baths, 900 sq. ft.	\$310,000	\$340,000	\$390,000
• 3 bedrooms, 2 baths, 1,100 sq. ft.	\$350,000	\$380,000	\$430,000

- These prices are higher than existing MF home prices in Waipahu, largely because the homes would be new and many of them would be larger. However, the prices are consistent with new MF homes in nearby communities.
- Because of the advantages of living near a transit station, homes near transit stations are expected to command prices and rents about 10% to 20% higher than similar homes which are not near the stations.
- At the same time, building costs and prices of homes near transit stations can be reduced by having less parking than is typically provided.

d. Types of Households

- The future mix of housing types near the transit stations is expected to be more diverse than is currently the case. The new households are expected to include:

- College-age students (singles, roommates, couples)
- Young couples, with and without children
- Established families, with and without children
- Retirees (singles and couples)
- Families at various income levels (low, moderate, high, etc.)
- Families with various types of workers (entry level, unskilled laborers, skilled laborers, administrators, managers, professionals, etc.)

e. Affordability Benefit of Transit

- Many residents living near the transit stations may reduce the number of cars they would normally own and operate—possibly owning one car instead of two.
- A portion of the resulting savings in transportation costs can be applied to servicing a mortgage or paying rent on a home that may be larger and have more amenities than they would otherwise be able to afford.

f. City Affordability Requirements

- For changes in zoning, the City requires that 10% of the homes in new projects be affordable to families earning 80% or less of median income, and another 20% of the homes must be affordable to families earning 81% to 120% of median income. The remaining 70% of the homes may be sold or rented at market prices.
- If zoning changes are required for the anticipated development of 5,300 homes near the Waipahu transit stations, then the mix of homes would be as follows:
 - 530 homes (10%) affordable to families earning 80% or less of median income
 - 1,060 homes (20%) affordable to families earning 81% to 120% of median income
 - 3,710 homes (70%) sold or rented at market prices
- The majority of the 760 homes that would be replaced by new development near the Waipahu transit stations are probably priced at levels affordable to families earning 80% or less of median income. Thus, there could be a net decrease of 230 homes affordable at this level (530 new affordable homes minus 760 existing affordable homes). At a regional level, this decrease could be made up by developers of new projects in 'Ewa and Central O'ahu who will be required to supply a portion of their homes at affordable prices.

g. HUD Affordable Guidelines, Honolulu, 2007

	Percentage of Median Family Income, City and County of Honolulu		
	80%	100%	120%
• Income for:			
— Family of 2	\$47,700	\$58,800	\$70,560
— Family of 3	\$53,650	\$66,150	\$79,380
— Family of 4	\$59,600	\$73,500	\$88,200
— Family of 5	\$64,350	\$79,380	\$95,260
• Sale price of home for:			
— Family of 2	\$232,600	\$286,700	\$344,100
— Family of 3	\$261,600	\$322,600	\$387,100
— Family of 4	\$290,600	\$358,400	\$430,100
— Family of 5	\$313,800	\$387,100	\$464,500
• Monthly rent (including utilities) for:			
— 1-bedroom unit, family of 2	\$894	\$1,102	\$1,322
— 2-bedroom unit, family of 3	\$1,207	\$1,488	\$1,786
— 2-bedroom unit, family of 4	\$1,341	\$1,653	\$1,984
— 3-bedroom unit, family of 5	\$1,673	\$2,064	\$2,476

h. Units Affordable for Low-Income Families

- For low-income families (i.e., below 80% of median income), government assistance may be required to help families afford housing near the transit stations, or to provide affordable housing for these families.
- Government programs to help low-income families afford housing payments include rent vouchers to renters and low-interest loans to buyers.
- Government programs to increase the supply of homes at below-market rents and purchase prices include government-built housing, land and/or grants to organizations to build homes, low-interest construction loans, and tax credits for supplying below-market housing.

i. Gentrification

- Once the transit system nears completion, demand for homes near the two Waipahu stations will increase. Inasmuch as the prices for existing homes generally will be lower than the prices of new homes, some renters and buyers new to the community may want to buy or rent existing homes. In turn, this higher demand could result in the rents and prices of existing homes being bid up to somewhat higher levels. Also, some

property owners may upgrade their units to increase their appeal to new renters and buyers, and new owners may make similar home improvements. In the process, some existing renters could be displaced if they cannot pay the higher prices, and some existing homeowners may choose to take advantage of the higher prices by selling their homes and moving to some other neighborhood. In short, some gentrification may occur.

- Owners of existing homes that increase in value due to their proximity to the transit stations will realize corresponding increases in family wealth. These increases in value will far exceed the present value of the additional property taxes on the homes. If homeowners choose to sell their property, they will have more equity which can then be used for a down payment on a home elsewhere. Under the circumstances, it can be presumed that these homeowners will be better off due to the higher property values attributable to a nearby transit station.
- Displaced renters will need to find affordable housing elsewhere. This could include City-mandated affordable homes in new residential projects built near the transit stations for those projects that require a change in zoning. As mentioned above, about 10% of the units will have to be affordable for families earning 80% or less of median income, while another 20% will have to be affordable for families earning 81% to 120% of median income. In addition, over 50,000 homes are planned for 'Ewa and Central O'ahu, of which 15,000 homes (30%) will have to be priced to meet affordability requirements.

j. Upscale Homes

- For the most part, development of expensive upscale homes (costing nearly \$1 million or more) near the Waipahu transit stations, or redevelopment of existing homes to upscale homes, is not expected. Instead, upscale homes will be built in nearby Ocean Pointe, Kapolei West, Makaiwa Hills, and Ko 'Olina. These projects will offer large homes with high-quality features, ocean or golf-course views, an assortment of recreational amenities, and good access to fine restaurants and shopping centers. With minor exceptions, Waipahu residential projects would not be competitive in this upscale market.
- The exceptions are new homes in Waipahu that would feature (1) a *makai* location; (2) commanding views of Pearl Harbor, its wetlands, improved streams, or the Makalena Golf Course; (3) convenient access to the Pearl Harbor Historic Trail; (4) large units; and (5) high-quality features (appliances, fixtures, cabinets, counter-tops, flooring, etc.). Such homes could be sold or rented at prices significantly higher than the prices shown in Section 4.c.

5. PARTIAL RELOCATION OF INDUSTRIAL ACTIVITIES, LEOKU STATION

a. Activities to be Relocated

- The industrial area makai of Leonui Street covers over 50 acres and hosts over 1.8 million sq. ft. of industrial space. Some of the industrial activities along Leoku Street will have to relocate in order to make room to redevelop the area into residential and commercial mixed use.
- In addition, industrial activities that are incompatible with nearby homes and commercial activities will have to relocate. Incompatibility could result from excessive noise, obnoxious smells, or other nuisance problems.
- Since the subject area already contains industrial buildings that host a number of small economically healthy industrial activities, redevelopment of some blocks may be challenging and, if left to market forces, could take longer than 20 years.

b. Required Replacement Space and Acreage (approximate)

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|---------------------------|-------|-----------------|
| • Industrial space | 0.617 | million sq. ft. |
| • Land (at about 50% FAR) | 35 | acres |

c. Available Land in Existing and Planned Industrial Parks

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|--|-----|-------|
| • Ewa Industrial Park ('Ewa) | 40 | acres |
| • Gentry, Honouliuli ('Ewa) | 42 | |
| • Harborside Center (West Kapolei) | 251 | |
| • Ho'opili (East Kapolei) | 46 | |
| • Irongate (West Kapolei) | 66 | |
| • JCIP (West Kapolei) | 150 | |
| • Kapolei Business Park (West Kapolei) | 120 | |
| • Mill Town Center (Waipahu) | 15 | |
| • Royal Kunia (Kunia) | 123 | |
| • Waiawa Ridge, Phase I (Waiawa) | 16 | |
| • West Kalaeloa Business Park (West Kapolei) | 100 | |
| • Total | 969 | acres |

- This accounting does not include acreage that may be planned for industrial development at Kalaeloa (the former Barbers Point Naval Air Station), Waiawa Ridge Phase II, or Koa Ridge Makai.

6. PROSPECTS FOR OTHER REDEVELOPMENT

a. Leoku Station

- Along Farrington Highway
 - For the most part, no major difficulties are foreseen for market-driven redevelopment along both sides of Farrington Highway from low-intensity commercial to higher-intensity mixed-use commercial/residential. As mentioned in Section 1, many of the buildings are good candidates for replacement, since they occupy only fractions of their lots, are one story, and currently are nearly 20 years old or older. Also, only three organizations own most of the subject land, and lots are relatively large. This will simplify the effort to assemble land for development.
- *Mauka* of Waipahu Town Center
 - In the near term, existing medium-density residential projects are likely to be upgraded.
 - New roads will require eventual removal of two older apartment buildings.

b. Mokuola Station

- Along Farrington Highway
 - For the larger parcels along both sides of Farrington Highway, no major difficulties are foreseen for market-driven redevelopment from low-intensity commercial to higher-intensity mixed-use commercial/residential, provided that flooding problems are addressed. As mentioned in Section 1, many of the buildings are good candidates for replacement, since they occupy only fractions of their lots, are one story, and currently are nearly 20 years old or older. Also, about 40% of the subject land is owned by a few organizations, and lots are relatively large. This will simplify the effort to assemble land for development.
 - Redevelopment of smaller properties may require joint development or consolidation of some parcels into larger ones, and considerable time for some properties.
- *Mauka* Areas
 - Redevelopment from low-density commercial and low- to medium-density residential to mixed-use commercial/residential and high-density residential may require joint development or consolidation of some parcels into larger ones, and considerable time for some properties.

- *Makai* Areas
 - Redevelopment from apartments and industrial to mixed-use commercial/residential, high-density housing, parks, and new roads may require joint development or consolidation of some parcels into larger ones, and considerable time for some properties.

7. ECONOMIC BENEFITS AND IMPACTS, WAIPAHU

a. Employment

- At full development, about 1,180 additional jobs could be provided near the Waipahu transit stations, including:
 - About 1,730 additional retail and office jobs (based on 2.6 jobs per 1,000 sq. ft. of commercial space).
 - Less the loss of about 550 industrial jobs (based on 0.9 job per 1,000 sq. ft. of industrial space).
- The new retail and office jobs are expected to range from entry-level positions that require few skills and provide incomes of less than \$25,000 per year, to management and highly skilled professional jobs paying over \$100,000 per year.

b. Transportation

- For Waipahu residents, transportation benefits of the transit system will include:
 - Better access to jobs in communities along the transit line.
 - Faster rush-hour commutes.
 - Increased mobility for residents who may not drive or have access to a vehicle.
 - Reduced expenditures on transportation for families who can reduce vehicle ownership and/or use.
 - Reduced energy consumption for transportation.

c. Housing

- Housing benefits and impacts will include:
 - An increased choice of MF homes in Waipahu beyond the fairly old and small 2-bedroom, 1-bath units that comprise most of the current market.
 - Higher housing values and rents near the transit stations, and related gentrification (see Section 4.h).

- The higher prices will reflect higher demand in response to the locational advantages. However, home prices can be reduced by building fewer parking stalls than would normally be the case.

d. Commercial and Industrial

- Benefits of commercial development near the transit stations will include a broader choice of goods, restaurants and services in Waipahu, including:
 - Convenience and specialty stores catering to area residents and commuters.
 - Fast food, ethnic, gourmet, and other restaurants.
 - Specialized medical doctors, dentists, veterinarian, accountants, attorneys, personal-service providers, etc.
- Other economic benefits and impacts will include:
 - Increased sales for stores and restaurants catering to area residents and commuters.
 - Higher rents in response to higher sales, and increased demand for commercial and industrial space.
 - The relocation of about 617,000 sq. ft. of industrial space from Waipahu to nearby industrial parks.

e. Fiscal

- TOD will affect the location of residential, commercial and industrial development, but will not significantly affect the amount of development on O'ahu. As such, the impact of TOD on City finances will depend on revenues and costs relative to potential development elsewhere on O'ahu.
- Infrastructure: The cost to the City for infrastructure to support TOD will depend on the circumstances.
 - If developers provide or pay for their fair share of infrastructure for TOD, then the cost to the City will be similar to that for projects in 'Ewa and Central O'ahu.
 - But if the City provides a significant share of the infrastructure for TOD, then the cost to the City will be higher than it would be to support development in 'Ewa and Central O'ahu.
- Operations, Full Development
 - At full development, TOD probably will result in lower operating revenues to the City compared to those generated by development in 'Ewa and Central O'ahu.

- + The amount of development and the property values will be higher near transit stations, but this will be offset by less development elsewhere on O'ahu.
 - + However, reduced vehicle ownership and use will result in lower City revenues from the motor vehicle weight tax, the fuel tax, and parking fees.
 - + Also, if reduced family expenditures on car ownership and use allow more families to own their homes rather than rent, then property taxes will be reduced due to the \$80,000 homeowner exemption on the assessed value of owner-occupied homes.
 - + Other City taxes and revenues probably would not be significantly affected by whether or not development occurs as part of TOD.
- City operating expenditures in support of TOD could be lower than that for projects in 'Ewa and Central O'ahu. This is because the more compact TOD allows reduced expenditures on police and fire services, and on maintenance of roads, water lines, and sewer lines.
 - The net result could be a small increase in net operating income to the City for TOD compared to projects in 'Ewa and Central O'ahu.