

This is my 6/2/06 E-Mail Update. I send out an E-Mail Update after the Honolulu Board of Realtors has released their statistical data for the prior month. I add to the distribution list those people that have recently provided us their e-mail address. To be removed, merely hit reply and send me an e-mail telling me to delete your address.

The median sales prices for houses are still fluctuating while the median sales prices for condos appear to be stabilizing. That's just the opposite of what I would have expected. The January through May figures for houses were: \$615,000, \$613,500, \$650,000, \$615,000 and \$668,300. And, for condos: \$295,000, \$315,000, \$312,000, \$296,500 and \$306,000. Note the comments in the next paragraph.

The following information is from a 5/17/06 talk to the Kailua Chamber of Commerce by Paul Brewbaker, Chief Economist for the Bank of Hawaii. The rising housing market is "pau" for nicer homes on Oahu with sales down and stabilization already in process for areas like Kailua and East Oahu, Sales prices for lower priced properties (below the median priced home) may continue to rise for a while causing the median price to increase. However, that too will soon come to an end. According to Brewbaker, the next soaring housing market on Oahu will be in the 2012 to 2015 time frame or the "twenty-teens."

Our higher sales prices have finally caught up to California prices resulting in fewer purchases in Hawaii by California buyers. What we now have on Oahu are a large group of owners that are living in homes they couldn't afford to buy. This will continue to exist for a number of years as we wait for family incomes to catch up to the higher sales prices and higher interest rates; i.e., we achieve improved affordability.

Brewbaker does not believe that Hawaii will experience a recession . . . rather a gradual slow-down. This could all change, though, if interest rates were to increase more rapidly than what is currently projected. Other factors that could impact upon rising sales prices again in the "twenty teens" would be a natural disaster such as a tsunami or hurricane hitting the islands or an outbreak of avian flu or some similar health problem. The recent sewage problem in Waikiki generated considerable bad publicity; Brewbaker believes that we cannot afford similar PR problems in the future.

<http://www.honoluluadvertiser.com/apps/pbcs.dll/article?AID=/20060522/BUSINESS04/605220319> is a link to a front-page story on in the 5/22 Honolulu Advertiser titled "Rents turning in tenants' favor." The newspaper had 1,074 units listed for rent in the classifieds on Sunday 5/14/06 compared to 752 on Sunday May 15, 2005, an increase of 43% over the past year. The increased supply is being fueled by military families moving to the Mainland while the military members are deployed to Iraq or Afghanistan as well as by real estate investors who were unable to sell at prices they had projected. We manage over 300 rentals island-wide on Oahu. Unless homes are very nice or very large, it has become increasingly difficult to obtain rents over \$2,500/mo for houses or over \$1,800/mo for condos.

Hawaii has a law called HARPTA (Hawaii Real Property Tax Law) to collect estimated Hawaii capital gains taxes from absentee owners that might not file a Hawaii income tax return in the year of sale. Under HARPTA, the state collects 5% of the sales price at closing. If the collected amount is too large, the owner can obtain a refund. If the collected amount is too small, the owner should file a Hawaii tax return in the year of sale and pay the balance; however, very few absentee owners actually do this. As a result the state has recently passed legislation to increase the collected percentage of the sales price under HARPTA from 5% to 8.25% effective 1/1/07. The 5% figure provided a reasonably good estimate of capital gains taxes

unless there was sizable appreciation and/or sizable depreciation. Analyses I've done indicate that new 8.25% figure (in excess of the actual 7.25% state capital gains tax rate) will mean that most absentee owners will have an excess amount withheld. The difference between 5% and 8.25% is considerable; e.g., \$16,250 on a \$500,000 sale. If you have sizable appreciation and/or sizable depreciation, it might be to your advantage to sell your Hawaiian property prior to 1/1/07. Call us toll-free at 1-800-922-6811 or locally at 254-1515 if you would like to discuss HARPTA and/or how to avoid such taxes by conducting a 1031 exchange.

Effective January 1, 2007, the General Excise Tax (GET) on Oahu will increase from 4% to 4.5% to pay for a transit system on Oahu. GET is collected on the tax itself; i.e., 4% of the collected 4% = 4.16 and 4% of 0.16 = 0.006 rounded up to an actual tax 4.167%. The true increase in GET is from 4.167% to 4.703%, not 4% to 4.5%. As most of you are aware, GET is not a sales tax as it is charged on food, drugs, services, etc. or just about everything except the air you breath; e.g., if a doctor give you a life-saving drug, 4.167% is added to the cost of the drug, to the doctor's bill and to your hospital bill. GET is also due on all gross rental receipts. At least one state real estate form requires an absentee owner to provide the GET license number for their rental property. Most property management companies automatically pay GET for their owners. If you are managing your own rental and not paying GET, you are taking a calculated risk. We've have known owners that had to pay all past uncollected GET plus interest plus a penalty. And a final note . . . local politicians are already talking about raising the Oahu GET to 5% (5.253%)

<http://the.honoluluadvertiser.com/article/2006/Apr/06/bz/FP604060320.html>

<http://honoluluadvertiser.com/apps/pbcs.dll/article?AID=/20060531/BUSINESS04/605310339>

<http://starbulletin.com/2006/05/31/news/story01.html>

The first link is to a 4/6/06 article in the Honolulu Advertiser that discussed a luxury Trump condominium/ hotel planned for the Ko Olina area of West Oahu. I enclosed this link in my May update. The second and third links are e-mails is to front-page headline stories in the 5/31/06 Honolulu Advertiser and 5/31/06 Star Bulletin discussing a \$400million, five-star luxury Waikiki Trump condominium/hotel. 460 units are planned ranging from 500 sq. ft. to 3,000 sq. ft. with prices estimated at \$600,000+ to \$7 million. Of note, Monday night's season finale of Trump's reality TV show, "The Apprentice" will feature this project. The winner of the televised contest apparently will be involved in managing this project. What we plan to do is establish a special net of those people that are interested in one or both of these projects. As we receive promotional and pricing information, we'll distribute it to those people that are interested. A number of you have already contacted us following my last e-mail. If you have not contacted us and desire this type of information, please send me an applicable e-mail.

Schuler Homes has developed about 8,000 residences on Oahu over the past 20 years, most of them in West Oahu. In May, they purchased A 1,600-acre parcel from Campbell Estates off Farrington Hwy near St. Francis Medical Center—West and Ewa Villages in Kapolei for 16,000 new units. Schuler plans to deliver 500-600 new homes a year over 20-30 years with groundbreaking about four years in the future . . . At 12.5%, Honolulu ranks 10<sup>th</sup> nationally in percentage of millionaire households according to May data by Kiplinger's magazine. The study excludes personal residences but not other owned real estate in their computations of net worth. Coincidentally, the 12.5% figure is very similar also to the number of people living under the poverty level in Honolulu.