Bill 20 (2021)
Testimony

MISC. COM. 335

BUD

Honolulu Board of REALTORS®

1136 12th Avenue, Suite 200 • Honolulu, HI 96816-3796 • TEL: 808.732.3000 • FAX: 808.732.8732 • www.hicentral.com

Testimony by Suzanne Young
Honolulu Board of Realtors®

In Support of Bill 20 (2021)
Honolulu City Council
Wednesday, May 19, 2021
Honolulu Hale

Dear Committee Chair Say and Councilmembers:

I am Suzanne Young, Chief Executive Officer, testifying on behalf of the Honolulu Board of Realtors® ("HBR") and its over 6,000 members. HBR supports with comments Bill 20 (2021), relating to real property taxation, we appreciate the introduction of this bill which increases the threshold of assessed value that qualifies properties for the Residential A classification and establishes additional tiers.

We appreciate that the Residential A threshold would increase to $1.3 Million as in today's market the average single-family home in Honolulu is nearing $1 Million. However, HBR maintains that the luxury homes market begins at $2 million and thus believe the Residential A threshold should begin at $2 million. Nonetheless, we support the proposed threshold increase in Bill 20 as it is a good first step to addressing the burden placed on local families whose property values are inflated due to Oahu's riding cost of homeownership.

HBR supports the creation of additional tiers as a graduated tiered approach will help avoid the cliff effect. multiple tiers would more fairly spread the tax burden amongst owners of higher valued properties. The additional tiers will lessen the impact of Residential A on local families. However, at this time we are concerned about the rate that each tier would be taxed at as we still believe the tax rate for each tier needs to be reasonable.

HBR remains committed to working with the Honolulu City Council as well as the administration to ensure that Kama'aina are not priced out of paradise. We look forward to discussing the merits of Bill 20 in committee.

We appreciate the opportunity to submit our testimony.

Mahalo,
Suzanne Young
Chief Executive Officer

TO: Members of the Committee on Budget

FROM: Natalie Iwasa, CPA, CFE
808-395-3233

DATE: Wednesday, May 19, 2021

SUBJECT: Bill 20, Residential A Classification for Real Property Taxes
– **SUPPORT Increase in Threshold and Tie to Index**

Aloha Chair Say and Councilmembers,

Thank you for allowing testimony on Bill 20, which would increase the assessed valuation threshold for Residential A properties from $1 million to $1.3 million as well as provide a tiered tax rate for this classification.

As you may know, median home sales prices on Oahu have increased to over $900,000 in recent months. As home prices and thus assessed values increase, more and more homes are put into the Residential A classification. Many of these homes are not luxurious but merely the reflection of a costly market.

In addition, many of these homes are rented to residents who cannot afford their own homes. As real property taxes on these residential properties increase, landlords are increasing rents charged, and this puts pressure on the lower end of the rental market.

Please increase the threshold as noted in this bill but also amend it to tie it to an index. One index that might be used is from the Federal Housing Finance Agency, https://www.fhfa.gov/DataTools/Downloads/Pages/House-Price-Index-Datasets.aspx#qat. I'm sure there are others that would work as well.

AGENDA REGULAR MEETING CITY COUNCIL CHAMBER
WEDNESDAY, MAY 19, 2021 9:00 AM

WRITTEN TESTIMONY BY
CHOON JAMES

Bill 20 (2021)

Put Oahu's Residents First in Property Tax Deliberations

I applaud the Honolulu City Council's proposed Bill 20 (2021) to address non-owner-occupant "Residential A" properties for real property tax purposes. https://hnldoc.ehawaii.gov/hnldoc/measure/1824

I've been a real estate broker for over 30 years and have witnessed the escalating taxes burdens on our local residents through the decades.

I would like to highlight a few observations to further fine-tune the Council's efforts.

Bill 20 proposes five (5) progressive tiers based on valuation of the property starting from $1M to those in excess of $10M.

We must create a more just and equitable support for our local landlords (housing providers) and local housing needs.

We cannot clump all non-occupant "Residential A" landlords into one category.

"Residential A" is a blanket tax category that covers those from the Continental USA, foreign countries, local owners, Hawaii-born out-of-state owners, mega-corporations, LLCs created here or out of state and so on.

The above list described “non-occupant” owners but their financial portfolios are vastly different. To judge a local resident who owns more than one property in Hawaii who must be taxed higher needs further serious deliberation.

If “Residential A” is intended to increasing tax revenues from investors, to stabilize and promote Oahu’s housing inventory, the city must support local landlords who are part of the housing solution – by providing housing to long-term tenants.

Renting a property is not just about collecting rents. There are integral costs involved, including mortgage payments, insurance coverage, repairs, maintenance, replacement of appliances and so on.

The City must subdivide “Residential A” property tiers into categories that reward owners who provide long-term housing to our residents versus owners who keep vacant investments or are focused on maximizing income, usually through vacation rentals.

Here is an example taken from the city public records:

> ***Property X:***
>
> *The residential property is assessed at $1,332,000.00 and is owned by an out-of-state investor with multiple properties here.*
>
> *Public record shows this same property’s Airbnb listing began its short-term vacation rental activity dating back to 2012.*
>
> *Just recently, its Airbnb listing is advertising for a 30-day lease. Such 30-day lease arrangement would not require participation in Bill 89’s lottery, pay annual registration fees, is not limited to only 2 bedrooms with a limit of 5 guests, or pay increased “airbnb” property taxes. This property is currently advertised on Airbnb as “30-day minimum contract required. And the monthly contract is thirteen thousand dollars plus tax.*
>
> *That listed price is for up to 16 people. Additional people are possible at additional cost. ($50 per person per night).*

PROPERTY Y:

This property’s assessed valuation is $1,400,000. Why should a local non-occupant “Residential A” owner who rents to **long term renters** for **$2,200 a month** incur the same tax burden as PROPERTY X who rents 30 days lease for **$13,000 a month?**

Which non-occupant owner is part of the solution to the affordable housing crisis?

It’s easy to discern that there is a world of difference between “PROPERTY X” and “PROPERTY Y” even though both non-occupant properties are assessed with similar real property valuation rate.

(It should also be noted that there appears to be no consistency in the city’s real property valuation assessments throughout Oahu. Part of it can be alluded to Oahu not having only cookie-cutter subdivisions which makes appraisal valuation much easier.)

With escalating “Residential A” property taxes, many local landlords with long leases are wondering if it is worth their efforts to continue to be a landlord here.

“Residential A” property taxes can consume five months of the annual gross rental income. Many have sold and invested elsewhere in the continental USA.

This gentrification process inevitably creates new owners who may not rent or who will inevitably increase rental rates or turn them into vacation rentals that do not support long-term renters.

It’s good public policy to encourage and support landlords who provide the service for reasonably priced long-term rentals through property tax incentives built into the tier system.

The city regularly incentivizes developers. The City Council and Mayor recently adopted Bill 1which includes a 10-year tax waiver, land-use

exemptions, waivers on fees and so on to encourage “affordable” housing rental projects.
https://hnldoc.ehawaii.gov/hnldoc/measure/1742

Why not incentivize long-standing local landlords who have been providing reasonably- priced rentals to our local residents instead of burdening them with more property taxes through “Residential A”?
