Bill 4 (2022), CD1
Testimony

MISC. COM. 80
BUD

Faxed to: 808-768-3826 and email
Written Testimony

To: Brandon Elefante- Valuation Committee Chair
To: City Council,
Honolulu Hale, 530 South King Street, #202
Honolulu, Hawaii, 96813.

October 3, 2022

Testimony re: Bill 4 (2022)- Relating to Real Property Taxation

Dear City Council,

My name is Guido Panizzon. I am a long-standing owner (15+ years) of a condo unit at the Waikiki Sunset. We are delighted to see City Council passed Bill 41 on April 13, 2022 which will allow any and all owners at the Waikiki Banyan and Waikiki Sunset to conduct short-term rentals (STR) by applying for transient vacation unit (TVU) permit via the pending DPP registration process, if they wish to do so.

Nevertheless, and notwithstanding the availability of the TVU permits, we are concerned with the level of real property taxation imposed on any condo unit owner who may choose to register their unit as TVU usage. To my knowledge, there are three general classes of uses "*under consideration of its highest and best use*":

1. **Residential-** perhaps 5% of owners live there permanently and pay 0.35% real property tax;
2. **Hotel and Resort-** perhaps 70% of owners use their unit as business and may pay 1.39% tax and
3. **Rental of Vacation homes –** perhaps 25% of owners use their unit as second vacation home. This situation applies to us since we use this condo unit as our vacation home for about 3 months each year and we rent the other 9 months each year, wither privately or in Aston hotel rental pool.

According to IRS Publication 527, *Residential Rental Property (including Rental Vacation Home), Chapter 5, Personal use of Dwelling unit (including vacation home)*" states: "*If you have any personal use of a dwelling unit that you rent, you must divide your expenses between rental use and personal use…and only your rental expenses may be deducted on Schedule E (Form 1040)*". If we apply this formula to our unit in Waikiki Sunset, we should be taxed as Residential for 3 months and as Business (Hotel resort) for 9 months each year, consistent with right to be taxed according to the "actual use" of our real property, as per Sec. 8-7.1 (c)(1)- Valuation. For example: Real property tax rate= 0.35% x 3 month + 1/.39% x 9 months/12 mo.= 1.13% average per year.

In addition to setting a lower TVU tax rate for all condo units, Hawaii income tax department could prorate the annual real property tax based on number of days used as personal use, consistent with Director's principle of "*classified upon consideration of its highest and best use*", as **per IRS Publication 527, Ch 5, pages #17- 19.**

How is a lower TVU property tax rate of 1.13% justified compared to "Hotel and resort" of 1.39% tax rate? Our economic analysis shows a great negative impact on **capitalization rate** if and when real property tax is increased from current 0.35% to perhaps 1.39 % hotel resort rate, as shown in the Attached Spreadsheet.

Capitalization rate (aka Cap Rate) indicates the rate of return (ROR) that is expected to be generated on real estate investment property. Cap rates for year 2022 are projected to be negative primarily due to the projected increase in TVU real property taxes, as shown below and in the Attached **Exhibit #15.**

2018	2019	2020	2021	2022
$3.22%	**1.56%**	**-1.04%**	**-0.72%**	**-1.50%.**

Thank you for your time and consideration.

Guido Panizzon, P.E. MEng. BSEE, IEEE.
Waikiki Sunset Owners of Unit #2006,
229 Paoakalani Avenue, Honolulu, Hawaii, 96815
Email: "panizzon@telus.net"

Exhibit # 15- Capitalization Rate Calculation

Income Approach as alternative to Evaluate Property Assessment (2018 -2022)

October 3, 2022
Guido Panizzon, M.Eng.

Cap Rate indicates rate of return (ROR) that is expected to be generated on real estate investment property **(Note 1)**.
To demonstrate the impact on rate of return, we have calculated the Capitalization rate (Cap rate) for past 5 years.

	Descriptions; Condo Unit on 20th floor:	Note 2 Year - 2018 Hotel rental	Notes 3 Year - 2019 Hotel rental	Year - 2020 Property Manage	Note 4 Year - 2021 Property Manager	Note 5 Year - 2022 Property Manager	Comments:
1	Gross rental revenue-12 months-	54,360	40,548	10,766	14,462	[illegible]	<Source is 1042-S .
	Average Monthly income- derived annual above	$4,530	$3,379	$897	$1,205	$1,667	< Monthly amount
2	Less Vacancy and Collection loss-	0	0	0	[illegible]	[illegible]	
3	Annual Vacancy rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	
4	Effective gross income- (Form 1042-S)	54,360	40,548	10,766	14,462	[illegible]	<Due to 30 days rentals
	Expenses						
5	Property management fee (40%)	20,254	15,233	4,306	[illegible]	[illegible]	
6	Real Property assessment tax (0.35%)	1,699	1,879	1,877	1,748	6,950	<From RPAD record
7	Condo HO-6 Policy Insurance	300	304	310	310	310	Set by Insurance
8	Maintenance and Repair fees	960	640	0	0	0	
9	AOAO maintenance & utilities fees	8,489	8,852	9,392	9,575	9,575	Set by W.S. Board
10	GET (4.71%) and TAT (13.25%) taxes	7,035	5,277	484	651	2,650	Set by CityCouncil
11	Total expenses	38,737	32,185	16,370	[illegible]	[illegible]	
12	Net Operating Income (NOI) >	15,623	8,363	-5,604	-3,607	-7,486	<Progressive decrease
13	Real Property Assessment Record>	485,500	536,900	538,500	498,600	500,500	<Set by CityCouncil
14	Capitalization rate= NOI/Assess Value=	3.22%	1.56%	-1.04%	-0.72%	-1.50%	< Due to higher taxes

Footnotes:

1. **Capitalization rate** (aka Cap Rate) indicates the rate of return (ROR) that is expected to be generated on real estate investment property.
2. Cap rate used **Year 2018 as Baseline** (hotel) for Gross income and NOI since it is last year before Ordinance 19-18 came into effect.
3. Cap rate for Year 2019 and Net Operationg Income (NOI) are lower due to **Ordinance 19-18 -before effect of Covid19 pandemic.**
4. Cap rates for Year 2020, and 2021 are lower due to short term rentals (STR) introduced by Ordinance 19-18
5. **Cap rates for Year 2022 are projected to be lower (negative) primarily due to higher TVU real property taxes.**

CC: **City Council members** website: "https://www.honolulu.gov/view-council-members.html".
Mayor Rick Blangiardi: email "mayor@honolulu.gov"
Dean Uchida- DPP Director; email "……………………."

** INBOUND NOTIFICATION : FAX RECEIVED SUCCESSFULLY **

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Faxed to: 808-768-3826 and email
Written Testimony -2

To: Brandon Elefante- Valuation Committee Chair
To: City Council,
Honolulu Hale, 530 South King Street, #202
Honolulu, Hawaii, 96813.

November 17, 2022

Testimony re: Bill 4 (2022)- Relating to Real Property Taxation

Dear City Council,

My name is Guido Panizzon and I have owned a condo unit at the Waikiki Sunset condominium since 2007. We are delighted to see City Council Passed Bill 41 on April 13, 2022 which will allow any and all owners at the Waikiki Sunset to register for STR permit via the recent DPP registration process- equality and fairness- for anyone who wish to do so.

Nevertheless, and notwithstanding the availability of the TVU permits, we are concerned with the level of real property taxation imposed on any condo unit owner who may choose to register their unit as TVU usage.
To my knowledge, there are three general classes of uses *"under consideration of its highest and best use"*.

I believe that **testimonies submitted** by Patricia Rolland, Tamara Thompson and Bob Newell on April 20, 2022 show that TVUs are very different than Hotels in terms of Financial and consequently should be taxed considerably lower. Published data shows that *"**Hotels earn 32% of their income** from sources other than room rentals. Resorts earn 49% of their income form non-room rentals. (CBRE Hotels America Research). These revenue sources include: food and beverages, resort fees, parking fees, sundry shops, events, conferences, ballroom rentals, travel packages, etc. This extra 30-50% of income allows hotels & resorts to pay the higher rate of property taxes"*. Consequently, Waikiki Sunset unit owners should be **classified at lower tax rate**, depending on actual use, by applying for the **following formula**:

A- Owners who use their unit as **principal Residence** should pay Residential rate of **0.35% of Assessed value.**
B- Owners who use their unit as **Hotel-resort** minus 32% reduction due to lower rental income compared to hotels; therefore, their tax rate should be 1.39% x (1-32%) = 1.39% x 68%= **0.945% of Assessed value for all TVUs units;**
C- Owners who use their unit as **Second vacation home** which consist partly Residential and partly Hotel-resort; therefore, their tax rate should be prorated as 3/12 mo. X 0.35% + 9/12 mo. X 0.945% = **0.796% of Assessed value.** Note: This regulation would be consistent with **Federal Income Tax, IRS Publication 527, *Residential Rental Property (including Rental Vacation Home)***, *Chapter 5, Personal use of Dwelling unit (including vacation home)*.

Option (c) above, applies to us since we use this condo unit as **our vacation home** for about 3 months each year and we rent the other 9 months each year, either to private managers and/or to Aston hotel rental pool.

According to IRS Publication 527, *Residential Rental Property (including Rental Vacation Home), Chapter 5,* *Personal use of Dwelling unit (including vacation home)*", pages #17-19; it states: *"If you have any personal use of a dwelling unit that you rent, you must divide your expenses between rental use and personal use...and only your rental expenses may be deducted on Schedule E (Form 1040)"*.

In addition to compliance with **preceding Federal** Income Tax **Publication** 527, *Residential Rental Property (including Rental Vacation Home)*, Hawaii **income tax department** could prorate **the annual real property tax** based on number of days used as personal use, consistent with Director's principle of taxation based on "actual use" of our real property, as per Sec. 8-7.1 (c)(1)- Valuation.

Guido Panizzon, P.E. MEng. BSEE, IEEE.
Walkiki Sunset Owners of Unit #2006,
229 Paoakalani Avenue, Honolulu, Hawaii, 96815.
Email: "panizzon@telus.net";
Tel 1+78-453-2022.

CC: **City Council members website:** "https://www.honolulu.gov/view-council-members.html".
Mayor Rick Blangiardi: email "mayor@honolulu.gov" and Dean Uchida, DPP Director.