

BILL048(24)

Testimony

MISC. COMM. 375

HOUSING, SUSTAINABILITY AND HEALTH (HSH)

HOUSING, SUSTAINABILITY AND HEALTH (HSH)
Meeting

Meeting Date: Aug 21, 2024 @ 01:00 PM

Support: 2

Oppose: 0

I wish to comment: 4

Name: Linda Howe	Email: LINDAMHOWE@GMAIL.COM	Zip: 96744
Representing: Self	Position: I wish to comment	Submitted: Aug 19, 2024 @ 05:44 PM
Name: Ted Kefalas	Email: tkefalas@grassrootinstitute.org	Zip: 96813
Representing: Grassroot Institute of Hawaii	Position: I wish to comment	Submitted: Aug 20, 2024 @ 08:30 AM
Name: Rebecca Soon	Email: rebecca.ji.soon@gmail.com	Zip: 96817
Representing: Self	Position: Support	Submitted: Aug 20, 2024 @ 12:59 PM
Testimony: Mahalo for considering these measures that together address the critical needs of housing for our kama'āina.		
Name: Greg Puppione	Email: gpuppione@gmail.com	Zip: 96816
Representing: Self	Position: I wish to comment	Submitted: Aug 20, 2024 @ 02:23 PM
Testimony: I like that this bill incentivizes long-term leasing and saves landlords money on property taxes, but a stronger bill would include some kind of rent control restriction/cap as well. Ideally, a landlord saving money on property taxes would pass those savings on to their tenants in the form of reduced, or fixed, rental increases. There's no reason both parties can't benefit from the savings, but as it's written, there's no incentive for landlords to do that. Simply saving landlords money doesn't necessarily translate into keeping rents under control for tenants.		
Name: Natalie Iwasa	Email: iwasajunk@mail.com	Zip: 96825
Representing: Self	Position: I wish to comment	Submitted: Aug 20, 2024 @ 09:52 PM
Name: Nanea Lo	Email: naneaclo@gmail.com	Zip: 96826-1407
Representing: Self	Position: Support	Submitted: Aug 20, 2024 @ 09:54 PM
Testimony: Hello,		

I'm writing in support.

An Empty Homes Tax offers many potential advantages to help address our Housing Crisis:

- Creates an incentive for property owners to immediately convert thousands of existing housing units into housing for long term residents.
- Converts empty homes into homes for local residents without long delays for development and permitting, costly construction, government subsidies, NIMBY challenges, and taking more rural lands.
- Produces major new tax revenue to create a steady funding source for affordable housing programs & homelessness.
- Shifts our housing industry away from underutilized high-end investment properties toward homes that are available and affordable to local residents.
- Helps control and potentially even lower our rapidly increasing housing prices, as the tax will help discourage outside investors and speculation.
- Helps control rental prices, as landlords who wish to avoid the tax will need to offer reasonable rent prices to secure long term local renters.
- Helps the City's efforts to control proliferation of vacation home rentals.
- Helps Hawaii's residents, since Oahu residents who are homeowners and renters will not experience higher taxes for their home, so it will not increase their cost of housing.

Several jurisdictions have recently adopted empty home taxes to help achieve some of these same benefits, including in California, Canada, and other locales.

The Vancouver Experience

Honolulu's Bill 46 (2024) is most closely modeled on Vancouver's empty homes tax.

What benefits has Vancouver seen?

In the last 6 years, their empty homes tax raised over \$140 million revenues for affordable housing projects, while vacant homes have decreased by 54%. That revenue is based on a small fraction of the number of empty homes that Oahu has, so we expect Oahu's revenues to be much higher.

Empty Homes Tax (EHT) Goals

- Create an incentive for owners to immediately convert thousands of existing empty homes into housing for Hawai'i residents – so that homes are used for housing – without imposing any mandates.
- Increase our supply of homes, without costs or delays for construction, government subsidies, NIMBY challenges, and rezoning of agricultural lands.
- Potential to produce significant new annual tax revenues (\$200 million+) to create a steady new funding source for affordable housing development.
- Controls rental and housing prices by discouraging short term rentals, outside investors and speculation, without need for rent control or other market disruptions.
- Protects our local families and kūpuna, as O'ahu residents who own or rent will not pay an Empty Homes Tax for their home.

How the EHT works

- The EHT is modeled after Vancouver's EHT, the best-performing EHT in the world; it has reduced that city's vacant homes by over 50% and brought in \$140+ million in new revenues for affordable housing, with only a fraction of the empty homes O'ahu has.
- The EHT levies an annual tax (1% in year 1, 2% in year 2, 3% in years 3 and thereafter) on any dwelling on residential zoned property not used at least 6 months a year as the principal residence of an O'ahu resident.
- Applies to all residential dwellings, including apartment buildings, ADUs, duplexes on the same residentially zoned parcel, with proportionate taxes for empty home dwelling units.
- Exemptions apply to: Properties occupied by an owner, renter or other permitted occupants (eg family members), for whom it is their principal residence at least 6 months per year.
- Other exemptions are included for equity purposes and to address unintended consequences (such as death of owner-occupant, major construction, property sale, property title subject to litigation, deployment, medical care, etc.).

Implementation and Enforcement

- Annual declarations of property status are required from all property owners as to the status of the property during the prior tax year (rather than prognostication of what will occur in the future tax year, as is currently done). Failure to file a declaration means the tax will be imposed.
- Includes a grace period for year 1 and ability to request a filing extension in any year.
- Enforcement would remain with the City Department of Budget & Fiscal Services (BFS) with 5% of the revenue available to fund administrative costs.
- Audit and investigation provided for, with the ability for BFS to request evidence and information for proof of status, and corresponding duty of property owners to provide relevant evidence when requested to do so. Ability to place tax liens and foreclose on properties in the case of continuing non-compliance with tax duties.
- Monitoring of a % of units per year. Substantial fines for non-payment, false declarations, failure to cooperate with investigation, and other non-compliance.

Data in Support

According to a survey conducted among O'ahu voters, 74% support a measure that taxes residential properties that sit vacant at a higher rate than occupied homes. The survey was conducted by Ward Research in Feb-Mar 2024 among 390 O'ahu voters for a sampling error of +/-4.9%.

Me ke aloha 'Āina,

Nanea Lo

Testimony of Linda M Howe
Committee on Housing, Health & Sustainability
Regarding Bill 48 (24) Relating to Property Taxes

Wednesday, August 21, 2024

SUBJECT: In Support of Bill 48, with Comments

Dear Chair Weyer and Members of the Committee:

I am writing in support of this bill which is intended to differentiate between short-term rentals (generally to visitors) and long-term rentals (generally to residents) for property taxation rates on non-owner-occupied homes/apartments with an assessed value of \$1MM or more.

Non-owner-occupied properties make up a substantial proportion of Oahu's rental housing inventory. Effective in 2016, these properties assessed at or above a threshold of \$1MM are taxed at the higher Residential A property tax rate. The threshold has never been adjusted for inflation/value increases even while historic assessment increases have occurred over this timeframe. For example, over the last ten years, the assessed value of my rental property rose from \$639,500 in 2014 (Taxes: \$2,235) to \$1,179,200 in 2024 (Taxes: \$6,042). The net effect is in increased rental costs for residents, contributing to the high cost of living on Oahu.

For this reason, I am in strong support of the intent of Bill 48 (2024), however, I would like to provide the following comments:

- I support being required to show initial/on-going documentation of leases for a minimum 12-month period.
- I support the concept of re-imposing the Residential A taxes, if the use changes.
- I even support being required to show payment of State excise taxes.

However, **I do NOT support a TEN YEAR dedication period.** Ten years is way too long. Particularly with the backward-looking reimposition of Residential A rates, plus a 10 percent penalty. I would be reluctant to dedicate my rental house for a TEN YEAR period, even though it has been used exclusively for long-term rentals, to residents, for the last 15 years. Too much can change in a decade

I recommend the dedication period be THREE years at the most.

Please extend my appreciation to the Council for this and other efforts relating to taxation.

Mahalo,

Linda M Howe

Aug. 21, 2024, 1 p.m.

Honolulu Hale

To: Honolulu City Council, Committee on Housing, Sustainability and Health

Matt Weyer, Chair

Esther Kia'āina, Vice Chair

From: Grassroot Institute of Hawaii

Ted Kefalas, Director of Strategic Campaigns

RE: Bill 48 (2024) — RELATING TO REAL PROPERTY TAXATION

Aloha Chair Weyer, Vice-Chair Kia'āina and other members of the Committee,

The Grassroot Institute of Hawaii offers **comments on — and amendments to —** [Bill 48 \(2024\)](#), which would create a long-term rental dedication for long-term rentals in the Residential A tax class.

Any property dedicated to long-term rental use for a period of 10 years or more would be taxed at the Residential tax class rate, currently \$3.50 per \$1,000 in assessed value, instead of the Residential A rate, which is \$4 per \$1,000 for the first \$1 million of the property's value and \$11.40 per \$1,000 on any value greater than \$1 million.¹

Using the property tax to incentivize property owners to rent long-term is a good idea that could help with Honolulu's high housing costs. Each county in the state already has some variant of a tax break for certain long-term rental properties.

However, Grassroot is concerned about some of the bill's language pertaining to tax rollbacks.

We suggest the Council consider changing the wording of the tax rollback provision. As written, if a property owner stopped using the property as a long-term rental during the 10-year dedication, the bill would roll back all taxes retroactive to the date at which the property was dedicated.

¹ ["City and County of Honolulu Real Property Tax Valuation for Fiscal Year 2024-2025,"](#) City and County of Honolulu, July 2024.

The owner would have to pay the city the difference between what they paid at the Residential rate and what they would have paid at the Residential A rate. This provision could be punishing for property owners who stop letting long-term.

Provisions should be added to the bill to cancel the rollback in cases where emergencies — such as death of an owner — create legal issues where it is more practical to leave the property vacant for a time.

Language should also be added that would allow a property owner to move into the property and use it as a principal residence without fear of a rollback.

The Council should also amend paragraph (i) of the bill, relating to transfer of property. As written, a purchaser would need to pay rollback taxes if they bought a dedicated property and decided not to continue its use as a long-term rental. At the very least, this paragraph should be amended to include an exemption for an individual or family buying the house to use as a principal residence.

Last, we urge the Council to consider revising the 10-year dedication period. A shorter term, perhaps five years, might be more appropriate, since many owners might be wary of committing their property to long-term rental use for 10 years — especially with the rollback language as currently written.

By comparison, Maui's long-term rental exemption operates on a yearly basis, requiring property owners to file for an exemption each year and allowing them not to renew without fear of a tax rollback.²

We thank the Council for introducing this bill and starting a dialogue on what could be a promising reform. We look forward to future conversation about this topic.

Thank you for the opportunity to testify.

Ted Kefalas
Director of Strategic Campaigns
Grassroot Institute of Hawaii

² [“Real Property Tax - Long-Term Rental Classification & Exemption,”](#) Maui County Frequently Asked Questions, accessed Aug. 2, 2024.

TO: Members of the Committee on Housing, Sustainability and Health

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

DATE: Wednesday, August 21, 2024

SUBJECT: Bill 49, Real Property Taxation, Long-Term Rental Dedication – **COMMENTS**

Aloha Chair Weyer and Councilmembers,

Thank you for allowing testimony on Bill 48, which would create a new dedication of long-term residential rental.

Properties under this bill would include residential rentals that have a lease agreement between an owner and an occupant lessee, specifically a lease agreement “executed by the owner and an occupant.” Many properties are leased through property management companies. In my experience, those **leases are executed by the property manager rather than the owner**. Would these properties then not qualify?

Paragraph (c) of the bill states that the owner must provide evidence that the property is currently exclusively used as a long-term rental, in addition to declaring that it is so. Homeowners, on the other hand, are only required to declare that they meet the eligibility requirements for a homeowner’s exemption. Requiring additional paperwork for the rental dedication may discourage owners from applying. **Why is there such disparity in the treatment of homeowner occupants vs landlords?**

Paragraph (e) specifies that the director shall specify what evidence is used to determine eligibility. This would most likely be a lease. The government has no business knowing the leasing terms under which its residents rent homes. **An alternative could be having the tenants declare the term under which they lease the home.**

Paragraph (h)(1) would penalize an owner for failure to continue with a long-term rental and would require retroactive payment of taxes as if the property had not been dedicated. A 10% penalty would also be assessed. There are any number of reasons an owner might reasonably need to temporarily discontinue a long-term rental. For example, if an owner is between tenants and has a family emergency that requires usage of the home. Owner should not be penalized retroactively for changes in circumstances. Removing the dedication for the current year should be penalty enough. Over-penalizing owners makes it less appealing for them to apply for the dedication in the first place. Afterall, they can usually pass taxes onto their renters in the form of higher rents – it’s no skin off their backs.

Paragraph (i) would penalize a new owner who is unable to get a continued dedication by rolling back the tax. This adds to the administrative burden, and I’m not sure there’s any real benefit to taxpayers by including this provision.

All in all, my preference would be to remove the Residential A classification and make our real property tax system simpler.