

# Economic Indicators

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## Hawaii's Unaffordable Housing

Average home prices are high all over the nation, but it is well known that they are highest of all in Hawaii. The Honolulu Board of Realtors Multiple Listing Service showed an average price of \$184,559 for single-family homes sold in the first seven months of 1981, while for the same period a National Association of Realtors survey of 15 major metropolitan areas showed the average price of a San Francisco home, most expensive of the cities surveyed, at \$133,900—\$50,000 less than Honolulu's average—while prices in the other cities ranged downward to Pittsburgh's \$59,000.

Yet Honolulu's construction costs are not much above average, according to McGraw Hill *Housing* magazine surveys of the labor and material costs of building the same good-quality 1,500-square-foot ranch house in 100 cities. The August 1981 survey showed that the cost of constructing this house in Honolulu, at \$80,684, was considerably lower than in Fresno at \$88,380 or San Francisco at \$86,713, somewhat lower than in Cleveland and San Jose, and about the same as in Los Angeles, Sacramento, Stockton, and Detroit. Materials costs to build the house in Honolulu, at \$46,684, were only a couple of hundred dollars more than in Fresno and Cleveland even though most of our building materials must be shipped 2,000 miles. Labor costs in Honolulu, at \$34,000, were lower than in these eight cities, though higher than the U.S. average of \$29,790.

The *Housing* survey does not include land costs, site development costs, developers' overhead, contractors' profit, or local taxes like Hawaii's 4 percent excise tax on contracting. All of these must be added into the final sales price. Raw land is more expensive in Hawaii than in most Mainland areas. Site development costs are higher here because (1) developers bear the full costs of roads, curbs, sewers, etc., whereas in many Mainland locations the government provides these facilities and spreads the cost among all the taxpayers, (2) the price of cement, a large factor in site preparation, is higher here, (3) much of our residential land is hilly and difficult to develop, as most level land is classified agricultural, and (4) regulatory requirements for subdivisions are unnecessarily elaborate. Hence it is the cost of the site that accounts for a great part of Hawaii's higher housing prices.

In 1960 Federal Housing Administration statistics showed the average market price of residential sites in Hawaii at \$6,502, roughly two and a half times the U.S. average of \$2,492. In 1961 Hawaii became the first state to pass a land use law, in which we seem to take great pride. By 1980 the FHA statistics showed the average Hawaii site price at

\$60,048—about five and a half times the U.S. average of \$11,009, and three times the \$20,853 average for California, the second most expensive state. Worse yet, the average lot size in Hawaii is 5,901 square feet, compared to the U.S. average of 12,807, which works out to \$10.18 per square foot for Hawaii lots—12 times the U.S. average of 86¢ per square foot. Here we have a classic case of market supply and demand. Demand is high because Hawaii is a desirable place to live, and supply is short because we have chosen to legislate severe restrictions on land use.

Ohana zoning (permitting construction of a second residence on a lot zoned for one) is the first easing in the last two decades of restrictive government policies that have helped to drive home prices so high. If homeowners take advantage of it, Hawaii's housing stock can be increased considerably at almost half price: just the construction cost without the lot cost. But any lot that can hold two houses will likely become even more valuable. Residential lots will continue to escalate in price unless a great deal more land is classified urban and zoned residential.

The President's Commission on Housing reported in 1982 that nationwide the cost of land as a percent of the total cost of single-family homes increased from 19 percent in 1970 to 24 percent in 1980. Hawaii's lot price is 40 percent or more of the total package. The Commission commented: "Excessive regulation raises housing costs by restricting available land, imposing unnecessary requirements in site development and construction standards, and lengthening the time needed to obtain regulatory permits. Many studies have examined the impact of governmental regulations on the costs of single-family homes, and . . . all the studies have a common finding: regulations increase costs—as much as 25 percent of the selling price in some cases."

Land use laws and zoning and building regulations protect the established homeowner, who wants his environment nice and his real estate value high. As long as we cry, "No developments in my neighborhood!" and "No building on agricultural land!" we perpetuate the residential land shortage that causes our higher home prices. Government regulations presumably reflect the will of the citizens, and the citizens have chosen (perhaps wisely, in view of Hawaii's limited land area and special beauty) to keep Hawaii green, and to let the new generation of homeowners pay the price—if they can.

There is no way to have both restrictive land use policies and affordable housing. Ohana zoning is only one small step in the right direction.



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