

Maintenance Fee Increase

Starting January 1, 2009, Waikiki Banyan maintenance fees will increase to \$290 per month. Lease rent will not change.

Why a Maintenance Fee Increase

Why a fee increase? The simple answer is that we project a flat income stream and considerably higher expenses for the coming year. We need to pay our bills while maintaining our reserves. That being said, the 2009 operating budget is actually fairly optimistic. We are assuming that Banyan non-maintenance fee income will not decline, even in the face of predicted continued weakening of the visitor industry. While compared with other resorts and condominiums Waikiki Banyan has fared well in this depressed economy, we have not escaped the effects of the drop in visitor arrivals. Thus what we hope for is a flattening of non-maintenance fee income rather than a normal increase.

Maintenance fees account for about 55% of association income, commercial leases 17%, parking 19% and others 8%.

Where we are hurting is in operating expenses, particularly utilities.

As we have noted in previous newsletters electricity, water and sewer charges constitute

almost 40% of our operating budget. Utility costs have increased 31% this past year compared with the previous twelve months. The City and County has mandated higher water and sewer charges. Even though the Banyan uses less water now than in the past the City's base charges per apartment will increase. Our continued striving for economies will help slow but not stop the increased costs.

Even though the Banyan is using less electricity than before, our electrical bills have gone up 37.5% the past twelve months. 45% of our bill is due to the skyrocketing price of oil. Recently the price of oil has dropped and eventually we expect to see this factored into lower electrical bills. If oil continues to drop and stay comparatively low than our bills should drop too. That is the good news. The bad news is the low price of oil is directly related to the worsening economy and the expectation of lessening worldwide demand. That can affect our other income. On top of this Hawaiian Electric Company is asking for a 5.3% increase in their base rate in 2009.

Then there is general inflation. The Bureau of Labor Statistics shows a 5% increase in the consumer price index the past twelve months. We project a similar inflation rate the next twelve.

The one area in which we are not expecting increased costs is building insurance. The softening insurance market combined with the Banyan's strong safety record portends no increase in 2009. We also expect to be able to hold the line on professional services.

In sum, we are expecting a nearly flat income stream and about an 11% increase in operating expenses.

The operating budget and reserve analysis are attached to this newsletter. The reserve analysis, as have all previous analyses, projects future increases based on the rate of inflation. Of course, next year when the budget is prepared we will re-evaluate the necessity of a fee increase.

Our financial situation might improve. The Board will review the budget at the end of July and, if possible, take corrective action.



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Aloha Nui Loa