

HLU Committee

From: County Clerk
Sent: Friday, July 10, 2026 7:36 AM
To: HLU Committee
Subject: Fw: Urgent Request to Reintroduce Kauhale Makai to Resolution 26-110

From: Scott Smith <mauisunsetcondorental@gmail.com>
Sent: Friday, July 10, 2026 3:58 AM
Cc: Thomas M. Cook <Thomas.Cook@mauicounty.us>; County Clerk <County.Clerk@mauicounty.us>; friendsoftomcookmaui@gmail.com <friendsoftomcookmaui@gmail.com>
Subject: Urgent Request to Reintroduce Kauhale Makai to Resolution 26-110

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Dear Council Member Cook,

I am writing to you regarding Resolution 26-110, specifically your recent motion to amend the proposal to remove Kauhale Makai from the active transition wave. While I appreciate your careful oversight of South Maui properties, I strongly urge you to reintroduce an amendment to place Kauhale Makai back on the list for conversion to H-3 or H-4 hotel zoning before the final full Council vote.

Excluding Kauhale Makai from the protections in Bill 88's zoning pathway will not produce long-term affordable housing. Instead, because of the building's highly unique financial and geographic constraints, removing it exposes the complex and its owners, both local residents and off-island investors, to a destructive financial death spiral.

Leaving the property off the resolution triggers an immediate economic collapse due to the following structural realities:

* The Timeshare Lending Block (Non-Warrantable Status): Kauhale Makai contains approximately 13 units operating under fractional or independent timeshare networks (roughly 8% of the building). Under strict Fannie Mae Project Standards, the presence of even a single timeshare unit permanently strips a complex of its "warrantable" status. Standard conventional, FHA, and VA loans are already entirely unavailable here. Buyers are already forced into high-interest, 25%–35% down-payment portfolio loans.

* The Shoreline Management Area (SMA) Insurance Crisis: The complex sits entirely within Maui County's Special Management Area (SMA). Because of its beachfront exposure, global reinsurers have decimated the property's access to master property insurance. Furthermore, the immense bureaucratic and administrative costs of securing SMA Use Permits for standard building maintenance have pushed owner carrying costs to a razor-thin breaking point.

* Plunging Values and Negative Equity: If the 55% of owners who operate short-term rentals are forced to phase out, their gross revenue will drop dramatically to meet local long-term rental caps. Because their cash flow will collapse, these owners will no longer be able to afford their mortgages alongside Maui's

soaring property taxes, sky-high HOA dues, and insurance premiums. Property values will instantly tank below debt levels, trapping hundreds of owners in negative equity.

* The Domino Effect of HOA Insolvency: When owners cannot afford to subsidize a bleeding asset and cannot find cash buyers to sell to, a tidal wave of short sales and foreclosures will hit the complex. Under federal underwriting rules, if more than 15% of units in a condo building become delinquent on HOA dues, the entire building is permanently blacklisted by all lenders.

* Complete Complex Foreclosure: As the Association of Apartment Owners (AOAO) loses maintenance fee revenue from foreclosed units, the financial burden of paying for the building's master insurance policy and utilities will fall onto the remaining 45% of full-time, working local residents. They will inevitably default under the weight of emergency special assessments. The entire building will face bankruptcy and foreclosure, rendering the property completely un-loanable, cash-only, and fundamentally ruined.

One last thing to consider is that, anecdotally, many KM STR owners will not sell if the building converts to no STR use. They will just keep the unit as a second home.

By removing Kauhale Makai from Resolution 26-110, the County will not create housing; it will instead bankrupt local families, collapse an entire AOAO, and destroy a vital source of property tax revenue.

I strongly urge you to re-evaluate this property's specific vulnerabilities and introduce a new amendment to include Kauhale Makai in the Resolution 26-110 transition framework. Please protect South Maui from a localized real estate crash.

Thank you for your time, leadership, and consideration.

Sincerely,

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