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MONDAY, APRIL 26, 2004

## The Kahuna Returns

### Hawaii's housing market, once a supernova and then a super-stiff, roars back

**By JENNIFER ABLAN**

**AFTER COLLAPSING MORE THAN** a decade ago, Hawaii's housing market finally is hot again. And that can't be comforting to anyone with a long memory and a stake in seeing the current U.S. real-estate boom roll on.

In the fourth quarter of 2003, the median sale price of a single-family home in Honolulu jumped 14%, to \$399,000, more than double the price of a comparable dwelling on the U.S. mainland, according to the National Association of Realtors. In this year's first quarter, that price climbed another 4.5%, to almost \$417,000. "It's a frenzy here," says Douglas Shanefield, a sales associate with Coldwell Banker Pacific Properties in Honolulu.

A frenzy that's reminiscent of what happened in the late 'Eighties and early 'Nineties, when Japanese buyers, flush with cash from their nation's stock-market boom and aided by the yen's strength against the dollar, bid prices into the stratosphere.

In 1989 and 1990, waterfront homes in Hawaii sold for an average of \$15.6 million, having more than tripled from the level two years earlier. (They now go for \$7.3 million.) One Japanese tycoon famously toured Oahu, choosing houses to buy from the comfort of his limo. He'd have an assistant, armed with a briefcase stuffed with cash, knock on doors, to see if the owner was willing to sell. Some owners became so annoyed by repeated inquiries about their properties' availability that they posted "Not For Sale" signs to keep bidders away.



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This time, while some of the buying still is coming from Japan, the real action is coming from the continental U.S., with aging baby boomers looking for second homes and pre-retirement hideaways. "The mainland boomers are [now] the equivalent of the Japanese

investors in the last cycle," says Paul Brewbaker, chief economist at Bank of Hawaii. He points out that island

residents age 50 to 59 increased 44.6% from the early 1990s to the present, compared with a 34.2% increase in mainland residents in their 50s during the same period.

The boomers are focusing on condos and high-end houses, ranging in price from around \$500,000 to \$2 million. And they've bought on all of the state's seven main isles: Kauai, Molokai, Lanai, Maui, Koho'olawe, Oahu and the Big Island of Hawaii. (Billionaire Michael Dell last week snapped up something more ambitious: the entire Four Seasons Resort on Maui, for a reported \$100 million.)

Other buyers hail from Canada and Europe and parts of Asia outside Japan, not to mention Hawaii itself.

The makeup of the purchasers isn't the only thing different this time around. Hawaii now is in the rear guard of America's real-estate boom; 15 years ago, it was in the vanguard.

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"We are probably the last game in town in terms of a market peak on a national scale. We are catching up to what has been a very major amount of appreciation in other residential markets," says Michael Sklarz, the chief valuation officer in Honolulu for the Fidelity National Financial real-estate services company. Hawaii has lagged the mainland's realty market by about two years, he says, in part because of the stagnating Japanese economy (the benchmark Nikkei 225 index fell from around 40,000 in 1990 to about 7,600 in early 2003). The Nikkei now stands close to 12,000.

After Japan's bubble economy popped, prices of many high-end Hawaiian properties plunged by 50% to 75%, in some cases more than wiping out all the gains of the previous few years. The debacle came as the U.S. was sliding toward recession and was a harbinger of weakness in the entire American housing market.

Could history repeat? That's not likely, but there is some sense of déjà vu in the sparkling Hawaiian air. "All the same kinds of behavior that we saw in prior cycles are occurring again," adds Sklarz, co-author of a 1988 study on the previous boom.

As in the rest of the U.S., low mortgage rates are driving Hawaiian real estate. Another plus: stock-market gains chalked up last year in the U.S., as well as in Europe, Japan, Hong Kong, Korea and Taiwan. The European, Asian and even Canadian appetites for \$500,000 condos and million-dollar homes also have been whetted by many currencies' gains against the dollar. The yen recently hit a four-year high against the greenback, while the Canadian buck rose more than 22% against the buck in 2003, a year in which the euro was up over 20% against the U.S. currency. "People seem to be flush with cash," says Shanefield.

But while home prices have risen, the advances have been less dramatic than in some other hot spots, such as Boston, New York City or San Francisco, because of the decade-long slump that followed the end of the Japanese buying binge.

In 2003, a typical home in Hawaii cost 6.50 times the annual family income of its occupants, versus 8.08 in San Francisco and 8.05 in New York City and some of its suburbs. Hawaii's current number -- 7.08 -- isn't all that far from the peak of 7.86, hit in 1991, but "this type of ratio is overly simplistic with regard to whether a market is overvalued, since it doesn't take into account interest rates," avers Sklarz. "The typical household can afford to pay a significantly greater multiple of its household income with today's mortgage rates than it could in 1990-91."

**Table:** [Hot, Hot, Hot](#)

Overall, the median resale price of a single-family home on Oahu hit a record \$439,000 in March. The Honolulu Board of Realtors says that's 25.4% higher than March 2003's level and the highest year-over-year increase in several years.

As for condominiums, the median-priced Maui unit sold for \$327,000 in March, up from \$199,750 a year earlier. On the Big Island, the median condo price was \$275,000, up 77%.

How strong is the market? Several weeks ago, potential buyers camped out for more than a week -- and even paid others up to \$500 a day to sit (or sleep) in their place -- for a chance to bid on condo units in still-unbuilt twin towers between Waikiki and downtown Honolulu on Oahu.

Although the towers won't be completed until late 2006, the developers had offered to immediately sell 95 of the 706 units, which range from one-bedrooms starting at about \$310,000 to a penthouse at \$3.8 million. The offered units sold out in four hours, says Coldwell Banker's Shanefield, who is the project's sales manager. He says the purchasing pool for the condos was across-the-board: Wealthy individuals from Japan, Korea, Taiwan, Hong Kong, as well as individuals from Canada and Europe, and many mainland boomers.



Dennis Oda/ Honolulu Star-Bulletin

Demand for one unbuilt Hawaiian condo complex was so intense that prospective buyers, above, camped out to have a chance to buy a unit. Some paid \$500 a day to have

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How long can the boom last?

someone hold their place in line.

The big unknown, of course, is how long mortgage rates will stay low. But Sklarz predicts that "we may have another six to 18 months" of price appreciation for single-family homes, and perhaps two years for condos.

There are a few signs that prices won't keep skyrocketing. In March, the median price for a condo on Kauai increased 22%, to \$329,000, versus \$270,735 a year earlier. But that was down from February when the median price soared to a record \$420,000.

An aberration or a portent? No one knows. But it's not the kind of information that will reassure anyone who has bought at the recent highs.

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