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Still time to buy, real estate experts say

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KEN IGE / KIGE@STARBULLETTIN.COM

Hawaii's residential real estate market will likely continue for the next few years, expert Mike Sklarz told the Urban Land Institute yesterday at the Hawaii Convention Center. The islands are still recovering from the pronounced slump of the 1990s, he said.

RESIDENTIAL

Homes sales likely to keep growing

By Lyn Danninger
ldanninger@starbulletin.com

The burning question for both homeowners and would-be buyers is the health of Hawaii's residential real estate market and prospects for its continued recovery.

Residential real estate expert Mike Sklarz, chief valuation officer with **Fidelity National Information Solutions**, spends much of his day pondering such questions.

The current trend of rising prices and heavy sales volume is likely to continue for the next few years, Sklarz said, as the islands remain in recovery mode.

In a forum hosted by the Hawaii chapter of the Urban Land Institute yesterday at the Hawaii Convention Center, Sklarz predicted the market still has plenty of life left.

Since the 1970s, Hawaii's market has been through several volatile shifts, leading to frequent speculation about whether the housing market is in a "bubble."

But such market shifts, characterized by abrupt price rises followed by sideways or downward movement, is typical of so-called "supply constraint markets," Sklarz said. Such markets are typically found on the east and west coasts and tend to last five years or so, he said.

Honolulu has also shown a lot of those characteristics, except during the last cycle, when it remained mired in a prolonged period of stagnation.

Basic drivers, such as employment and income levels, forecast where the market is headed, he said.

Sklarz said the real estate market generally flips between being one of consumption and one of investment. During a consumption period, fewer houses change hands and prices remain relatively flat. During an investment period, both prices and sales increase.

A market such as San Diego, after upward movement for a number of years, is now set to flatten as employment and salaries catch up again, Sklarz said.

Looking at the Honolulu market since the mid-'70s, Sklarz said, Honolulu's market shares many characteristics with San Diego. However, because of nine years of economic stagnation in Hawaii, local real estate -- especially on Oahu -- lagged behind similar markets. Because of that, Sklarz predicts room for further growth since the market is still in the early stages of recovery.

Sklarz noted that Oahu's market movement in the past couple of years occurred first in areas such as East Oahu and Kailua. Other areas, such as those in west and central Oahu, will take another couple of years to catch up.

For that reason, Sklarz said, good buying opportunities can still be found in those areas, particularly in the condominium market, which lagged even further behind.

"All in all, (Honolulu) is probably one of the healthiest markets because it has been a lagger," Sklarz said. "Now we are finally emerging. These cycles tend to last five years or so once they get going."

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COMMERCIAL

A&B plans major Hawaii investments

By Russ Lynch
rlynch@starbulletin.com

Alexander & Baldwin Inc. expects to commit \$100 million -- perhaps as much as \$200 million -- to real estate purchases this year, and the company would like as much of it as possible to be spent in Hawaii, W. Allen Doane, president and chief executive officer, said yesterday.

Hawaii has good opportunities for commercial real estate investments and while A&B likes deals in the \$10 million to \$30 million range, "we can go as high as we like in Hawaii" if the deal is good enough, Doane told a seminar by the Hawaii branch of the Urban Land Institute.

Two experts from the mainland agreed that there are opportunities in the islands and said the likely rate of return on such investments now is greater in Hawaii than it is for similar investments on the mainland.

Doane, who noted one big project for A&B right now is the 1,000-acre Kukuiula planned community on Kauai, said his company looks at all kinds of properties but doesn't like hotels or apartment purchases very much.

Hotels make more money for managers than they do for the owners, he said, and apartment buildings take too much effort to oversee.

Of course, there are exceptions. A&B has launched a 100-unit, 25-floor residential condominium project of its own on Kuhio Avenue in Waikiki, expecting to spend \$40 million to generate \$50 million in sales.

There is money to be made from buying "tired" real estate and fixing it up, said Stephen Metter, a principal of **MW Group Ltd.** The local company owns Pioneer Plaza in downtown Honolulu as part of a \$200 million portfolio of real estate in the islands,

Some of the opportunities in Hawaii include assisted-living facilities for the elderly, one of which MW is developing on Ward Avenue, Metter said. Such operations will provide real estate investment avenues in Hawaii for some time to come, he said.

Jeff Kott, principal of San Francisco-based **Bristol Group**, said his firm looks for "out of favor" markets. Hawaii is neither in favor nor out of favor, he said. His firm has found opportunities here, such as buying Alii Place in downtown Honolulu for \$70 million in 1998.

"There's a lot of opportunity here right now," Kott said, pointing out the difficulty finding value-added deals on the mainland, where a building can be purchased and improved to generate higher rents.

His outlook for commercial property rent rates in Hawaii is this: "The bad news is, I don't see rents going up. The good news is, I don't see rents going down."

Tony Thompson, president and chief executive officer of **Triple Net Properties LLC.**, a Santa Ana, Calif.-based real estate investment trust, said his firm has found opportunities in Hawaii as a specialist in 1031 transactions, a part of the tax code that lets owners avoid most or all of the capital gains tax when they sell a property if they reinvest in a similar property.

In December, Triple Net bought the Kahana gateway Shopping Center on Maui for \$21.2 million.

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