

TROPICAL OPPORTUNITIES Hawaii still a bright spot despite overall U.S. economic downturn

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Hawaii, America's 50th state, has long been blessed with gorgeous weather and beautiful scenery. But as the U.S. economy plunges into a deep recession, Hawaii is showing off yet another attractive feature—a surprising resiliency to the country's economic woes.

There's no doubt Hawaii is feeling effects from the current financial crisis. Unemployment is up. Tourism, Hawaii's biggest industry, is down more than 5 percent, with greater drops expected in 2009. And foreclosures rose steadily throughout 2008. But Hawaii's real estate market has been largely insulated from many of the worst problems haunting the mainland markets. The foreclosure rate is rising, but it is still lower than most states. The raw, total number of foreclosures in Hawaii also remains smaller than most other areas.

For the most part, Hawaii's banks also were not swept up in the subprime loan fiasco, so credit is not nearly as tight as in most mainland markets: Banks are still lending money for development projects. Residential, office and retail development is still occurring on the islands while the markets are shutting down in many mainland states.

"A lot of developers are still doing quite well here," said Phyliss Kacher, CPM®, a vice president at Hawaiiiana Management Company, AMO®, in Honolulu. Her company manages properties such as Hokua Luxury Condominiums and is the managing agent for the new Trump International Hotel & Tower, now under construction on Waikiki Beach.

The Trump Tower in Waikiki is currently on schedule and estimated to be completed by September 2009. The 38-story building will fea-

ture studio, one-, two- and three- story luxury bedroom suites. Kacher points to developments like these to show that real estate development in Hawaii is still strong despite the current recession.

"It's not all roses out here," Kacher said, "but loans are still being made on primary units. These are challenging times in our business, but we're still doing well. The core business is solid."

MARKET STABILITY

CB Richard Ellis, AMO, reports that retailers are still signing leases and planning to open stores in new retail centers in Waikiki, Kona and Kapolei. And many of Hawaii's largest retailers, Costco, Walmart and Lowe's, are not reducing the number of stores in Hawaii as they are on the mainland.

That points to continuing opportunities for experienced property managers working in the sector, especially those seasoned with years of dealing with the needs of major retailers operating in malls, mixed-use buildings and various retailing centers.

"Third-party management companies always have a shot at market share of everything from value centers to luxury centers," said Kimberly Lord, a managing director at CB Richard Ellis.

While retail vacancy rates are shooting up across the mainland, Hawaii's vacancy rates are showing more stability. Hawaii was never considered a "hyper-market" in the retailing industry. While many other states were experiencing huge retail growth earlier this decade, Hawaii's market grew at a much more modest rate.

However, many of those mainland markets



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are now seeing drastic retrenchment in their real estate markets. Hawaii, on the other hand, is not experiencing the same amount of retreat in its retail market.

Lord believes that restrictions in land use, which limit property expansion for developers, stopped Hawaii from experiencing over-development in its retail market. That lack of over-development is paying dividends to the state now.

“Hawaii is physically a small market,” Lord said. “There was simply less development, less growth. This same thing that insulated us from growth also insulated us from the downturn.”

COMPETITIVE NATURE

Meanwhile, office and residential landlords in Hawaii are vigorously pursuing renewals, often using incentives such as free or discounted rents and enhanced tenant services, to tenants who are looking to reduce budgets and overhead.

Also, the rising number of foreclosures is forcing some lenders to seek help with pursuing opportunities in managing properties instead of selling them.

Both situations call for savvy property managers who can leverage properties for the maximum profit, said Steven Sofos, CPM, president of Sofos Realty Co. in Honolulu. He believes Hawaii’s economy will be down from 10 to 20 percent in 2009, while vacancies will increase and delinquencies in loans will hurt cash flow on the condominium market.

“Residential property management is already competitive, and it just became even more competitive,” said Sofos. “Property managers who can help lenders squeeze profits out of these properties they are stuck with will find some golden opportunities to thrive in this down market.”

TIMESHARES & TOURISM

Tourism, Hawaii’s biggest industry, is bracing for a big hit in 2009. Airfares are lower, hotels are dropping prices, but tourists just aren’t showing up.

Hawaii’s tourism industry is still feeling the

pain of losing ATA airlines, which used Honolulu as a focus destination, and Hawaii-based Aloha airlines. Recently, Norwegian Cruise Line America pulled two ships out of Hawaii.

“In a recession, people don’t travel,” said Ronald Kawahara, CPM, president of the property management company, Destination Maui, AMO. But Kawahara has noticed that timesharing in Hawaii has not been greatly affected by the drop in tourism.

Timeshare properties usually are resort condominium units and Hawaii has always been a choice timeshare location. Despite the recent drop in tourism, Kawahara still sees a lot of strength in the timeshare market.

“It’s the one bright spot in real estate here,” he said. “It’s kind of recession proof.”

Kawahara sees the homeowner association market still providing many opportunities for property managers.

“Timesharing is strong,” Kawahara said. “A lot of condo development that was already under construction is continuing, with many of the units pre-sold. The condo market here is not as bad as in the mainland, and the market still needs good property managers to oversee them.” ■

WINDWARD ESTATES, A PROPERTY MANAGED BY HAWAIIANA MANAGEMENT COMPANY, AMO, WAS NAMED IREM HAWAII CHAPTER 2007 BUILDING OF THE YEAR.

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