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The end of the leasehold era has created angst for landowners and lessees. Above, Mitch D'Olier, president of Kaneohe Ranch, is among those with the task of determining whether to sustain long-term relationships with lessees. D'Olier is shown near a cesspool similar to the one that he says is affecting negotiations with the Kailuan lessees. At left is text from a community postcard campaign that Kailuan lessees launched to swing the outcome in their favor.

## Hawaii residents face leasehold shake-up

**Some homeowners may be forced to move during the next decade as the leases on 1,500 units expire**

[STORY SUMMARY »](#)

### Second of Two Parts

During the next decade, leases at some 1,500 leasehold units are due to end, causing the potential transitioning of thousands of Hawaii residents.

Starting with the Kailuan, a Kailua co-op whose lease expires at the end of December, owners of some of these leaseholds inevitably will be displaced or subject to uncapped lease-rent increases. Some might even become homeless.

The Kailuan, potentially the first modern day multifamily lease surrender in modern times, has raised questions about how fee owners and leasehold tenants will fare as the market continues to transition.

Some say that the leasehold crisis of the 1990s is rebrewing. Many landowners have, and some eventually will, offer lessees the opportunity to purchase fees. Some properties, however, will be redeveloped.

The uncertainty already has begun to impact real estate purchasing decisions and pricing on Oahu and it's caused considerable angst about who ultimately will pay the price as the leasehold era comes to an end in the next 20 or so years.

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[FULL STORY »](#)

**By Allison Schaefer**

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Hawaii's modern-day residential leasehold system got its start in the 1950s as an affordable way to solve the state's post-war housing shortages, but flash forward 50 years and it's starting to lose some of its popularity.

During the next decade, leases at some 1,500 leasehold units are due to end, causing the potential transitioning of thousands of Hawaii residents. Starting with the Kailuan, a Kailua co-op whose lease expires at the end of December, owners of some of these leaseholds inevitably will be displaced or subject to uncapped lease-rent increases.

Since 1990, the vast majority of leasehold properties on Oahu have been converted due to public sentiment and legislation, said Michael Pang, president and principal broker at **Monarch Properties Inc.**, the firm hired by Kailuan residents to help negotiate an 11th-hour settlement with landowner Kaneohe Ranch.

While leasehold ownership kept prices down so that lower income buyers could break into the market and afforded developers more opportunity to build high-amenity projects in prime locations, by the last decade it had begun to lose its popularity. From the early 1990s to now, the number of leasehold condominiums dropped from about 53,000 to about 19,000, Pang said.

"The residential leasehold market is dying out," he said, adding that in another 20 years few leasehold properties will remain. Most owners will offer residents the opportunity to purchase fees; however, a few will take back their properties for redevelopment.

The Kailuan, potentially the first modern-day multifamily lease surrender in modern times, has raised questions about how fee owners and leasehold tenants will fare as the market continues to transition.

The leasehold crisis of the early 1990s is rebrewing said John Riggins owner of **John Riggins Real Estate**.

"While the number of lessees has dropped, it could still have an impact on our economy," Riggins said.

Starting in 2010, leases at the Hawaiian Prince Apartments Ltd., Hawaiian Ebbtide Hotel Inc., Diamond Head Ambassador Hotel Building C, Beachside Apartments, Queen Emma Apartments and the Waikiki Regent Apartments will expire.

Lease terms for the Oahuan Tower, Oahuan Ltd. and Dole Terrace Apartments will expire in 2011. But the bulk of lease expirations will occur in 2012 with residents of the Imperial Hawaii Resort, Lani Home Inc., Iolani Banyan, Laau Gardens, Iolani Gardens, Canal Classics, Diana Apartments, Hale Laau I, Hale Laau II, Princess Ann Apartments, Kaipuu Inc. and Kuilei Gardens facing possible lease surrenders.

In 2014, another active leasehold year, leases will expire at the Hawaiian Colony, Kuhio Ebbtide Hotel, Kon Tiki Hotel Annex, 411 Kaiolu, Beretania Hale, Surftide Namahana, Wai-Kai, the Alii, 3003 Kalakaua and Makiki Towers.

Leases at the Driftwood Hotel and 2511 Kapiolani Co-op Inc. will expire in 2015 followed by the lease at Punahou Arms in 2017 and the lease at the Kalia Inc. in 2018.

While the reaction from fee owners and leasehold owners to these upcoming dates has been varied, real estate experts said that it already has begun to impact pricing and demand in the real estate market. Some experts have even gone so far as to say that the transition from a mostly leasehold condominium and co-op market to a predominantly fee-simple one has caused a sharp rise in the price of fee-simple condominiums.

The Queen's Land Co., which owns the Hawaiian Prince Apartments as well as the Beachside Apartments, the Queen Emma Apartments, and the Waikiki Regent Apartments whose leases are due to expire in 2010, is yet undecided as to the outcome, said Rebecca Pollard, a spokeswoman for the Queen's Health System.

"Those leases are expiring in 2010 and we haven't converted them," Pollard said. "We are in the process of master planning so we still have not determined the future of these buildings. We don't have a definitive time frame for an answer."

Kamehameha Schools, which has pared down 16,000 leasehold units to a few thousand in the last several decades, voluntarily has offered the fee for several of its properties. However, it remains tight-lipped in regard to the outcome of others.

"We began volunteering to convert multifamily properties as the pressure mounted to force legislation," said Kekoa Paulsen, community relations director for Kamehameha Schools. "However, there are a few exceptions."

Other fee owners such as Kaneohe Ranch, which owns the Kailuan, and Lum Yip Kee Ltd., which owns the Lani Home, Iolani Bayan, Laau Gardens, Iolani Gardens, Canal Classic II, the Diana Apartments, Hale Laau I and II, Princess Ann Apartments and the Kaipuu, have said that they intend to end their leases when the current contracts expire.

Riggins is bracing for widespread economic impacts as the bulk of these leases begin expiring, he said.

"We've seen the damage before," he said.

Hawaii's economy in the 1990s went into a downward spiral in part because large fee owners like Bishop Estate changed their leasehold policies and dramatically increased their fee prices, he said.

"This, in turn, caused thousands of Oahu lessees to lose their homes and life savings," he said. "One Kaneohe couple, first the husband and the wife 30 days later, committed suicide after Bishop Estate's increase in fee prices and a plea by the widow was ignored. Feeling hopeless, the wife followed the act of her husband by committing suicide."

Stephany Sofos, a Honolulu-based real estate analyst, blames the round of lease negotiations in the 1990s for much of the difficulty that Hawaii residents experienced during that real estate cycle.

"The market went down after the bubble burst just as a wave of lease negotiations was beginning and people were having to come up with a lot of money to buy their fees," Sofos said. "Many people went upside-down on home values for a while."

Interestingly enough, since the repeal of the lease-to-fee ordinance, Oahu's fee owners have begun repeating history, Riggins said. Owners like Kamehameha Schools have more than doubled fee prices, Riggins said.

For example, Riggins saw the fee price at a unit he owned at the Heights at Wailuna increase from \$114,900 when the lease-to-fee ordinance existed in December 2004 to \$186,000 at the time the lease expired Jan. 31, 2007, he said.

"This is extremely dangerous and could help soften our economy because many first-time buyers purchased leasehold properties because leasehold properties are less expensive (more affordable) than fee-simple properties," Riggins said.

While Riggins and his wife had planned on moving into their unit at the Heights at Wailuna after they retired, they abandoned that dream during lease-to-fee negotiations.

"We decided to sell the property because we felt like the cost to buy the fee was unreasonable and, as investor, we couldn't get positive cash flow by purchasing the land, Riggins said.

Real estate experts say that transition in the leasehold market already is causing change in the overall real estate market.

As expiration dates for leasehold properties loom closer, there also has been a noticeable drop in leasehold inventory and prices, said Chason Ishii, president of **Coldwell Banker Pacific Properties**.

"Sales of leasehold condominium units were down 24.6 percent through the first nine months of the year, Ishii said. During the first nine months of the year, 3,729 fee-simple condominiums sold as opposed to 615 leasehold units, he said.

And, while average prices have risen 4.6 percent for fee-simple condominiums during the first nine months of the year, they've fallen by 1.7 percent for leaseholds, he said.

"Leasehold properties are not moving as quickly and prices are dropping as well," Ishii said. "Based on these trends, I'd say that we are starting to see some market concern reflected about leasehold property."

But, while demand for leasehold has plummeted, the market transition has made Hawaii's overall condominium market much more attractive, and that's caused prices to rise, said Peter Savio, a kamaaina developer who played an active role in the last cycle of Hawaii's lease-to-fee conversions.

"It's moved a layer of affordable housing from our market," Savio said. "The change in the market has made Hawaii's residential real estate market more attractive to mainland haole and international buyers and that has caused the prices to jump."

Hawaii's human services organizations also are watching the leasehold situation with interest because the transition could come with human costs, said Doran Porter, executive director of the Affordable Housing and Homeless Alliance.

Widespread owner take-backs of property could increase the homelessness on Oahu and add more people to the lists of those that need human services, Porter said.

"If the fee owners chose to take back their properties, absolutely it will exacerbate the homeless situation -- not everyone will be able to afford market rents or to purchase more property," he said.

Sara Way, a disabled leasehold owner who has lived at the Kailuan since 1995, already has realized Porter's fears. Way, who needs a wheelchair, said that if Kaneohe Ranch does not offer residents of the Kailuan the fee by the end of this month that she will be hardpressed to find other suitable housing.

"I want to be as independent as I can, but there aren't many other places that I can afford to go," Way said. "It really seems quite hopeless."

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