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COURTESY OF ADAM LEE

This Aiea low-rise apartment building is slated for conversion to condominiums, with plans to offer two-bedroom units for as low as \$265,000.

Slew of apartments going condo

Brokers say there is unmet demand for middle-market units

By **Nina Wu**
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There's a new buzz about condominium conversions in local real estate circles, but this time it's not about condotels. It's about the conversion of low- and mid-rise apartment buildings into residential condominiums.

A whole new slate of apartment buildings -- typically older properties in the metropolitan sprawl of urban Honolulu -- are hitting the market and selling to investors who intend to convert them into condominiums.

The market is ripe for such conversions, given that the median sales price for a condominium reached \$309,000 in the first quarter of 2006, according to the Honolulu Board of Realtors -- about 35 percent higher than the first quarter of 2005.

From Waikiki to Aiea, three-story walkups and mid-rise buildings are going on the market for

between \$2.5 million to \$8.5 million or more.

And investors are biting, figuring once they convert the units into condominiums, they can sell them off quickly.

The math works out to a decent profit, according to Edward Brinkman, broker for **Doug Davis Realty Inc.**, surpassing the monthly cash flow for the same number of units as rentals.

Brinkman recently listed Essex House, a 10-story residential building on the corner of Nahua Street and Ala Wai Boulevard, for \$8.5 million, fetching five offers. It offers 25 two-bedrooms and nine one-bedroom units. Two-bedroom units in the area with Ala Wai views and lanais typically go for no less than \$400,000 in today's market, according to Brinkman.

The interest from investors is simply a function of supply and demand, said Mark Storfer, Realtor associate with Choi International.

"Nobody's building new apartments," said Storfer. "The supply for multifamily apartments is definitely not growing. It's diminishing, and demand is going up."

Last year, Storfer sold three walkups -- all in Waikiki -- for between \$1.9 million to \$2.5 million.

One of them, a two-story walkup called High Tide at 403 Hobron Lane offering 12 one-bedroom units, was sold to Honolulu-based **Shoreline Investments LLC** for \$1.9 million.

Shoreline has already given the property a facelift, with new paint and landscaping, and higher rents. But it plans to invest more than \$1 million into renovating the building, then convert it into condominiums.

The new condominiums will enter the market in a neighborhood under transformation. The Watermark Waikiki, a luxury condominium, is under construction just down the street. Plans for Allure Waikiki, another luxury resident project, were also announced last month.

Storfer has several more listings targeting investors.

Edmunds Apartments, a four-story walkup at 2411 Ala Wai Blvd., is already in escrow at a list price of \$1.5 million. Pumehana Apartments in McCully is listed for \$2.5 million.

Targeting the middle

Brokers specializing in selling the multifamily units say there is an unmet demand for middle-market condominiums below luxury-level prices.

Typically, they're working-class apartments turned into condominiums offering few frills -- no swimming pools, dog parks or fitness centers. The one- and two-bedroom units are also small, measuring anywhere between 400 to 600 square feet apiece.

But first-time buyers are looking for those kinds of units, according to Storfer.

Property owners are also making a profit, given that the buildings today are selling for much more than they were purchased for 30 or more years ago.

The Essex House, for instance, listed at \$8.5 million, is about \$3 million more than it sold for back in 1994.

"As long as the market keeps going up, everyone makes money," said Brinkman.

For an investor, converting a multifamily property into condominiums requires legal paperwork, but doesn't typically involve zoning changes or variances. It costs significantly less to refurbish an existing building than to construct one from scratch at today's prices.

The conversions could take anywhere from three to nine months.

Storfer said many of the sellers of the apartment buildings are second-generation owners who have had the properties passed down to them -- and aren't interested in managing them anymore.

The lots, on the other hand, are too small for a developer to build another high-rise residential condominium.

Abe Lee Realty is actively investing in multifamily properties to convert into condos.

Lee's son, Adam Lee, is buying a three-story Aiea building listed for \$7.6 million by Brinkman at Doug Davis Realty, with plans to offer two-bedroom units for as low as \$265,000.

The real estate firm is also under contract to buy a 27-unit apartment building in the Punchbowl area for \$4.75 million. It plans to convert the building into condominiums, targeting owner-occupant buyers for an 8 to 10 percent margin on gross sales.

Instead of throwing in renovation dollars, however, Abe Lee finds it easier to just turn the units around on the market. He says he will offer buyers a \$7,000 credit on the sales price.

"We try to keep it simple," he said. "We give tenants first preference, then sell to owner-occupants."

IS YOUR APARTMENT BUILDING BEING SOLD?

SOLD

- » The High Tide at 403 Hobron Lane, a two-story walkup offering 12 one-bedroom units, was sold for \$1.9 million.
- » A 27-unit apartment building in the Punchbowl area is being sold for \$4.75 million.

FOR SALE

- » Edmunds Apartments, a four-story walkup at 2411 Ala Wai Blvd., is in escrow at a list price of \$1.5 million.
- » Essex House, a 10-story residential building in Waikiki, is listed for \$8.5 million.
- » Pumehana Apartments in McCully is listed for \$2.5 million.

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