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Smaller, older rentals join condo movement

Pacific Business News (Honolulu) - September 15, 2006 by [Janis L. Magin](#) Pacific Business News

Michele Maeda spent Labor Day weekend painting what will soon be her first home purchase.

Her studio apartment -- in a three-story building at the base of Punchbowl crater at Prospect Street and Ward Avenue -- is in the process of converting to condominiums. Maeda has prequalified to buy the unit she is renting for \$185,000.

"My very first piece of Hawaii," said Maeda, 33, who made several treks to The Home Depot to choose paint colors -- a silvery blue for the main room and eggshell white for the kitchen. "I'm super excited."



Tina Yuen, PBN

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While conversions of Hawaii's hotel rooms are garnering much of the attention these days, more and more rental buildings on Oahu are being converted to condominiums, a boom unseen in more than a decade.

The state Real Estate Commission, which regulates condo conversions, keeps track of how many projects and how many units are converted each year, although it does not break out which were apartment rentals, which were hotels and which were properties with multiple houses.

Conversions on the rise

But in the three-year period from July 2002 to June 2005, more than 4,500 housing and hotel units were converted to condominiums, according to the latest figures available in the State of Hawaii Data Book 2005.

In the fiscal year ending June 30, 2003, 92 projects were converted -- a total of 740 housing units. The numbers jumped the following year to 116 projects and 1,422 units, and then again in the fiscal year ending June 30, 2005, to 135 projects and 2,347 units.

But unlike a decade ago, when it was the large apartment buildings, mostly high-rises, converting to condominiums, many of the buildings today are smaller, older and shorter, which means they are often priced within reach of first-time homebuyers like Maeda.

Realtor Abe Lee, whose latest project is the 35-year-old Prospect Street building, has converted dozens of apartment buildings on Oahu, mostly older buildings that don't command views of the ocean or Diamond Head, or a luxury price.

"They're built with 1930-1970 dollars, so the market value of a building of that age is not going to be a luxury equivalent," he said.

Although apartments are offered first to the existing tenants, often fewer than one in five are interested or able to buy their units. Many of them are able to make the mortgage payments, which are typically a couple of hundred dollars higher than their rent, but cannot qualify because of credit problems, said Lee's son, Adam Lee, who is converting a 36-unit building in the Pearlridge area of Aiea.

"A lot of them haven't checked their credit scores in a long time," he said.

Adam Lee bought the building at 98-080 Uao Place in July for \$7.75 million. He's selling 12 three-bedroom units for \$315,000 each, 12 two-bedroom units with lofts for \$285,000 each, and 12 two-bedroom units for \$259,500 each. The apartments currently rent for \$1,750 a month.

"We always try and price it so where the rent is similar to the mortgage," Adam Lee said. "We're trying to keep it affordable for everybody."

Maeda, who is paying \$1,035 a month in rent for her studio, expects her housing costs to rise to \$1,700 after she closes early next year, after the mortgage, property tax, association fee and homeowners insurance are factored in.

Abe Lee is pricing the three studios at the Prospect Street building at \$185,000 and the 24 one-bedrooms at \$249,000, some with a \$7,000 credit for upgrades he plans to make. Most of the units, however, will be sold "as is."

Although appraisals for the one-bedroom units came in at \$255,000, the price was kept below appraised value.

"Because my goal is to create affordable housing, I need to leave something on the table for the buyers," Abe Lee said. "So we make less money but we create affordable housing for people."

The older low-rise buildings still bring in profits for developers or owners who convert them to condos.

Edward Brinkman, who represented the seller in the Pearlridge project, said the formula for pricing apartment buildings marked for condo conversions is that the buyer expects a 30 percent premium.

For example, Adam Lee spent \$7.75 million to buy the Pearlridge building, which should bring in more than \$10.3 million in condo sales if all 36 units sell for the asking price.

Newer buildings also are being targeted for conversion.

Richard Weiser, the developer who owns the former Coco Palms Hotel on Kauai, plans to convert the 82 units in an 18-story high-rise built in 1994 on the corner of Date Street and Kapiolani Boulevard.

Weiser, who recently won a bid to buy the Iolani Regent for \$22.3 million along with partners Tom Ryan and Dan Jordan of **Honolulu Builders**, plans to offer the units for sale in November for between \$350,000 and \$500,000.

Tenants will be given first dibs on their apartments, but no break on the price. Rents currently average about \$1,000 to \$1,400 per month. A mortgage on a \$350,000 unit, assuming 20 percent down and a 6.5 percent interest rate, would run about \$1,770 per month, not including taxes or association fees. A mortgage on a \$500,000 unit, under the same assumptions, would run \$2,528 per month.

No price breaks

"They'll certainly have first look and opportunity to buy," Weiser said of the current tenants. "We're not talking about any reduction in price."

Abe Lee prefers to stick to the older buildings, which yield more affordable units.

"You cannot afford to do low-end stuff with brand-new projects," he said. "Really, the only hope for affordable housing is in the conversion."

But because of the complex conversion process, buyers eyeing apartment buildings need to be careful, said Brinkman, co-owner of **Doug Davis Realty**.

"Without a guarantee that a conversion can be done, the buyers become hesitant," he said. "There's no guarantee that all the authorities will grant you the right approvals. If one of them says no and you've already bought the property then your plan isn't going to work."

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