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HONOLULU TRAFFIC
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More condo tenants hearing 'buy or move'

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By [Andrew Gomes](#)
Advertiser Staff Writer

In Charles Canipe's Makiki apartment, the ceiling is peeling, the toilet is cracked and the carpet is 40 years old. But the view is good and the rent is cheap, making Pacificana Apartments Canipe's humble home for the past 25 years.

Recently, a local developer bought the Pacificana to resell it by the unit as condominiums, challenging Canipe, 59, to either buy his apartment or find another rental he can afford.

"It's like a major crisis for me," said the retired city worker living mainly on \$1,000 in monthly Social Security income. "We're basically low-income people who live here."

Canipe's situation is similar to what several thousand renters statewide have faced over the past few years as developers rushing to capitalize on a segment of Hawai'i's hot real estate market sparked a condo conversion boom.

The trend is contributing to the state's loss of low-income rental housing, though conversions also have allowed some low-income renters to become homeowners.

In the past three years, some 5,000 rental apartments have been converted for sale as condos, according to the Hawai'i Real Estate Commission. That compares with 5,600 converted during the preceding nine years.



Chuck Canipe is among the tenants at the Pacificana Apartments who are facing a significant change in their lives. They must either purchase their units – with mortgage payments likely to be much higher than their current rent – or find somewhere else to live.

Photos by BRUCE ASATO | The Honolulu Advertiser



Chuck Canipe shows off the reason his nickname is "The Critterman." The resin encapsulated critters – seashells, scorpions, starfish, flowers and insects – he sells at craft fairs help him pay the rent. As a rental, the apartment he lives in costs \$800 a month. If Canipe goes through with his plans to buy the unit, the monthly mortgage will be \$1,800.



A local developer recently purchased

Calvin Kimura, commission executive officer, said the recent wave is the result of developers reacting to buyer demand for low-priced condos in a market where high construction costs prohibit building new condos at low prices.

PRICES DOUBLE

The strong demand for affordable condos is largely a result of the median price for previously owned condos doubling from \$152,000 in 2002 to \$310,000 last year. The median is the point where half the condos sold for more and half for less.

Rising condo prices have put pressure on rents. The U.S. Census Bureau in a recent report calculated that the state's median household monthly rent in 2005 was \$995 — higher than any other state.

High rents also have contributed to Hawaii's growing homeless problem that a recent National Alliance to End Homelessness report called the fourth-worst based on a state's percentage of population that is homeless.

For tenants in rental buildings targeted for sale as condos, the conversion boom has been largely unwelcome.

Some developers say they try to keep condo conversion unit prices at levels where a monthly mortgage payment isn't too much higher than rent, so existing tenants have an easier time buying their unit.

In some cases, condo converters make little or no improvements to rental buildings to keep sale prices more affordable.

Stephen Lorian, a 60-year-old warehouseman for a supply center at Pearl Harbor, was recently prodded into homeownership by the condo conversion of the three-story rental complex Pearlridge Sunset where he's lived for 24 years.

Lorian, whose wife works for an after school A+ program, had endured monthly rent increases on his three-bedroom unit from \$500 to \$1,000 to nearly \$2,000 under three landlords over two decades.

MOST TENANTS LEAVE

When local developer Abe Lee bought the property last year for conversion to condos, Lorian didn't want to move out — he figured he'd end up paying more rent elsewhere if he did. So he bought the unit for \$330,000 with financial help from his son.

Lorian had to come up with about \$2,700 a month, or \$700 more than he had been paying, for the mortgage, maintenance and electricity. But he has new tax deductions and will build equity as a homeowner.

"It feels great," he said. "We love this place."

However, developer Lee said only about 10 percent to 15 percent of tenants end up buying units he's converted over the years.

the Pacificana Apartments, with plans to convert the 69-unit Makiki building into a condominium.

MICHAEL NGUYEN'S CASE:

His home: Two-bedroom apartment at the Iolani Regent, 2522 Date St.

Rent: \$1,250 a month

Conversion: Units are being sold as condos

Sale price for condos: Two-bedroom units start at \$328,000

Monthly mortgage payment: at least \$2,000, assuming a \$33,000 down payment.

Nguyen's decision: "I cannot handle that (\$2,000 per month)," Nguyen said, so the taxi driver is looking for another rental.

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"We'd sure like to have the tenants buy, but they move out," Lee said.

Local developer Peter Savio said 30 percent to 60 percent of rental tenants typically buy their units in his conversion projects, which have included the Century Park Plaza twin towers near Pearlridge, Royal Towers in the Salt Lake area, Queen Emma Gardens in Downtown and the Pacificana.

In many cases, low interest rates, creative financing like 100 percent loans and interest-only mortgages, plentiful jobs and a large inventory of condos have made it easier for tenants to buy, though the past several years of soaring real estate values have put home ownership out of the reach of many with low incomes.

A lot of renters can't buy their units in condo conversions because they don't have enough income, but Savio said conversions don't necessarily cause a big imbalance in rental apartment supply and demand.

That's because buyers typically include people who were renting somewhere else and exit the rental pool, as well as investors who continue renting the units.

"Usually it has very little impact on the rental market, or at least a lesser degree than people think," Savio said. "All you're really doing is stirring the pot."

In other cases, conversions involve old buildings that developers renovate, resulting in higher sale prices and loss of low-priced rental units that are not being replaced.

Michael Nguyen, 47, has rented a two-bedroom unit at the Iolani Regent for six years. He pays \$1,250 a month, but needs to move by April 1 because White Sand Development LLC led by developer Richard Weiser recently bought the building at 2522 Date St. and is renovating and selling units.

Sale prices for two-bedroom units start at \$328,000, which equates to a monthly mortgage payment of at least \$2,000, assuming Nguyen had \$33,000 for a down payment.

"I cannot handle that," Nguyen said. Instead, the taxi driver has been searching for another place to live, but has found comparable units renting for \$1,500 to \$1,700 a month.

"It's terrible looking for a place now," he said.

RENT TOWARD PURCHASE

At another rental building called the Makini being converted for sale at 1050 Kina'u St., developer Avalon Development Co. is trying to help tenants buy their units by crediting six months of rent toward a purchase, but rents also are being raised — in some cases doubling or tripling.

Christine Camp Friedman, Avalon president, said the rent increase is necessary to help finance the project and only brings rents up to market rates from mostly below-market rates that were charged by the previous owner who built the building in 1970.

Friedman said some tenants were paying \$465 a month for units with market-value rents of \$1,500. Average monthly rents ranged from about \$1,000 to \$1,500 and are being raised to \$1,200 to \$1,575, she said.

"There's a big disparity," Friedman said. "We just adjusted the disparity. This is where the market is. They've enjoyed a very low rent structure for all these years."

The rental increase isn't effective until April 1 to give tenants time to adjust,

she added.

Makini unit prices range from \$245,000 to \$373,000. At an open house event last weekend, about 500 people visited the project and reserved 52 of 88 units for sale.

Friedman said most prospective buyers plan to live in the units, including eight current Makini tenants. Other tenants in the building have until next month to decide if they want to buy their unit.

Under Hawai'i law, renters in a building being converted for condo sales must be given the first opportunity to buy their unit and at least 120 days to move out if a building has not been previously registered as a condo.

In some conversions, such as the Iolani Regent, the buildings were previously registered as condos even though a single owner rents out the units. In these cases, tenants only must be given 45 days notice to move out and do not have preference to buy their units, though most developers give tenants the first purchase option.

EXPLORING OPTIONS

At the Pacificana, 25-year resident Canipe has been wrestling with his dilemma since October after Savio announced his plan to convert the 69-unit building at 1125 Young St.

Initially, Canipe thought he'd have little chance to buy his one-bedroom apartment. The sale price is \$251,000, which equates to a monthly mortgage payment of about \$1,800 for a loan he said he can get.

His monthly rent is \$800, though he only pays \$300 because he sleeps in the living room and a roommate pays \$500 a month for the bedroom.

But after exploring some options, Canipe arranged for a \$25,000 loan from an aunt for a 10 percent down payment. Closing costs could be covered by a \$7,500 credit Savio is offering to tenant buyers. Canipe also figures his roommate can chip in \$600 toward the \$1,800 mortgage payments.

Considering Canipe supplements his \$1,000 of monthly Social Security income by selling self-made trinkets of tiny creatures encased in resin, buying his apartment seems possible. But he's not certain.

"It looks like I can buy," he said. "But it's going to be hard. If I don't buy, I have to move. But move to where? The beach at Makaha? Or Ala Moana?"

Reach Andrew Gomes at agomes@honoluluadvertiser.com.

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