February 2007

HAWAII DEVELOPERS' MONTHLY

Dedicated to the promotion, protection and improvement of real estate development in Hawaii.

HAWAII DEVELOPERS' COUNCIL

Excerpts from January Meeting

Development Trends for 2007

Speaker: Christine Camp Friedman, CRE
Avalon Group

Bond Pricing, the key to the economic environment, has recently started inching up and is signaling the potential outlook for interest rates to stabilize after months of decline. I am betting that by third quarter this year, interest rates will start moving down. In spite of interest rates stabilizing and holding, Centrex announced recently that this is the worst housing market they have faced in 25 years. While this may be an overstatement, especially as it relates to Hawaii, I would argue that housing is nearing a saturation point in our island market. This is especially true of the higher end housing market. In the median range market of homes priced below $400,000-$500,000, there is still a significantly unmet demand. To qualify for a home in that price range, a family must bring home an average income of $80,000 per year. Developers and builders will continue to provide products to meet the demand of the market place, albeit at a slower pace.

Retail on the other hand, especially within the suburban market has been doing quite well. Rents have been pushed over the last two years from average asking net rents of $2.00-$2.50 psf to an unprecedented $3.00-$4.50, with very few concessions granted, if any. In fact, we are developing more strip retail in high demand areas such as Kapolei and Mill Town with leasing targets exceeding expectations in spite of minimal marketing.

With Debartolo coming in with their significant retail center in DHHL's Kapolei East project and Kapolei Commons, retail rents are expected to stabilize in that region. Another key factor that will start to impact and stabilize rental rates is Hawaii's un-

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HDC Membership Dues Renewal

There's still time to renew! If you missed the renewal deadline and would like to continue your membership, please fax (if using a credit card) or mail the payment to: Hawaii Developers' Council, P.O. Box 2537, Honolulu, HI 96804! Great meetings and member's only boardroom presentations are planned!

Tuesday, March 13, 2007
Speaker: Councilmember Charles Djou
Oahu Country Club
Nuuanu Valley

11:30 a.m.
Registration & Lunch
12 noon—1:00 p.m.
Program

Reservations & Cancellations
Fax 847-6575
No shows will be billed.

Board Room Series

Tuesday, Feb 20, 2007

7:30 to 9: 00 AM

First Hawaiian Bank Tower
30th floor Board Room

Excerpts from January Meeting

Development Trends for 2007 (continued from page 1)

precedented historically low unemployment rate. The low employee pool will fetter retail businesses that are seeking expansion into new locations. Some businesses are already finding it a challenge to fill positions for anticipated new stores. This will ultimately impact retail absorption.

Industrial space and land prices are both at a premium. Just look at the numbers… we are currently charging over $50 psf and we have back-up buyers lined up for our project. Unfortunately, with current constructions costs and land prices, current rents still don't justify spec buildings. With continued low vacancy, the rents are expected to be pushed, but as long as Kapalama Military Reserve areas are still leased by the State, the push in rents will still be short for new vertical developments. I believe continued demand will be for owner users who will pay the premium for the land and construction and lease their excess space to others.

Action Items:

1. Legislative session - traffic is not just a development issue; it is a quality of life issue. DOT should be pushed to improve these areas by earmarking funds for bypass road development.
2. Push for expedited review process for regional infrastructure development
3. Push for "mello-roose" types of financing where areas are considered capital improvement districts and bonds are issued for development of regional infrastructure.
4. We are the knowledge base and we need to get involved by calling our representatives and educating them of these issues. If we wait for others to do it, it may be too late.