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## In Depth: Residential Real Estate

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# Town homes' ups and downs in Leeward Oahu

**Ricky Cassidy** PBN Contributor

The bulk of Oahu's residential property market consists of condominium units because they provide the most affordable housing and are easier to develop than single-family homes.

But volatility in this market has created many challenges for segments of the real estate industry.

This underscores what happened in Leeward and Central Oahu during 1985 to 1990, when an undersupply of reasonably priced housing around Honolulu collided with a growing population and a strong economy.

At that time, the median prices of condos islandwide more than doubled in five short years, from \$90,000 to \$190,000 while home buyers snapped up new and affordable town homes in Kapolei, Waikele and Ewa-by-Gentry.

While buyers liked low prices, landowners, developers, and builders liked the fact that a little land, when developed into multiunit residential buildings, went a long way.

Given the amount adequately zoned land in Leeward Oahu, demand for affordable homes shifted dramatically. In 1981 only 8 percent of all Oahu's new condos were sold in Leeward/Central Oahu. Ten years later, the figure was 56 percent and during 1993-94 -- one out of two condo closings, new and resale, occurred there. From 1988 to the present, almost 15,000 families invested \$3

billion on apartment housing in the area.

The market peaked in 1993, with more than 3,200 condos closed at a \$225,000 average price. The peak coincided with a few violent incidents, like fighting in line while waiting to buy into an unveiled project.

While developers were satisfied, some buyers were not. The government deepened its regulation of affordable housing at the top of the boom, which didn't help sales.

If the market's run up was dramatic, so was the fall-off.

In 1995, sales of town homes in the area were cut in half and were halved again the following year. Like visitor spending, job counts and income levels, albeit with a three-year lag, the leeward town-house market fell.

## **Developer dilemmas**

Residential developers suffered doubly with the downturn. Inventory wasn't moving while carrying costs were. And to market regular priced homes, they had to sell affordable homes.

Developers' first response was simple: "Grow the house," despite the per unit profit level being near or below zero (profits on regular homes subsidized affordable homes). From 1994 to 1996, condo sizes grew upwards of 15 percent, and the big town homes in projects like Aeloa Terraces sold well. Still, the condo market dropped another 20 percent in 1997.

Their second reaction, starting in 1996 and led by Gentry Homes Ltd., was to replace their town-home projects with detached single-family homes priced near or at \$200,000. Because these homes didn't share common walls, grounds and parking, there was less noise, more privacy and better security.

As land was the most costly concern, developers conserved by building on a small lot, around 3,750 square feet. And, by creating the neighborhood under a condominium property regime, they bundled together amenities like parking, utilities, roads, etc., achieving scale of economies.

So, with small lots and small prices, the market responded from 16 closings in 1996 to more than 170 units last year.

Still, the total market still did not rebound: 1997 condo closings were one-sixth of 1993. Despite various design improvements like termite- and hurricane-resistant steel and concrete construction, the market for condo units suffered.

In response to low buyer demand, the government, itself a developer, thus suffering from demand falloff (to wit, Ewa Villages), loosened affordable housing restrictions, simplified the zoning and permit processing system and relied on private sector to fill the demand for reasonably priced housing.

Other creative responses to the market included offering condos in a resort area. For example, at Kapolei, the idea of a gated resort community attracted more than 250 buyers at an average of \$240,000 in the Ko Olina Fairway project.

Some developers leapfrogged the competition with a different community layout, and populated it with well designed, well-priced residential homes.

This happened most recently at Ocean Pointe by Haseko (Hawaii) Inc. The community's land plan was generous, in terms of space and amenities and homes offered features unavailable or additional at other developments. Ocean Pointe led all other town home projects in sales per month. In all but two of the last 12 months, it outsold the competition often by three times as much as the next closest project.

All in all, the market for condos in the Leeward/Central Oahu area is showing a year-to-year improvement: last July, the norm (12-month trailing average) was 10 sales per month; this July shows almost 20 sales per month.

### **Slugging it out in Ewa**

There is a maxim in development that no one ever lost money by buying the first unit in the first project of a new development.

This is because developers, when opening a new residential community, provide obvious and substantial incentives to buyers in the form of great features, impressive community layouts and attractive streetscapes.

This happened in Ewa-By-Gentry, where first-offered single-family homes sold at \$140,000 in 1988, then went as high as \$260,000 in 1991, and still sold for more than \$180,000 in 1998.

The same goes for Waikele. Hoomalu Village's affordable town homes were selling in 1997 at a 5 percent premium to its 1991 opening price of \$132,000. It doesn't always happen: The average prices in Royal Kunia for the Kulana Knolls town homes are down \$20,000-\$30,000 from the peak in 1992.

The question now is whether it is happening again in Ewa with Haseko's Ocean Pointe.

To the delight of buyers last year, competition for their dollars heated up when Haseko opened its first project in Ewa Marina. The project had to go head-to-head with the longtime king of the hill along the Fort Weaver Road corridor, Gentry Homes, who had been a trailblazer in providing innovative solutions to price-sensitive buyers.

As the newcomer, Haseko had to impress a public weary of the downturn and jaded by incentives offered by every developer from Hawaii Kai to Maile Point.

In their favor was the fact Haseko was starting from scratch. Taking off on Royal Kunia's successful "take-a-walk-in-the-country" theme, Haseko designed a "neo-traditional" community land plan, incorporating spacious sidewalks and wide streets, with garages hidden in the back of the lot and wider street frontages for homes.

Additionally, homes were loaded with desired features: central air conditioning, rear yards for town homes, lots of windows for interior light, etc. Finally, they priced these units at or below the competition.

Ocean Point was rewarded with the best of all worlds: Record-setting sales and awards at the last Parade of Homes show. In fact, Haseko's sales provided Ewa with enough of a market share to forge ahead of the other traditional powers in the master-planned communities of Mililani and Waikēle.

According to industry scuttlebutt, Haseko's sales success came from selling below their cost of production. The rationale went like this: All developers are faced with the same cost constraints in infrastructure and house costs, and all of them have cut costs to the bone.

On the other hand, Haseko enjoys certain unique cost advantages: The landfill under the homes and streets came from what was dredged out for the project's marina, saving on material and transportation.

Ricky Cassidy is a market analyst for Prudential Locations.



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