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## A Guide to Retiring In Hawaiian Paradise

By **ROBERT F. KAY**

August 13, 2004 -- Hawaii's weather is magnificent, the ocean is warm, the air is clean and the locals are friendly. Such recreational amenities as beaches, parks and hiking trails are plentiful, and there are more golf courses per capita than in many U.S. mainland coastal areas. Though rush-hour traffic is a problem on some of the state's islands, Hawaii's infrastructure typically is first-rate, with even broadband Internet access widely available. Health-care facilities and physician availability, always a concern for aging residents, are excellent. But can you afford to retire to this paradise -- known for its expensive real estate -- and still enjoy a high quality of life? Here's a look at the realities of relocating to Hawaii, along with snapshots of four of the state's islands.

Buying a home likely is the steepest expense facing retirees who are considering the Aloha State, which has some of the most costly real estate in the nation. According to Mike Sklarz, chief valuation officer at real-estate services company Fidelity National, median prices of single-family homes in Hawaii have risen 15% to 20% during the past year. In some of the desirable neighborhoods that attract mainland buyers, prices have increased 40% or more in the past year, says Mr. Sklarz. The median price of a single-family home in Honolulu is about \$420,000 compared to \$267,000 in West Palm Beach/Boca Raton, Fla., and \$134,800 in Greensboro/High Point, N.C., two popular mainland retirement destinations. The median single-family home price in Maui, a popular area for second-home buyers, is \$500,000.

However, Hawaii's property-tax rates help compensate for its expensive home prices. "Most mainland buyers would be pleasantly surprised by the property-tax rates compared to the mainland's east and west coasts," says Lin MacIntosh, chief executive officer of Hawaii Information Service, a Honolulu-based real-estate data company. According to the nonprofit Tax Foundation, Hawaii's property taxes are among the nation's lowest -- local governments here collect \$18 in property taxes per \$1,000 of taxpayers' personal income. By this measure, Hawaii ranks 43rd among the 50 states.

But perhaps even better for retirees in Hawaii, each of the state's counties offers annual property-tax exemptions for older residents. In Honolulu County, the exemption begins when homeowners reach age 55, and all counties offer between \$100,000 and \$130,000 in exemptions to homeowners age 70 and older. What's more, Hawaii does not tax some types of retirement income, including Social Security benefits, SEP IRA, Roth IRA and Keogh plan disbursements.

### **Resort, or Not?**

Home buyers seeking a retirement home in Hawaii generally have two options: a traditional single-family home or condo in a residential neighborhood or a "resort" home affiliated with a hotel. Honolulu-based real-estate analyst Ricky Cassidy says that long-time visitors to the islands generally buy homes in residential communities not affiliated with resorts, while less-frequent visitors purchase residences in gated resort communities close to such hotel amenities as spas, clubhouses, pools, golf courses and tennis courts.

Resort-related residences often are more expensive than other types of homes, thanks to their typically larger square footage and extras like Jacuzzis, fancy kitchen countertops and swimming pools. Mr. Cassidy says that of the four major islands, Maui is the most popular for resort-home buyers, followed by Kauai and the Big

Island of Hawaii. Oahu, generally not considered a resort destination by travelers, is a distant fourth but gaining popularity because of lower resort-home prices and accessibility to good health-care facilities in Honolulu. Of the mainland buyers purchasing Hawaii properties, roughly 40% are choosing resort homes, with the remainder opting for "off-resort" residences, says Mr. Cassidy.

### **Fruit Route**

A lesser-used option than buying a home in a resort or residential subdivision is purchasing agriculturally zoned land and building a home. The one caveat, says Jim O'Connor, broker-owner of O'Connor Realty in Kauai, is that buyers must devote a percentage of the land to growing a crop such as oranges, papaya or rambutan, an exotic Asian fruit.

"It's the equivalent of buying a vineyard in Napa with a home on it," says Mr. O'Connor. On Kauai, a parcel of agriculturally zoned land starts at about \$200,000. For land with a view, prices range from \$750,000 into the millions, says Mr. O'Connor. Plus, count on spending about \$400 per square foot to build your home. "You're not going to get into a scenario like this without spending at least \$1.5 million," says Mr. O'Connor.

### **No Shortage of Buyers**

Despite this high cost of a *pied-a-terre* in paradise, home sales on every island are up, particularly in upscale areas that appeal to mainland buyers. As of July 2004, single-family home sales on Kauai and Hawaii are up 15% and 28%, respectively, compared to this time last year, according to Hawaii Information Service. What's more, developers and builders believe sales will remain strong, even if mortgage rates rise, because many buyers pay cash for their homes.

"The [baby] boomer demographics are driving this, and the next five to 10 years will be fantastic for us," says Mark Richards, president of Maryl Group, a Hawaii-based developer and builder of upscale communities. The average price of a Maryl home is \$1.5 million. Mr. Richards says it's not unusual for customers to write checks from their money-market accounts for their home purchases.

High demand for housing, limited for-sale inventory, and real-estate development hemmed in by environmental and slow-growth concerns in many parts of Hawaii are likely to keep homes prices on the rise or at least stable.

Claude Phillips, president of Mortgage Plus, a Honolulu mortgage-brokerage firm, believes that the current luxury-real-estate boom seems likely to continue. "The resort market has historically been very volatile, but currently there are a few factors that will keep this going up for a while," says Mr. Phillips. "Boomers who got burned during the stock-market meltdown and now have made some of that money back are diversifying their portfolios. Inventory is low and in relative terms it doesn't take a lot of people from the mainland to drive up prices." Mr. Phillips says his firm is processing more mainland deals this year.

"There's also the 'Tommy Bahama' lifestyle. If you're getting a bit older you might want the kinds of amenities that Hawaii offers," says Mr. Phillips.

So is now the time to buy in Hawaii?

It depends on your goals, says Mr. Sklarz. Hawaii's high-end real-estate market is comprised almost entirely of discretionary purchases -- retirement properties and second or third homes. "Because we've already had such a good run-up in this market, from a pure investment standpoint this may not be the best time to buy," he says. "However, if you really want to live in Hawaii and future appreciation is not necessarily the most important issue, then consider buying now."

### **Island Snapshots**

- **Oahu**
- **Maui**
- **Big Island**
- **Kauai**

### **Oahu**

Most mainland retirees shun Oahu, home to Honolulu, for the neighbor islands of Maui, Hawaii and Kauai. Lee Alden Johnson, a real-estate agent on Oahu since 1980, believes that most mainland retirees favor other islands because they want to live inside gated communities near resorts, and Oahu has fewer of these developments.

"The neighbor islands attract the snowbirds who come here seasonally to enjoy the weather or play golf," says Ms. Johnson. However, more resort homes are springing up in such areas as Ko'olina Resort in West Oahu, a 45-minute drive from Honolulu. Some buyers also find value in Oahu resort homes, which are generally less expensive than on neighbor islands.

Still, resort living isn't for every retiree. Some semi-retired or second-home purchasers choose Oahu because they have business here or want the extra culture and intellectual stimulation that Honolulu offers. Four years ago Henry Montgomery, a former full-time resident of Portola Valley, Calif., an upscale Silicon Valley hamlet, purchased a condominium on Honolulu's "Gold Coast," a block-long stretch of Waikiki. The tanned, 68-year-old founder of San Francisco-based Montgomery Professional Services says he is very pleased with his newly refurbished two-bedroom unit.

Hardly a stereotypical retiree, Mr. Montgomery, an Oxford, Ohio, native, remains active as a director of four public companies and spends 70% of his time in Honolulu, which he says reminds him of small-town America.

"People here are extremely courteous, and I really like the diversions that Honolulu offers. I can walk down the street and go to a terrific restaurant, or go to the symphony and hear Midori play her violin," he says. The former executive likes being involved in the community. He recently joined the public radio station and has been asked to teach a course on corporate governance at the University of Hawaii.

With a population of nearly 900,000 people, Oahu is the most densely populated island and consequently has more of everything, including traffic. Although rush hour on the H-1 --Honolulu's main artery -- isn't as bad as peak drive times in Los Angeles or San Francisco, the city can feel like a mainland metro area. There's no mistaking that Honolulu is a metropolis. Population wise, it ranks 46th nationally just behind Tulsa, Okla., and ahead of Cincinnati.

Oahu's single-family home prices have appreciated about 20% during the past year. Although the median home price is about \$435,000, you'll need to spend around \$500,000 for a single-family home in a resort area (outside of Honolulu) and about \$400,000 for an upscale condo outside of the city, according to Harry Lee, a broker with Century 21 Real Estate Corp. in Honolulu.

For retirees who want to live in Honolulu, a single-family home with three or four bedrooms and two baths in a good, residential neighborhood will cost \$750,000 to \$850,000, says Ms. Johnson. A similar home in a more exclusive neighborhood, such as Kahala or Nuuanu, starts at \$1.5 million.

Honolulu urban dwellers can also opt for swanky condos, with seven upscale condominium projects in various stages of development. Ms. Johnson says a two-bedroom, two-bath condo in a good neighborhood begins at around \$600,000. A well-appointed condo in an exclusive area such as the Gold Coast, where Mr. Montgomery lives, can start at around \$1 million.

A beachfront home in a respectable Oahu neighborhood, such as Lanikai or Kailua Beach, will cost about \$4 million -- if you can find anything for sale, says Ms. Johnson.

### **Oahu Retiree Index**

**Hospitals:** 38

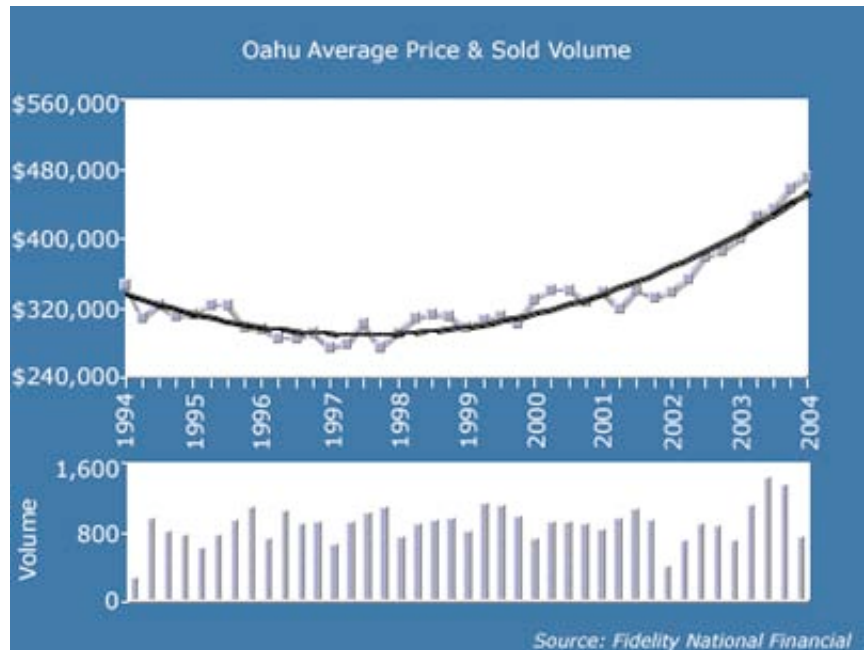
**Golf courses:** 34, including 9 military courses

**Crime data:** Honolulu County violent-crime index is 2.7, slightly lower than national average of 3.0. The county's property-crime index is 3.3, compared to 3.2 on a national level. A lower index number indicates less crime.

**National retailers:** Costco, Borders Books, Barnes & Noble, Home Depot, Sam's Club, K-Mart, Wal-Mart

**Major museums:** 3

**Symphony and opera:** Yes



**Traffic:** Congested during rush hours, passable other times.

**Parks:** 286 county parks, 17 state parks

**Gallon of regular gasoline:** \$2.27

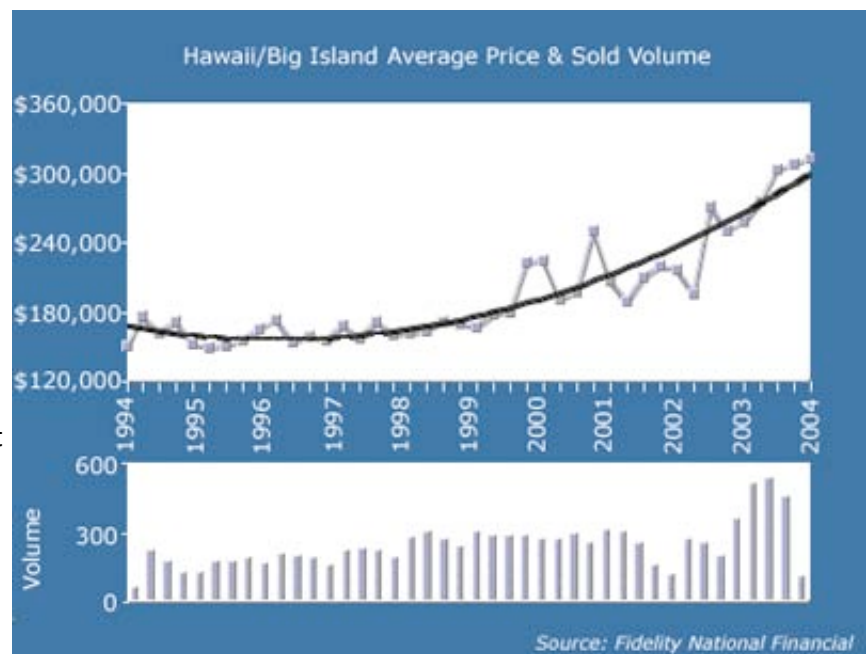
## Big Island -- Hawaii

Former San Francisco Bay area residents Stefan and Elizabeth Folkendt say that buying a half-acre parcel 1,000 feet above the town of Kona on the Big Island of Hawaii was one of the best moves they ever made. They love the moderate climate, the humidity (it helps Mr. Folkendt's arthritis) and the rich volcanic soil, which allows them to grow a bumper crop of avocados that they mostly donate to the local food bank. Mr. Folkendt, who previously grew grapes in the Livermore, Calif., area after retiring from Sandia Labs, is nearly ecstatic about the recreational opportunities that the Big Island offers.

One could opt to become a "gentleman farmer" who grows coffee, macadamia nuts, cocoa or bananas, or take on the island's extensive hiking trails. The Folkendts live 15 minutes from a white-sand beach where they can snorkel or picnic. Gourmet cuisine is available at the nearby five-star resorts. Ms. Folkendt also notes that a Costco store is located only five minutes away from their home, which offers a respite from the normally high prices at local supermarkets. The Folkendts, both 63 years old, say they're particularly impressed with the island's health-care system. Both have had health concerns since moving to Hawaii four years ago and say they have found good, caring doctors close by.

The Folkendts' main complaint concerns infrastructure. "Our road system can't handle the growing population, and there seems to be no thoughts about planning for tomorrow," says Mr. Folkendt. "Gridlock can be really bad during rush hours. The growth of this area is phenomenal, and that's a concern to me."

The price of real estate in areas prized by vacation- and second-home buyers -- parts of West Hawaii such as Kona-Kailua, Waikoloa, Waimea and Keauhou -- has risen approximately 100% since 1998. The current average price for a West Big Island single-family home is \$400,000, but Barbara Biddle, a local real-estate agent with Maryl Realty, says that the typical retirement property desired by baby boomers -- a 1,500- to 2,000-square-foot home on one-quarter to one-half acre in a desirable area -- starts at \$600,000. An oceanfront property, if you can find one on the market, starts at about \$2 million.



## Big Island Retiree Index

**Hospitals:** 3

**Golf courses:** 18

**Crime data:** In Kona-Kailua area, violent-crime and property-crime indexes are at 1.0, compared to 3.0 and 3.2, respectively, on a national level. Hilo-area crime-rate indexes are higher. A lower index number indicates less crime.

**National retailers:** Borders Books, K-Mart, Home Depot, Costco

**Major museums:** 2

**Traffic:** Rush-hour traffic is a problem in West Hawaii (Kona-Kailua) but not as bad in East Hawaii (Hilo).

**Parks:** 7 national parks, 55 state parks, and 625 county parks

**Gallon of regular gasoline:** \$2.38

## Maui

If any real-estate market in Hawaii could be called "gold-plated," it would be the fabled "Valley Isle" of Maui. A few of its more famous part-time residents include Oprah Winfrey, Willie Nelson, Woody Harrelson, Kris Kristofferson and Clint Eastwood. "Sometimes when I pass the airport I count anywhere from a dozen to 20 private jets," says Richard Ball, founder of Richard Ball Realty.

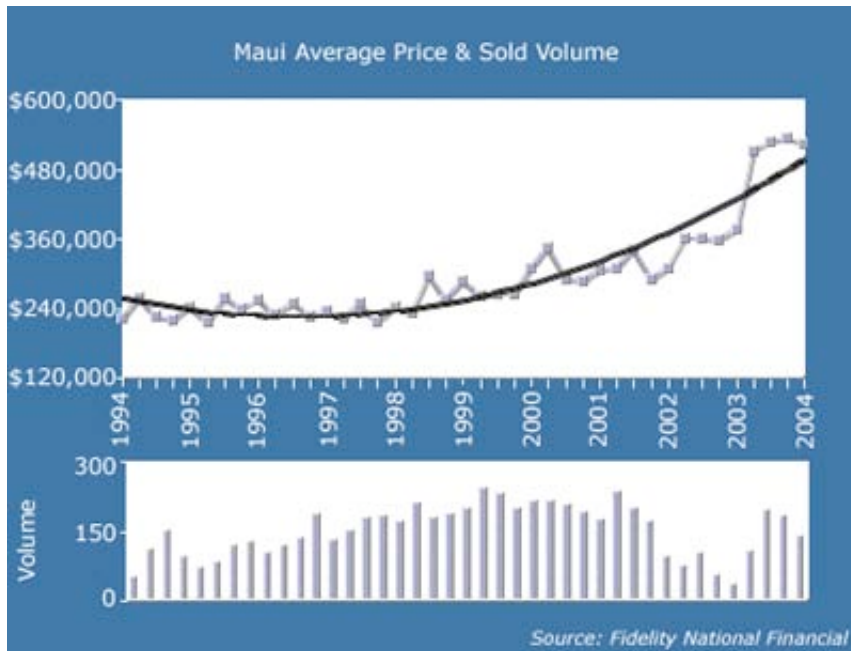
Mr. Ball says real-estate prices in Maui have never been hotter. According to the Realtors Association of Maui, the area's home prices have appreciated about 16% during the past year, and condo prices are up 14% during the same period. "We're really low on inventory and I don't see things changing in the near future," says Mr. Ball. "There's very little new construction on the horizon."

In addition to strong demand from mainland and European buyers, Mr. Ball cites zoning and long lead times to develop property as reasons for the real-estate scarcity. He adds that water-supply concerns are also affecting housing development. "No one builds new developments unless they can be certain they have access to sufficient water," says Mr. Ball.

Eric K. Yoshida, vice-president and broker in charge at Marcus & Associates Inc., a Maui real-estate company, says that location on Maui is key, with a huge price difference between an average residential property and a resort home. A typical, single-family 1,200- to 2,000-square-foot, three-bedroom, two-bath home on a lot averaging 5,000 to 7,000 square feet starts at \$500,000 in Wailuku, Makawao, Kahalui, North Kihei or other typical residential areas of central Maui. A two-bedroom, two-bath condo in these locales starts at \$225,000.

"A typical resort property in an area such as Kapalua or Wailea is nearly triple [those] prices," says Mr. Yoshida. Standard resort homes are larger and more posh than a typical residential home, he says. One should expect to spend \$1.5 million for a 2,500 to 5,000-square-foot, five-bedroom, three-bath resort home located on a 10,000- to 15,000-square-foot lot. An average resort condo starts at about \$800,000 for a two-bedroom, two-bath unit.

And what is the quality of life like on Maui for residents who aren't movie stars? "Quite good," according to retired military chaplain Ed Wulfekuhler and his wife, Carol Burdick. Mr. Wulfekuhler, a native of Jefferson City, Mo., says he likes the temperate climate, the idyllic landscapes and the "laid-back" lifestyle. His neighborhood is quiet at night, he notes, because many residents of his upscale community are there just part time.



Mr. Wulfekuhler's main complaints are the rush-hour traffic and the time it takes for the county to process paperwork. "However, it's all relative," he says. "Compared to the traffic that's in Washington, D.C., Maui is not a big deal." He also says he and his wife had unwanted visits from homeless people and vagrants when they owned beachfront property -- Hawaii's public access to beaches makes complete privacy difficult. Since moving to a new home in a traditional subdivision, visits from unwanted guests haven't been a problem, says Mr. Wulfekuhler.

Ms. Burdick, originally from Kalamazoo, Mich., moved to Maui 21 years ago and says she immediately fell in love with the outdoor lifestyle -- especially tennis and fishing -- and the "loving manner" of the native Hawaiians.

She became increasingly involved in the community as a "professional volunteer," serving on the tax-revenue board, as a trustee at her church and on the police commission. One of the issues that concerns her most are the "inequities" between retirees and part-time residents who have second, and even third homes on Maui, and local people who often struggle to purchase a home. She's also concerned about the lack of long-term health-care facilities on Maui. Still, the 67-year-old Ms. Burdick calls Maui a healthy place for seniors. People in the state of Hawaii "live longer, exercise more and are more sociable. I'm pretty lucky to live here," she says.

#### **Maui Retiree Index**

**Major hospitals:** 1

**Golf courses:** 16

**Crime data:** Maui County violent-crime index is 3.5; property-crime index is 5.2, compared to 3.0 and 3.2,

respectively, on a national level. Lower index numbers indicate less crime.

**National retailers:** 5 (Costco, K-Mart, Lowes, Wal-Mart, Home Depot)

**Traffic/Infrastructure:** Rush-hour traffic is a problem, and adequate water supply is a concern.

**Parks:** 11 state parks, 107 county parks

**Gallon of regular gasoline:** \$2.45

## Kauai

David Livingston, a 70-year-old retired bank executive who resides in a Princeville Resort home on Kauai's verdant North Shore, relishes every day. "There are numerous dinner parties all filled with genuinely interesting people and enough cultural activities to keep you occupied," he says. Being busy defines Mr. Livingston's life on Kauai. Active in land development and the local Rotary Club, he has a high energy level that's hard for younger people to match.

Asked to describe the current real-estate market, he sums it up as "on fire." "There's an incredible demand driven by an insatiable, affluent mainland clientele and only a finite amount of inventory," says Mr. Livingston. He believes the demand, coupled with a local community that has a strong land-preservation streak and a slow-moving regulatory process, has driven up prices "disproportionately."

Lou Dubuque, an 81-year-old retired marketing executive who's now a Century 21 real-estate agent on Kauai, describes the real-estate market as "very active," so much so that during the past three years he and his colleagues sold 110 properties in the Princeville area even before ground was broken. He says real estate continues to sell briskly, despite a median price of \$477,000 for a single-family home and \$389,000 for a condo.

Kauai home prices have increased dramatically just within the past year. According to Karen Ono, executive officer of the Kauai Board of Realtors, single-family home and condo prices jumped 46% and 48% respectively during the past 12 months.

Mr. Dubuque says that buyers should expect to pay at least \$600,000 for 1,500 to 2,000-square-foot home in good residential neighborhood on Kauai. A single-family home in a resort complex such as Princeville, where Mr. Livingston resides, could cost anywhere from \$700,000 to \$2 million.

The cost of living may be pricey, but the quality of life is well worth it, says Mr. Dubuque. The former Pitney Bowes executive, who moved to Kauai from New York 13 years ago, is smitten by the informality of the island, where standard business attire is shorts and an "aloha" shirt. He says he has more friends than on the mainland, so much so that "going through the line at the grocery store takes forever."

Mr. Dubuque is also impressed by the health care available on Kauai. He had a hip-replacement operation earlier this year, and although he could have afforded to go to the mainland for the surgery, he elected to have it at Kauai's Wilcox Hospital, which has been rated among the top 100 small hospitals in the nation. Following surgery he was overwhelmed by friends and acquaintances who dropped by with plates of cookies, home-cooked meals and good wishes. "That's one of the intangibles about living here," says Mr. Dubuque with a sigh. "The people are wonderful."

## Kauai Retiree Index

**Hospitals:** 1

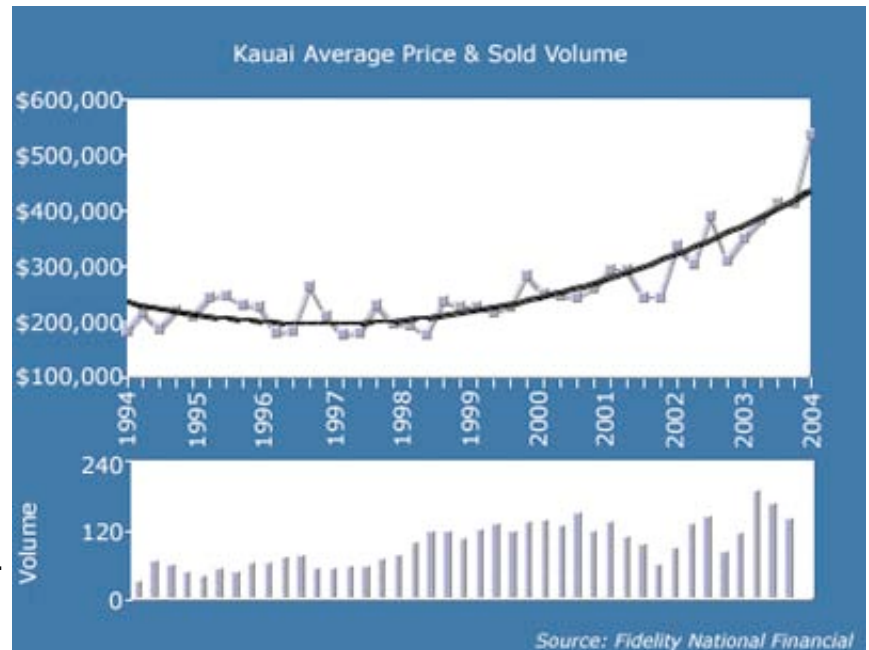
**Golf courses:** 6

**Crime data:** Kauai County's violent-crime index is 3.9; property-crime index is 5.1, compared to 3.0 and 3.2, respectively, on a national level. Lower index numbers indicate less crime.

**National retailers:** 3 (Home Depot, Wal-Mart, Cost-U-Less)

**Major museums:** 1

**Traffic:** Rush-hour traffic can be slow between Kauai's North Shore and Lihue, the county seat.



**Parks:** 8 state parks

**Gallon of regular gasoline:** \$2.44

-- *Mr. Kay owns a Honolulu-based public-relations firm that specializes in real-estate and technology companies. He practices yoga, swims off Waikiki daily and grows papayas, avocados and basil in his backyard.*

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