



# HAWAII DEVELOPERS' QUARTERLY

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

## HAWAII DEVELOPERS' COUNCIL

### HDC Board Room Series - We Rock!

#### Dean Uchida Provides an Update on Legislative Issues

The top floor of the First Hawaiian Bank Tower was the site of Hawaii Developers' Council first Boardroom Series of 2005 on Thursday March 3. Approximately 50 HDC members gathered to hear a presentation from Dean Uchida, Executive Director of the Land Use Research Foundation of Hawaii (LURF). Mr. Uchida covered several topics of interest to developers in Hawaii.



#### DONT LET THE BOULDERS FALL!

"We have been working with federal, state and county agencies as well as private consultants on how to identify and mitigate potential rock fall hazard areas in Hawaii," said Uchida as he began his presentation by discussing this potentially huge liability issue for large and small landowners

The State Dept of Transportation and some private consultants have been using various methods to help agencies identify potential rock fall areas. The focus, has been on state and county roads where rock falls present a problem. The methodology employed was

developed by the DOT for road rights-of-ways.

The US Geological Survey (USGS) uses a slightly different model that Ed Harp has developed. It is being used by other agencies to assess potential rock fall hazards. Mr. Harp worked on the Sacred Falls situation and published his findings (USGS Website: Assessment of Landslide Hazards in Kalunui and Maakua Gulches Following the May 9, 1999 Sacred Falls Landslide, <http://pubs.usgs.gov/of/1999/ofr-99-0364>).

Dr. Steve Martel from the University of Hawaii has arranged to have one of his students thesis posted on his website. It provides more research information on rock falls in Hawaii. The website is: <http://www.soest.hawaii.edu/martel/SteveM>, Scroll down to "students" and look for Michael Dahilig (BS, 2003).

The legislation that has been introduced to date attempts to identify potential rock fall hazards and develop certain mitigation measures or alternatives to prevent or protect against damages caused by rock falls. The legislation is very broad and not limited to roads or public facilities.

What is being proposed is to have Mr. Harp and others from USGS's Denver Regional Office come to Hawaii for approximately two weeks to conduct two training sessions on how to use the USGS "Rock-Mass Quality Analysis." Mr. Harp believes that the two weeks

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### UPCOMING EVENTS

#### Luncheon

Keynote Speaker:

#### Honolulu Mayor Mufi Hannemann

Tuesday April 19

11:45 AM to 12:15 PM

Oahu Country Club

#### Mid Year Real Estate Review

Thursday July 21<sup>st</sup>

Hawaii Prince Hotel

8:00 AM to 11:00 AM

Economic Overview – Paul Brewbaker  
Retail – Roger Lyons  
Residential – Harvey Shapiro  
Industrial – Mark Ambard  
Investment – TBD  
Office – TBD

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Catherine  
Camp

## Presidents Message

This has been an exciting first quarter for your Board of Directors. In February, we had lunch with Henry Eng, the newly appointed Head of the Honolulu Planning and Permitting Office. We got to know him, he got to know us and we exchanged some great ideas.

Since then, we have hosted two meetings on Kauai in the hopes of forming a Developers' Council on the Garden Isle. (See article on this page.) Our goal is to launch similar councils on Maui and the Big Island with the goal of stretching our influence across the islands.

By the time most of you read this issue, our luncheon with Honolulu Mayor Mufi Hannemann will have happened. I am certain that the new Mayor had plenty of encouraging things to say and I'll bet he made a promise or two that we will need to hold him to!

Included in this issue are three articles written by HDC members. I encourage you to read **Dana Peiterson** and **Jeffrey Hall's** analysis of the Industrial Market on Oahu. Another must read is **Rick Cassidy's** analysis of the current status of our residential housing market.

And then you can't miss out on the advice offered by my fellow Board member **Peter Cooper**. He tells us that he started writing this article and before you knew it, it had bloomed to a two page article. So take a minute to read it. He offers some great advice on steps to take to get your project started.

Have you checked out our new web page yet? It is still in formation with the hardest task being the writing of content. By the time of our Mid-Year Review, we hope that you will be able to register for the event on-line and pay the fee via a secure

## Kauai Developers' Group Being Formed

Representatives from Kauai's development and business community have been informally gathering in Lihue to explore the creation of an island development council. The first two events were hosted by the Directors of Hawaii Developers' Council (HDC) who will be a valuable resource to the Kauai organization.

Its focus will be to organize and educate landowners, developers, and real estate professionals on various industry issues, proposed and pending projects, and current legislation. This Kauai based Developers' Council would promote awareness that growth and development are integral to a vibrant economy and is intended to improve the quality of life of the community.

The steering committee is currently soliciting participation by Kauai business in the hopes of setting a slate for the election of its first Board of Directors. If you are a land owner, a developer or a consultant to the development industry and would like to participate in the upcoming general membership meeting held on Kauai at the Puakea Golf Course Clubhouse on Thursday, April 28, 2005, please contact Michelle Swartman at (808) 245-3381 or by email to mswartman@tghawaii.com.

credit card transaction.

The web page address is [www.hawaiideveloperscouncil.org](http://www.hawaiideveloperscouncil.org). In order to access the Member Directory, you will need a password. If you forgot your password, just enter your email address and the password will be sent to your email address.

## Industrial Market sees Significant New Development

By: Dana Peiterson, VP and Jeffrey W. Hall, Senior Director of Research for CB Richard Ellis

Members of Hawaii Developer's Council are benefiting from a building boom going on in Hawaii's industrial market as a result of the coming together of two key factors.



Malolo Beverages on Sand Island Road

First, Hawaii's strong economy, government spending, active housing market and vibrant visitor numbers have

driven industrial vacancy rates down from a 1998 high of 10% to today's very tight 2%. Such low vacancy numbers have pushed industrial rental rates sharply upward in the last 18 to 24 months. Average net rental rates of \$1.25psf/mo in town to \$.65 psf/mo in Campbell have reached or exceeded records set at the end of the Japanese bubble.

Second, there has been more industrial land available for sale in fee than at any time in recent memory. With subdivided, finished industrial lots available at Wahiawa, Gentry, Mill Town (Waipahu), Pearl City, Kapolei and Kenai, users and developer's have had not just the financial incentive but also the locations to construct their visions.

The burst of activity is rapidly diminishing the inventory of industrial lots ready for building. There are currently over 450,000 square feet of construction permits in process, valued at over \$20,000,000. While most recent and planned buildings are being

(Continued on page 5)

## The Latest on Oahu's Hot Residential Market.

By Rick Cassidy

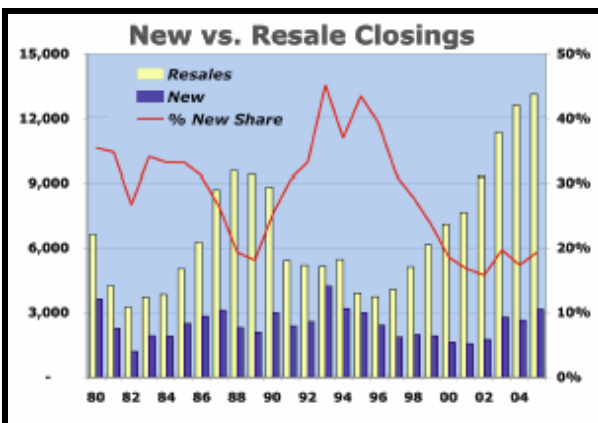
DEMAND SIDE -- SALES & PRICES: The residential property market is well into its upswing and, as such, saw yet another new record for closings last year. Last year, total closings went over 15,000 units, and given that rates stay low enough to offset price rises, this year we foresee it going over the 16,000 level.

In terms of the trend, this would make it the 8th year of the up cycle, much of it thanks to low interest rates. But note that, starting last year, the rate of the decrease in interest rates slowed significantly -- as did the rate of the growth in sales. As such, for 2005, growth in closings should flatten further.

Also noteworthy is that these record sales occurred against the backdrop of some pretty substantial price rises. The All Housing price index (all resales, single family and multifamily, and all new sales, single family and multifamily) rose from \$275,393 in 2003 to \$323,953 last year. That is a 16.4% improvement, which can be added to another 15.8% from 2002-2003, the year before that. From the first few months of activity in 2005, the price index is standing at \$358,123.

As seen from the bottom of the market in 2000, the price index is now up 63%, on a cumulative 5-year basis. By contrast, the last market cycle saw the price index grow (bottom to top) by 108%, spread over 7 years.

The question going forward is when (not whether) closings will begin to fall -- and that depends on job growth, as well as interest rates.



SUPPLY SIDE -- LISTINGS AND NEW HOMES: With demand at an all-time high, the issue of supply becomes important, particularly in terms of future prices.

The major source of supply is resale listings (especially given the relatively low production of new homes). Interestingly, for the first time in eight years, overall listings have risen on a quarter to quarter

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## Reducing the development process (and risk) by properly managing the design

By Pete Cooper, Executive Vice-President  
Construction Management & Development, Inc.

Intuitively, developers recognize that a good set of drawings, produced expeditiously, based on what the marketplace desires saves time, money and reduces risk. However, not all developers have the knowledge or experience to manage the design process with a disciplined approach. This article is an attempt to give a very brief overview of the process.

I. Start with market study. Long before any design is started a market study should be initiated. Proper market studies will (a) keep the developer focused on the right product to be developed and (b) provide for the underlying underwriting that the lenders will require. Market studies will look at the type of product, the number of square feet of product type required, the anticipated absorption rates, sales velocity, amenities required, cost per square foot the market will support, etc.

II. Armed with a solid market study, a highest and best use analysis can be performed for a specific piece of property. This study will utilize the existing zoning (or anticipated zoning) and easement considerations to create potential building footprint layouts, building envelopes and massing, major uses within the project, initial parking configurations and circulation. This information is then used to load the pro forma to confirm the financial returns expected.

III. Next, create a detailed design program. The design program takes the information from the market study and the highest and best use analysis to create a narrative describing what is to be designed. I've seen this tool created as a Word document which narrates the square footages to be developed, the view channels to be captured, the finish levels anticipated, etc. I've also seen this tool created as a spreadsheet document expressed as an area summary where everything within the development (gross saleable, net saleable, retail, circulation, parking, laundry facilities, corridors, etc.) is identified by the number of square feet to be built. I prefer a combination of both. The clearer the developer's desires are conveyed to the designer; the easier and faster it is for the designer to meet the needs of the developer. Additionally at this stage a developer should create a responsibility matrix that differentiates the individual tasks and components of the project amongst the design team. For instance, does the architect also supply the interior designer's duties? Does the landscaping fall under the civil engineer's design or will the owner hold that contract separately?

IV. Task the architect to design to the design program. A well defined program allows the architect the freedom to be creative within the program constraints that support the developer's pro forma. Developers that don't clearly task the architect with a clear program usually get frustrated at least one of two ways. They either (a) can't figure out why the architect's drawing doesn't match what the developer had in mind, or (b) can't figure out why the architect has to redraw the concept drawings over and over again. By the way, architects that are on a fixed fee don't like option (a) and architects that are being paid on time and materials basis love option (b).

V. Select the subconsultants. Once a concept has been agreed too and the drawings begin to evolve into the schematic phase, the rest of the design team takes a more active role. There are two schools of thought as to selection of the subconsulting designers. One option is to allow the lead designer to choose their own team and provide their preselected selection to the developer. Alternatively, the developer, through their owner's representative can select the subconsultants with their architect. Especially in today's hot construction market it is very important that the subconsultants be able to demonstraight the following. (1) They have the expertise in the type of project planned. For example, the last thing a developer needs is a mechanical engineer that specializes in single family residential doing a high rise condo project, or vice a versa. (2) They have the capacity to actually produce the drawings on schedule. It is critical to actually go into the subconsultant's office and review the backlog of work and the manpower that will be required to complete their existing work load plus the new assignment. (3) The people within the firm with the critical expertise will actually be on your project. (4) Confirm that their fee is appropriate. In the end, a developer is buying expertise and value from the design team. Concrete footings, metal roofing, etc. are commodities, but good design is a pure value based service and needs to be identified as such.

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VI. Create a schedule for coordination of subconsultants. A basic of good project management is that if something can't be quantified, it can't be managed. Therefore, quantify (how many days, what level of detail, etc) the design deliverables are and when the design team is going to reach each milestone. For example, when is the architect going to provide background drawings to the rest of the team? When are the subconsultants going to provide the architect check sets? How long do the subconsultants have to review conflicts between themselves (read mechanical penetrations in shear walls!), etc, etc? If the architect doesn't think in these terms, it is up to the owner's representative to bring this discipline to the party. The design schedule needs to include coordination meetings, deliverables milestones, time for review and sign offs from the owner, as well as sufficient time for cost feed back and from who ever is providing from pre-construction services. Typically if the developer is going to bid out the drawings or negotiate with a contractor once the drawings are further refined, this pre-construction pricing feedback is initially provided by the owner's representative. Pricing feedback needs to incorporate not only hard costs, but soft cost impacts from the design also. For example, does new information in the drawings impact the schedule which in turn impacts the cost of capital? Additionally, within the design schedule, specific milestones for feedback from the sales and marketing team and, if this is a condo project, coordination meetings with the owner's condominium attorney are required.

VII. Schedule follow up, Schedule follow up and schedule follow up. My experience is that it is up to the owner, not the architect, to bring the discipline to the design schedule. Weekly PD (Project Design) meetings where the drawings are reviewed, the details are examined and the schedule is maintained is paramount. Clear accountability supports the project.

VIII. Third party design review. All of us are better served when a 'second pair of eyes' takes a look at our work. For designers, a peer review provides that service and not only finds items that save the client money and time, but also reduces the designer's E&O risk by identifying latent change orders due to poor coordination of subconsultants' drawings, code deficiencies, lack of detail, expensive methodology, missing ADA and FHA requirements, etc. A thorough list of coordination, code, constructability and ADA, FHA items is then created which can be (a) priced into the project so there are no surprises and (b) distributed back to the consultants for their inclusion.

Interwoven through all the steps listed above must be good communication and a commitment from all to look after the details and stay on schedule. Managing the design process is about discipline, communication and coordination.

*Pete Cooper is the Executive Vice President in the Honolulu office of **CM&D, Inc.**, a full-service construction and project management firm with global experience. He can be reached by phone at 808-523-7710 or by email at [pcooper@cmdintl.com](mailto:pcooper@cmdintl.com)*

*(Industrial - continued from page 3)*

developed by owner's for their own occupancy, the market is seeing the first new industrial product built for lease and for sale since the early 1990's. Industrial condominiums and new speculative warehouse space are under construction or in planning in Wai-pahu and in Kapolei.

*(Residential - continued from page 3)*

basis: the 1Q 2005 average number of listings was 2,092, up 4.7% from 1Q 2004. The last time it rose was in 1995, up 5.4% from 1Q 1994. This may not hold for the year... but, at least it means that supply is responding to demand... and demand is responding to prices.

Are high prices drawing developers into production? Not really. In spite of this activity, the developer share of market is quite low by historical standards (its share is only in the high teens). Thus, it should grow further, as developers ultimately focus on producing for the local market (i.e., building condominiums and other forms of attached housing).

That begs the next question: will oversupply rear its ugly head? Probably. Last year, about 2,600 new units were added to the market. Within 2 years, this should easily double to 5,200 units, and go on for several years at that level. Will that fly in an era of higher interest rates? Possibly, if powered by higher jobs, incomes, in-migration, visitor expenditures and troop deployments. If.

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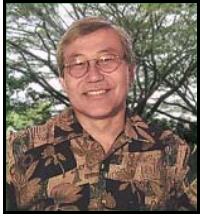
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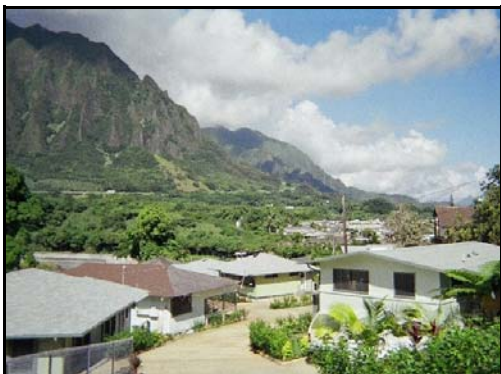
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 at [gary@abchawaii.org](mailto:gary@abchawaii.org)**



## Abe Lee Realty Development

Koolau Views is an eleven-unit CPR in Kaneohe near the Hawaiian Memorial Park. The property backs up to the Hoomaluhia reservoir and feels like country living, just a couple of miles from Kamehameha Hwy and the H-3 on-ramps. The Final Public Report was issued in June 2004 and sales began July 4, 2004.

The units sold in fee simple. The private access road, originally blacktop and gravel, was rebuilt in 2004 with concrete and is maintained as the common area by the association of owners under the CPR. Eight of the eleven units were renovated with updated kitchens and/or baths; two units were sold "As Is" to buyers who wanted to do their own renovations. All units were sold with 2 assigned parking stalls.



This project has required contact with both the City & County of Honolulu and the State Department of Land Use regarding building permits for renovations and a rebuilt rock wall, as well as the developer's purchase of an abandoned, state-owned Ditch Right-of-Way intersecting the CPR's one acre of land.

The one-bedroom units sold for \$250,000 to \$275,000; the two-bedroom units sold for \$325,000 to \$399,000; the three-bedroom units sold for \$369,000 to \$426,000. All but one unit has sold; the final unit is in the process of new construction, to be offered for sale by January 2006.

## Small Developers Still Developing

Hawaii Developers' Council was formed for the smaller developers with the intention of giving them a voice in contrast to the large landowners.

No one fits that profile better than our Past President Howard Bilkiss. Capitalizing on media attention on Hawaii's tight and strong real estate market, he will soon be marketing his newest development in Kaimuki.

We're not talking a 500 plus unit sprawling subdivision with model homes stocked with the latest furniture from CS Wo. It is actually 2 well built and well designed homes that feature 5 bedrooms and 3 baths. They both sit on a 9,300 square foot lot.

The homes will be available for viewing and purchase in early May, 2005.

Following completion of this development, ground will be broken on 4 more homes in the Kaimuki area. Additional information can be found by contacting Howard at 524-4024 or 383-3913.

**DO YOU HAVE A PROJECT THAT YOU'D LIKE  
TO FEATURE IN THE  
HAWAII DEVELOPERS' COUNCIL  
NEWSLETTER?**

**SEND YOUR TEXT AND  
PHOTOS TO:**

**GARY@ABCHAWAII.ORG**

*(Continued from page 1)*

would be broken into two training sessions of 5 days each. Within each training session 1 day would be devoted entirely to teaching participants on how to use the Rock-Mass Quality Analysis methodology. The remaining 4 days would involve field work to actually use the techniques in the field at specified locations.

*Editors Note: Dean tells us that this training was held on the weeks of March 14<sup>th</sup> and March 21<sup>st</sup>. A summary write up from the two training sessions is being prepared.*

### **Affordable Housing:**

Dean described several legislative and Lingle administration attempts to provide more affordable housing in Hawaii. "One side wants to focus on the homeless issue while other bills focus on helping the middle class find affordable rentals." said Uchida.

The one bill that appears to be passing through the legislature is HB1303, a bill that tries to do several things including an increase in the conveyance tax, an exemption from General Excise Tax for certain projects, and some reforms to the various state housing programs.

### **Vanishing Shorelines:**

Uchida spoke about efforts to change the definition of where shorelines are located. HB795 requires that shoreline setbacks be established at a distance inland from the shoreline equal to 50 times the annual erosion rate for the area, based on historic aerial photographs or the shoreline setback line established by the County, whichever is greater.

This bill also bans the construction of new seawalls and groins except where variance is allowed for DOT.

Then there is HB1020 which clarifies the definition of "shoreline" as the uppermost reach of the wash of waves, evidenced by debris line or edge of vegetation growth not modified by human intervention. This bill prohibits planting of vegetation or inducing vegetation growth by human intervention in order to influence or modify the shoreline. It also establishes notice requirements for shoreline certification applications.

### **Impact Fees:**

Another spirited discussion centered on attempts by the State Dept. of Education to access Impact Fees on developers for the construction of new schools near their projects.

"We have been arguing that the DOE lacks legislative authority to make these assessments," said Uchida.

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