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Sunrise on the beach

Zoning amendments renew interest in development of time shares and hotels in tourism's commercial core

By Allison Schaefer

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Guests and prospective buyers attended a private sales event in June for the Ritz-Carlton Residences Waikiki luxury condos. A video screen displayed sales activity. Nearly 90 percent of the 309 units have been sold.



It was relatively easy for Yas Saotome, a Connecticut-based biotechnology industry vice president, and his wife to choose Oahu as the place where they eventually plan to live out their retirement.

Finding the right condominium in the right neighborhood was more challenging. The couple looked at about a dozen properties from Kakaako, where nine new towers with 4,000 units are in the pipeline, to Waikiki, where only five new fee-simple condominium projects representing about 1,323 units have come available since 2005.

The couple ultimately chose to buy in Waikiki despite the limited inventory of new condominiums.

"It's rare to find a beach destination with an urban feel," said Saotome, who fell in love with the area during his first visit. "It's very international as well. There aren't too many cities like that."

The couple made an offer on a unit in the Waikiki Landmark, which came to market in 1993 at the tail end of the Japanese investment boom in Hawaii and was meant to be the start of luxury residential

IN HIGH DEMAND

One analyst believes local and offshore buyers will push up residential condo prices over the next decade:

\$467K: Average condo price in 2012

\$1.27M: Estimated average condo price in 2022

Source: Ricky Cassiday, independent housing consultant

condominium development in the resort district. However, it stood alone for years due in part to the economic downturn, a lack of available land for development and strict Waikiki Special District zoning requirements, which stood in the way of large and small developments.

Amendments made to Waikiki zoning last year have renewed residential developer interest in the destination, allowing for new development and redevelopment of time shares and hotels in Waikiki's commercial core.

"The (Honolulu) City Council did an exceptional job working with the residents and businesses in Waikiki to develop a new set of zoning guidelines that encouraged responsible but economically viable development," said Jason Grosfeld, senior managing member of PACREP LLC, developer of the 37-story Ritz-Carlton Residences Waikiki, which broke ground on Aug. 29.

Waikiki Neighborhood Board member Jeff Merz, who works as an urban planner, said his once-tired neighborhood is on the upswing.

"Waikiki went through a wall with locals and tourists. It didn't have the best reputation for living or visiting. But a few years ago, Waikiki started getting back the cool factor that it had lost. While the stock in Kakaako will be newer and better planned, we've got the name recognition in Waikiki. When you get high-end brands like the Ritz and Trump,

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people start viewing the neighborhood on another level."

It's not a mystery why some are predicting a wave of new residential development in Waikiki.

"We work with a lot of Japanese buyers but we are seeing more Chinese and Korean buyers and some Canadian," said Patrick McMillen, principal broker of Waikiki-headquartered CENTURY 21 Hawaiian Style. "We're also seeing more local people, especially young urban professionals, empty nesters or retirees, considering Waikiki. But there simply isn't enough inventory to satisfy the demand. We need more two-bedroom condominiums in the \$600,000 to \$1 million price range. If they were new, we could move them quick."

McMillen may get his wish. Independent housing consultant Ricky Cassiday predicted Waikiki will account for more than 12 percent of the 10,823 condominium units that he expects will come to market on Oahu between this year and 2018. Cassiday's forecast for new condominium development in Waikiki comes close to matching his projections for development in Ala Moana and downtown.

"I think Waikiki will be as attractive, if not more, than Kakaako," said Cassiday. "Kakaako is a dirt town that will be like Miami downtown glint whereas Waikiki is richer and more diversified."

By 2022, Cassiday said he expects demand for Waikiki residential condominiums will push the average price up by 272 percent to \$1.27 million from \$467,000 in 2012.

Local and offshore buyers already are scooping up the latest Waikiki condominium developments. All of the 117 units in The Cove Waikiki, which is expected to open in June 2014, have already been sold to a mix of buyers, including 46 percent from the local market.

"The appeal has been pretty even amongst local and offshore buyers," said Chris Deuchar of Form Partners LLC. "We already have seen the interest from local buyers growing over the last 10 years and think that will continue to grow as they want to be centrally located and have close access to activities and amenities."

Grosfeld, with PACREP, said his company has sold nearly 90 percent of the 309 Ritz-Carlton Waikiki units.

Ritz-Carlton is exploring buying adjacent land and developing a second condo tower that could be annexed to the first tower.

"There are not many firms that have bet as heavily as we have in Waikiki," Grosfeld said. "We definitely agree (the area is hot) and we are voting with our time and with our wallets."

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