



What's in Store for  
HAWAII'S REAL ESTATE MARKET IN 2008:

# High-Flying, Falling or Flat?

In the last 30 years, Hawaii's home prices have fallen in only one brief period – but that early 1990s run-up, and subsequent downturn, driven by Japanese investors is still fresh in the minds of many Hawaii residents. As home prices have climbed over the last 10 years, some keep waiting, anxiously, to see if déjà vu is just around the corner.

Hawaii is somewhat insulated from the housing troubles on the mainland, and with the median price of an Oahu home closing 2007 at a record high of \$645,000, the market here is indeed different. Our finite supply of land is one advantage as is our universal appeal as a place to own a second home for vacations or retirement. A steady influx of military personnel with housing allowances, as well as tight mortgage lending laws have also protected Hawaii from the mortgage crisis that caused other housing markets to collapse.

But after 2007, a year when many mainland markets spiraled into foreclosures and depreciation, can Hawaii's home market continue to avoid falling home prices and increasing foreclosures? That, indeed, is the \$650,000 question.



Bank of Hawaii's chief economist Paul Brewbaker points to the low rate of foreclosure in Hawaii and the stable mortgage industry as indicators that Hawaii won't experience real estate meltdown seen on the Mainland.

"Currently, Hawaii has the lowest mortgage delinquency and default frequency in the U.S.," says Brewbaker. While home sales in Hawaii have been declining since the end of 2004, home values across the Hawaiian islands have remained more stable than mainland counterparts."

Prudential Locations President and CEO Bill Chee also forecasts flat prices in 2008. "The last half of

2007 showed clear signs that the overall Hawaii real estate market will slow further," says Chee. "Appreciation in the market cannot be taken for granted in 2008."

Prudential Locations research dates back to 1977, and Chee has personally experienced market conditions from the bleak years after the Japanese bubble burst to the high-flying days of 2005. This year, he says, Oahu's average price will likely remain flat.

**The winners in real estate in 2008 will be those who do their homework and recognize that each small neighborhood is its own market – and act accordingly.**

"Some specific neighborhoods will experience declining pricing, while others will show stable or increasing prices," says Chee. "Knowing the idiosyncrasies of each of the 245 neighborhoods just on Oahu will be a challenging task."

Neighborhoods across the state are experiencing widely different market conditions. Some neighborhoods seem completely unaffected – homes go up for sale, and are purchased fairly quickly for close to the asking price. In other neighborhoods, homes sit for months even

after several rounds of price cuts, sometimes below what similar homes in the area sold for just months ago.

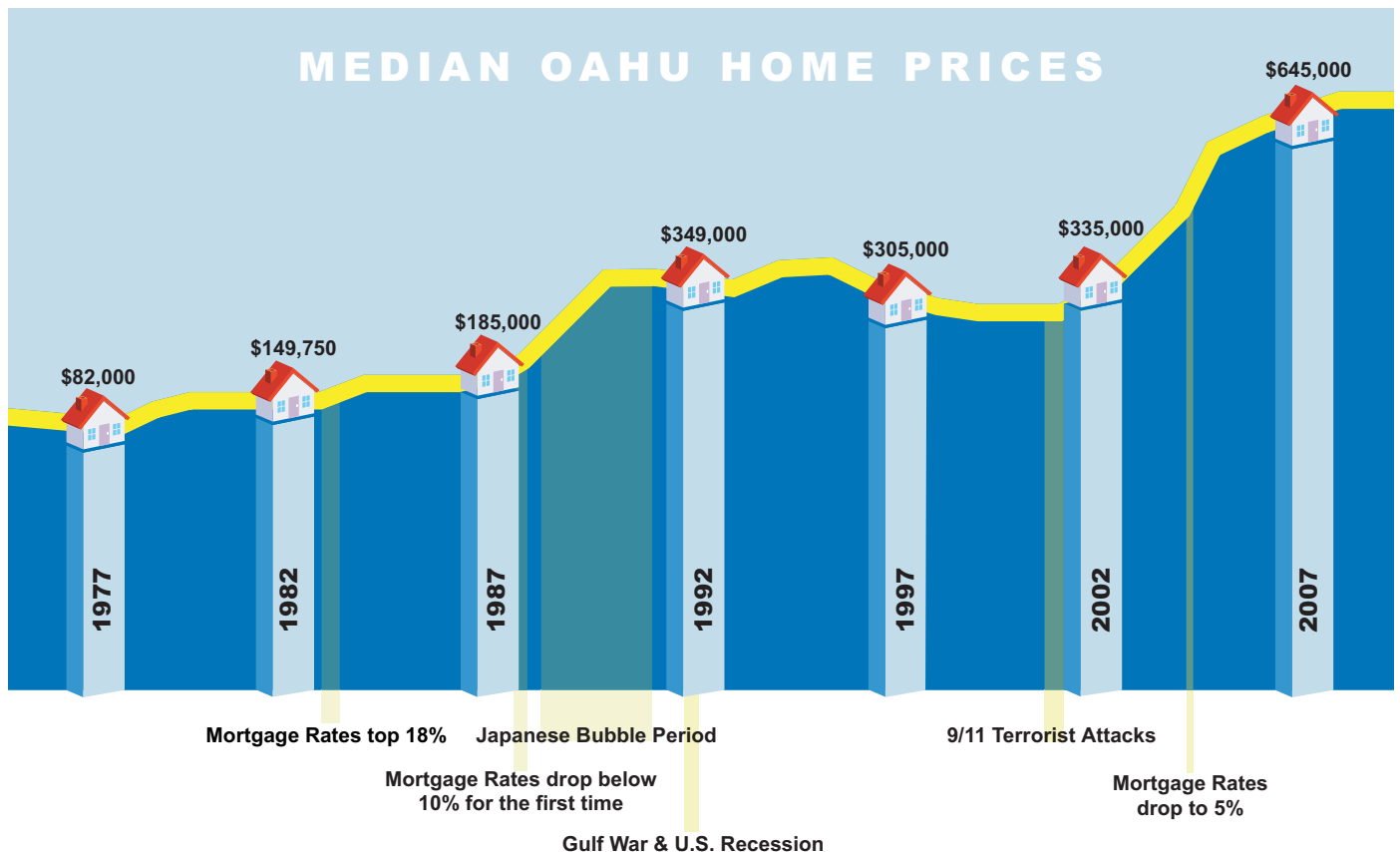
Part of this could be fewer buyers from markets like California says well-known real estate research expert Dr. Mike Sklarz, President and Global Head of Research at New City Technology, “A large concern is the subprime situation causing California home prices to decline more significantly such that investors and second home interest is impaired.” But other sources of buyers, especially new

international markets, could make up for the drop in U.S. Mainland buyers.

Another bright spot for 2008 is continued low interest rates that will likely spell low mortgage rates for potential buyers.

But even with the increased buying power, sellers will still have to price their properties at market value. Overpriced homes tend to sit on the market, forcing sellers to eventually drop the price. This can make it look like prices are “falling” because buyers aren’t making offers on overpriced properties.

“A large concern is the subprime situation causing California home prices to decline more significantly such that investors and second home interest is impaired. While there is significant potential for growth from international markets such as China, this demand is unlikely to offset the loss of California buyers over the next several years. Chinese buyers are an important long term factor to consider, but currently they are having obstacles obtaining U.S. visas,” says Sklarz.



## SELLERS BEWARE ~ THE DANGERS OF OVERPRICING

With 2008 shaping up to be a buyers market, property owners may find selling homes to be a challenge—a challenge that can be overcome by following one simple rule—always price your home at market-value. If you don't, chances are that you will become a seller with a horror story of a listing gone awry. "Last Fall I met



with some potential clients looking to sell their home. Based on a thorough competitive market analysis of their Kailua neighborhood, I recommend pricing their home at \$725,000," says Prudential Locations Realtor and Partner, Corinda Wong. "The sellers were looking to price their home more aggressively at \$795,000 so they decided to list it with another company." Little interest from buyers led to numerous price reductions and more time sitting on the market. Often this is a clear signal to buyers and real estate agents that the property is either overpriced or something is wrong with it. "The longer a property is on the market, the greater chance it has of becoming stigmatized, making it more difficult to sell," Wong adds.

After several months on the market, at a time when sales in the area were leveling off, the property finally sold for \$699,000. "Over-pricing a property is a very risky strategy, one I have only seen work in a market where prices are rapidly increasing. This unfortunately is not that type of market. Instead of pricing their home at market value initially, the sellers ended up chasing the market likely resulting in getting less for their home than they would have had they priced it properly from the start."

### Successful Sellers

With flat prices and slowing sales volume, the market is starting to favor buyers. But that doesn't mean the time is wrong to sell. The key is knowing exactly what your home is worth and pricing it accordingly.

For more information on Hawaii real estate market contact Prudential Locations at 808-735-5300 or visit [www.PrudentialLocations.com](http://www.PrudentialLocations.com).



Navigating Hawaii's unique real estate market is challenging, but possible – with the right information.



Here are some tips on how prospective buyers, sellers and investors can be successful in today's market.

### Don't wait to buy

With interest rates at historical lows, buyers will benefit from moving quickly in this market. If interest rates go up just 1 percent, you could lose more than \$50,000 in buying power— affecting the value of the home you are able to afford.

### Price your home at market value

If you are selling your home it is essential to price it at market value. During the first four weeks your home is on the market, the most eyes are on your property— if it is priced right, chances are it will sell quickly. Overpriced homes tend to sit on the market, forcing sellers to eventually drop the price, resulting in stigmatizing the property.

### When in doubt, ask an agent

The more stable 2008 market will open opportunities for seasoned investors to build or upgrade a real estate portfolio. Given the state of the industry, it is important for real estate investors to seek guidance from experience agents as they will be able to provide insight on the latest market trends.



## NEIGHBORHOOD WATCH ~ O A H U



**Ala Moana/Kakaako**  
**2007 Median Price:**  
**\$669,000**  
**CONDOMINIUMS**

Brand new posh condominiums in Ala Moana/Kakaako have turned this area into one of Oahu's hottest condo markets. New development projects including the new Ward Villages, Ala Moana Center expansion, plus easy proximity to both downtown and Waikiki have kept demand high for condos in this area. "This metro neighborhood is the epitome of the coined phrase 'location, location, location,'" says Marshall Mower, a Prudential Locations Realtor and Partner who specializes in selling homes in this area – and also lives there, in one of two Kakaako condos he owns.

Indeed, this area continues to be one of the most active on Oahu, with median prices increasing significantly thanks to more luxury units. Over the last five years, the median price of condominiums in the Ala Moana Kakaako area have more than doubled - from \$327,500 in 2002 to \$669,000 in 2007. The number of condominium sales in this area have been rising since 2001.

Mower says he doesn't expect to see the same kind of price growth in 2008 – what's more likely is that average price increases will be in the single digit percentages – overall, prices should stay very stable with individual buildings going up or down in price very slightly. Increasing interest from foreign buyers, especially from Asian countries, will help units in some top-end buildings fetch higher prices.



**Kahala**  
**2007 Median Price:**  
**\$1,812,500**  
**SINGLE-FAMILY HOMES**

Kahala is still the crème de la crème of Oahu's real estate market— spacious mansions, beach access and a short commute to downtown make it the most desirable neighborhood of single-family homes on the island.

Average home prices in Kahala reached a record-high \$1.8 million in 2007, and at the very tip-top of the real estate market, dominated by super-affluent buyers and sellers, larger economic worries often don't mean much. In fact, Kahala is usually the last neighborhood to be hit by a slowing housing market and the first to recover.

If there is a weak spot in Kahala, it's in what Prudential Locations Realtor, Partner and Kahala Expert Dolores Bediones calls the "gap group" – those homes priced in the \$2.5 million to \$4 million range. These homes are often ones that were remodeled in the 1990s, and while they sit on fabulous off-beach lots, and have some of the most luxurious amenities, dated décor can be a danger. Buyers at this level typically look for move-in ready homes that don't need much updating.

Still showing the most strength in Kahala is the entry level price point – about \$1.4 million to \$1.9 million. Homes at this price are often fixer-uppers or even tear-downs. But investors can still profit from gutting or rebuilding a home on a great Kahala lot and reselling it soon after. And the very top end – Waterfront and beachfront houses at \$7 million and above, still sell, but often take several months or even a year. It's not for lack of buyers though. These ultra-wealthy buyers typically shop for additional homes when they are in Hawaii – during the holidays and summer time – and so the sales cycle is very much seasonal.



**Manoa**  
**2007 Median Price:**  
**\$950,000**  
**SINGLE-FAMILY HOMES**

One of Oahu's most established neighborhoods, Manoa's high percentage of owner occupants, proximity to numerous schools like the University of Hawaii and Punahou and cooler climate keeps it among the more desirable places to live. A finite housing supply, convenient location, and charming houses in lush surroundings means demand for homes in Manoa rarely wanes. Homes move fairly quickly here, and as Prudential Locations Realtor and Partner Michael Koyama points out, in 2007, 19 sales in Manoa went into escrow in 20 days or less. It's common for buyers to look for older homes with lots of character that can be remodeled, as they often love the location but want to upgrade the house.

Koyama says Manoa will likely mirror the overall market in 2008, with fewer sales and some possible price softening.

The **key** to success in real estate in 2008 is understanding each neighborhood as its *own market*.

~

Throughout the islands there are pockets of rising prices and falling home values, and everything in between.



*Here's an overview of several neighborhoods.*

~



**Kapolei/Makakilo**  
**2007 Median Price:**  
**\$565,000**  
**SINGLE-FAMILY HOMES**

For years Kapolei has been positioned as Oahu's future "Second City"—an ideal place to live, work and play—and now it's finally coming true. New developments such as the University of Hawaii West Oahu campus, The Salvation Army's Kroc Community Center and the Department of Hawaiian Home Lands regional mall are spurring numerous neighboring housing developments.

But because of so much housing supply, not surprisingly, the Kapolei/Makakilo area was one of the first Oahu areas to see prices adjust downward. Some buyers worry that the home they buy now won't hold its value when so many new homes are being built nearby. But for first time buyers who are looking for a place to live long-term, Kapolei offers some of the most affordable prices, and a lot of promise for future services and amenities, which often drive significant price appreciation.

Prudential Locations Realtor and Partner Bernie Tong notes that while average prices haven't really changed much, what has changed is price per square foot. Increasingly, buyers are able to get more for their money as the average price per square foot drops. This has resulted in many multi-generational buyers, looking for larger, ohana-style residences, coming into the Kapolei/Makakilo market.

In addition, with interest rates staying low, and possibly dropping, entry level buyers will benefit from lower price-per-square-foot prices. A continued stream of buyers will keep prices fairly steady in this area.



**Mililani**  
**2007 Median Price:**  
**\$630,000**  
**SINGLE-FAMILY HOMES**

Most would agree that Mililani is a charming suburb for a diverse group of Hawaii residents in Central Oahu. The area's planned communities, good schools and well-kept recreational centers attract families and young couples. There are also several conveniently-located shopping centers and other local businesses to meet the daily needs of residents.

Mililani is also near Schofield Barracks and Hickam Air Force Base, making it a high-demand neighborhood for military personnel who want to enjoy life outside of the base.

Home values in the area have enjoyed upward appreciation over the last decade—with single-family home prices jumping from \$261,000 in 1998 to \$630,000 in 2007. Even as sales continue to decline in 2008, Mililani is one area that will likely stay stable.

Inventory in Mililani is not as tight as it is in other neighborhoods, thanks to both Mililani Town and Mauka areas. In addition, says Prudential Locations Realtor and Partner Linda McCabe, buyers often choose Mililani over neighborhoods farther west because of its more established feel and closer proximity to town. McCabe, a Mililani resident herself, believes that the commute feels much shorter thanks to the H2 turnoff that lets Mililani residents avoid bottlenecked traffic farther out on the H1.

Renovated homes will be the best sellers, and buyers will have a bit of negotiating room as many sellers in this area bought years ago and have enough equity to be slightly more flexible.



**Waikiki**  
**2007 Median Price:**  
**\$285,000**  
**CONDOMINIUMS**

The extensive revitalization of Waikiki has transformed Oahu's tourist district into a trendy neighborhood. With businesses pumping in billions of dollars to establish the new Waikiki Beach Walk and renovated Royal Hawaiian Shopping Center, Waikiki has more shopping, dining and entertainment options than ever before.

Surprisingly, the appeal of this rejuvenated Waikiki has not yet translated into booming prices and sales. In 2007, sales were slightly down one percent from the previous year, with the average condominium price coming in at \$285,000. In 2006, the one exception to this trend was the sale of the wildly popular Trump Tower Waikiki, which sold out for more than \$700 million in eight hours. The sale of this luxury development took place in both Japan and Hawaii, confirming Waikiki's reputation for being over-run with rich international investors.

But the profile of Waikiki buyers are diversifying says Prudential Locations Realtor and Partner Jodee Farm. Waikiki is not just attracting the traditional offshore investors, but also local buyers looking for affordable, conveniently located condominiums. Farm predicts that this mix of buyers will create an active year for sales in the Waikiki area.

Another growing trend in Waikiki is the dominance of condo-tels, which are hotel units converted into condominiums and put for sale on the market. Typical buyers are real estate investors looking to build their portfolios, as condo-tels are not sold as primary residences. If Hawaii's tourism industry continues to hold steady, condo-tel owners can expect to reap the benefits of renting out their unit. Keep an eye out in the coming year for the arrival of more condo-tel units on the market.



**Hawaii Kai**  
**2007 Median Price:**  
**\$870,000**  
**SINGLE-FAMILY HOMES;**  
**\$541,500 CONDOMINIUMS**

Located on Oahu's East side near the blue blooded real estate district of Kahala, Hawaii Kai offers buyers condominiums and single-family homes priced at the higher-end of the market. Though not quite as expensive as properties in Kahala, in 2007, the average Hawaii Kai condominium sold for \$541,500 with single-family homes selling at \$870,000. For those looking for homes suitable for families, Hawaii Kai offers a diverse number to choose from—there are magnificent million dollar properties in Koko Kai and Portlock as well as spacious family homes in Kalama Valley and on the boat marina.

Condominiums in Hawaii Kai are popular with young couples and empty-nest baby boomers looking to live in a peaceful, safe neighborhood. Recent developments such as The Peninsula, The Colony and Moana Kai, have increased the available inventory of condominiums in the area.

Right now, inventory on the market is on the low side compared to previous soft markets in Hawaii Kai, according to Prudential Locations Realtor and Partner Jo Frasier. And, with continuing low interest rates, entry level buyers will continue to look to this neighborhood as a place to make wise real estate purchases. This steady supply of buyers and relatively low supply of houses for sale will likely create a balanced supply-demand situation, says Frasier, which will keep prices steady in 2008.



**Kailua**  
**2007 Median Price:**  
**\$820,000**  
**SINGLE-FAMILY HOMES**

A mecca for relocating mainlanders seeking life in paradise, this Windward Oahu neighborhood is conveniently situated near world-renowned beaches and in close proximity to downtown Honolulu, about a 20-minute drive over the scenic Koolau Mountains.

One of Oahu's most sought-after neighborhoods, Kailua has distinct areas of luxury estates, mostly near Lanikai and Kailua Beach. Some of Oahu's most expensive homes are beachfront Kailua, and prices throughout Kailua are continuing to remain stable and rise slightly thanks to the growing cache of the neighborhood. Over the last few years, home sales in most Kailua neighborhoods have held steady, with prices slowly appreciating to a median of \$820,000 in 2007.

In 2008, Kailua will be one of the few places that might see slight increases. Prudential Locations Realtor and Partner Mary Robb points to the very low inventory in Kailua as just one sign of the strength of Kailua's housing market. New wine bars, boutiques and amenities are adding a growing sophistication to this once sleepy beach town. Robb says even sellers who purchased their homes in the early days of the hot market days will likely be able to realize a profit if they decide to sell this year.

As for prices, Robb sees very stable pricing with no significant movement from current prices in any of the price segments. She doesn't expect Kailua to experience price declines – the days of waiting for prices to fall in Kailua are over. But she calls 2008 a “market of opportunity” for buyers because the speculative market and days of flipping properties are gone for awhile. Those looking for a place to live can buy and be confident their home will continue to maintain its current value and experience an increase in future years.



**Kaimuki/Palolo**  
**2007 Median Price:**  
**\$690,000 SINGLE-FAMILY HOMES**

A decade ago, Palolo Valley was considered one of East Oahu's most undesirable neighborhoods. With a reputation for gangs, drug activity and violence, single-family home sales in the area remained flat and prices low at \$305,000 in 1998. Since then, homes values have ballooned, with the average property selling at \$690,000 in 2007.

Today, Kamuki/Palolo is known to be a quiet community, where many dilapidated properties have been transformed into comfortable residences. A mix of immigrant and middle-class families that have lived in the area for generations, characterize residents of this neighborhood.

Current buyers in Kaimuki and Palolo choose this neighborhood for its convenient location, says Prudential Locations Realtor and Partner Russell Nishimoto. “Lots of home buyers purchase the lot with plans to tear down the existing house and rebuild,” says Nishimoto. “These buyers are usually trading up and are seeking a better yard and good location. Their sacrifice is dealing with the older age of homes in this area – you don't find too many renovations here.”

Another approach – common in Palolo more so than Kaimuki – is buyers purchasing old homes and improving them with large additions to create multigenerational living situations. Larger lots that are level on the Mauka side of Waialae Avenue contribute to this trend.

Nishimoto says because of the age of homes in Kaimuki, and buyers tendency to value the land more than the dwelling, it can take a little longer to market the property to the right buyer. And sellers must know that the market isn't slowly rising to meet high list prices, which is why Kaimuki has seen some recent reductions in list prices.

Nishimoto often advises buyers not to overlook Palolo – it's a good alternative to Kaimuki and has a cooler climate with prices still sometimes up to \$100,000 lower than comparable properties makai of Waialae.



**Pearlridge/Aiea**  
**2007 Median Price:**  
**\$304,500 CONDOMINIUMS**

This area is one of Oahu's most popular condominium markets— with high-rise buildings only blocks away from Pearlridge shopping mall and numerous lifestyle amenities. Situated at the front-edge of Leeward Oahu with easy access to the H-1 highway, residents in the area have an easy commute into downtown Honolulu. The area's central location is why most buyers are drawn to Pearlridge/Aiea, as well as some of Oahu's better public schools.

Prudential Locations Realtor and Partner Susan Onishi Andrade says that buyers here are generally “move up” buyers, upgrading to larger properties located closer to town. Since they are often more established, they can afford to be selective about the properties they purchase. Sellers, have to price and stage their homes to compete with what else is for sale currently, rather than recently sold properties. Many multi-generational families tend to locate in this area too, thanks to the close proximity of schools, churches, shopping and health care facilities (Tripler, Pali Momi and Kaiser are all in this area). Onishi Andrade says the market here is more balanced than it has been for years, and that she expects a very stable year for the Aiea/Pearlridge neighborhoods thanks to an even supply of both buyers and sellers.

## NEIGHBORHOOD WATCH ~ MAUI



### **Wailea**

**2007 Median Price:**  
**\$1,328,775**  
**CONDOMINIUMS**

Clusters of gated condominium communities in this area of Maui's sunny, southern coast are popular among affluent mainland and international investors who choose Wailea as their paradise getaway. Wailea's economy relies heavily on tourism and is surrounded with luxury resorts boasting numerous amenities including award-winning restaurants, championship golf courses, world-class spas, shopping and five white sand beaches.

Be prepared to pay top dollar to live in luxury as condominiums in Wailea boast the highest prices on Maui. Although prices slightly declined in 2007 when compared to the previous year, the average condominium price was \$1.3 million.

Prudential Locations Maui Realtor Broker and Partner Michael Healey points out that Wailea still has several new projects on the horizon, and properties on the market have recently stayed on the market a bit longer, but are still commanding sale prices of about 95 percent of list prices.

Because many of Wailea's buyers are purchasing second homes, they often pay in cash, which will keep this market stable in 2008 as economic worries and interest rates do not typically affect cash buyers.

Because of this, Healey says prices will continue to remain stable in Wailea. Those properties that may see a slight drop in value are those that aren't brand new or newly renovated.



### **Kihei**

**2007 Median Price:**  
**\$430,000**  
**CONDOMINIUMS**

For those who can't afford to buy a condominium in pricey Wailea, Kihei is the next best bet. The area shares Wailea's picture-perfect weather and stunning beaches, but condominiums in this area are more affordable—in 2007 Kihei condominium sales were up 8 percent from 2006, ending the year at \$430,000.

Mirroring this neighborhood's real estate trends, budget-conscious Maui visitors are also attracted to Kihei. Although Kihei is one of Maui's many seaside towns, in addition to surf, sun and sand, the area is also home to a national wildlife park where nature lovers can spot endangered Hawaiian birds and fish. It is also near the Maaleau boat harbor where residents can enjoy whale watching and snorkeling trips.

Kihei condominiums saw an increase in the number of transactions this past year, says Prudential Locations Maui Realtor Broker Nancy Nevius. The vacation condominium market is still fairly strong thanks to the recent surge of Canadian buyers jumping on the opportunity to buy in Maui while their dollar is strong. The low-end residential condominiums, on the other hand, have seen a slow-down in the number of sales. As the number of units for sale increase, buyers can be choosy, taking more time and offering lower prices.



### **Kahului**

**2007 Median Price:**  
**\$586,850**  
**SINGLE-FAMILY HOMES**

The real estate activity in Central Maui tends to mirror the island's overall market for both pricing and sales trends. Over the last year, although the area experienced increased sales activity, homes in Kahului experienced price depreciation—falling six percent from \$622,500 in 2006 to \$586,850 in 2007. "Kahului is primarily an area where local residents live – and not second home owners or non-residents." Prudential Locations Maui Realtor Salesperson Chris Marzoeki says, "buyers in Kahului are most often relocating Maui residents from Kihei or Upcountry, often they are downsizing from larger properties and looking to have close conveniences such as more restaurants and shopping".

New developments of single family homes that have recently come on the market have also increased supply. These factors mean sellers of single family homes need to be sure they price their property right. In fact, Marzoeki says, "it is crucial that a seller prices their property properly, Buyers have the upper hand and interest rates are low, so they can pick and choose and may drive a hard bargain in this market."