

Ali'i Trust Activity

The amount of recent activity in the development markets has garnered no shortage of attention. The product ranges from retail, to multi-family, to condominium, to single family homes. With the exception of office, nearly every development silo has been energetic the past 4-5 years.

While the spotlight has focused on the end product, it is interesting to notice how many of the projects are associated with or even executed by Hawaii's Ali'i Trusts. For those less familiar with that term, these are local trusts that have their roots in monarchy funds dating back to the late 1800's. Some examples are Queen Emma Trust, Kamehameha Schools, etc.

By definition their organizations were not constructed for development but that has not kept them away from being active players in the development market. In recent years they have been as active as ever but mostly in concert with a partner whose core competency is better suited for the process of development.

Nearly 10 years ago Kamehameha Schools made an overt shift towards development and their strategy was to execute it themselves instead of creating strategic partnerships. This was an atypical approach given historical performance and bullish by all accounts. There were a few successes along the way but ultimately a change in their trusteeship led to less risky shift back to passive investing.



New renovation and new name, OHA invested \$9 Million into their new headquarters, the former Gentry Pacific Design Center

A corporate restructure is just wrapping up and only time will tell what portion of their in-house developments will be resumed. A further question will be whether they adopt a different strategy with whatever they reactivate. In just the past few months a couple of their previous projects have rebooted and are being executed with their internal team.

The Office of Hawaiian Affairs or "OHA" (not an Ali'i Trust, but generally a non-development entity) has undertaken a similar approach to Kamehameha Schools with both their purchase of the former Gentry Pacific Design Center as their headquarters and the oversight of the lands deeded to them in Kaka'ako. Aside from acquiring their new headquarters, they invested \$9,000,000 into it before moving their 30,000 sf of offices into the building. The tens of millions of dollars required to improve their Kaka'ako land will require a far larger stake in the development game.

Both Queen Emma Trust ("QET") and Queen Lili'uokalani Trust ("QLT") opted to use a more passive role in capitalizing on the bullish market. QLT has agreed to a number of long term ground leases in the heart of Kona with projects like BREW which is anchored by Kona Brewing Company and their new 100,000 barrel per year brewery under development.

QET was affiliated with two major projects in Waikiki that were as high profile as any deals in the state. The complete redevelopment of International Market Place at nearly 350,000 sf of space on three levels and the adjacent property which was formally Waikiki Trade Center office building. With a languishing occupancy rate, the former office building was converted into a moderate price point hotel under the Hyatt Centric flag. QET also recently participated in the Hilton Garden Inn project only a few blocks away.



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Another similar organization, but perhaps the least structured for development, is the Department of Hawaiian Home Lands (“DHHL”). While it isn’t an Ali`i Trust, it is a stewardship agency whose core mission is anything but speculative endeavors. Much like OHA, they secured a new headquarters of 50,000 sf and have been increasing their development partnerships the past several years. The regional center of Ka Makana Ali`i was the largest at 1.4 million square feet, but beyond that behemoth, they have two other noteworthy projects in the works. One is also in Kapolei and the other is in Nanakuli and both are primarily retail in nature.

Working with these groups has historically been challenging as core concepts like shared risk and market metrics were neither familiar nor comfortable for them. For years potential development partners tried to crack the code unsuccessfully, but in the last decade a more conducive perspective has evolved within the Trusts.

The Trusts have the advantage of a zero real land cost basis. That element combined with development partners who have access to inexpensive money and a construction market that is finally starting to move in their favor makes for a potent combination. In an already active development landscape, this previously quiet ownership group has now become a notable feature.



DHHL secured new headquarters of 50,000 sf in Kapolei and adjacent to a number of their strategic parcels



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