

## The Rising Tide of Hawaii's RPT

As in any real estate bull market, there are the predictable impacts on the general marketplace. After experiencing a few bull runs, most of us know what to expect for the most part and what the landscape of the market looks like when the run ends.

Of course not every bull or bear market is identical so there are varying subtleties worth noting in each individual cycle and certainly there are idiosyncrasies for different parts of the country. Hawaii has seen a strong run for nearly six years and the victories, as well as pain, are evident. The growth has been broad, but the sting of overheated construction pricing remains fresh.

There are several factors that have contributed to this rise but some of the more meaningful are large land purchases at borderline over market values, relative scarcity of product and the underlying bull market that has functioned as a rising tide for all of the boats in the metaphorical harbor.

### Large Land Purchases

With the bulk approach the county takes to assessing tax value on properties, land purchases can have weighty influence on the metrics tax assessors use. There have been several foreign investor acquisitions in recent years in the urban core which



would be considered by many to be over market. With foreign funds sometimes trying to find a safe harbor in the United States, the buyer motivations might not be simply based on return, but nonetheless, the book value has its impact.

### Relative Scarcity

Tax assessment occurs within defined regions and the metrics applied are based off of comps within that same region. A complication particularly for Oahu our compact communities is the lack of inventory for commercial product. There are multiple trade areas (regions) with population bases of over 40,000 yet there are less than ten commercial properties within them.

The upward pressure on valuations in these situations is tremendous and, another factor worsening the problem are the free market comps used by appraisers extending outside of these trade areas due to the lack of true regional comps. The ripple effect is profound.

### Bull Market

At the risk of stating the obvious, the forward movement and velocity of the market have a wide sweeping effect which other factors only exacerbate. The increase in construction prices helped to curb some of the real estate values because there was natural limitations that resulted on the viable price of the dirt. In other words, land could only trade so high if the estimated cost of construction was going to put the entire project at risk.



223 S. King St, Ste 200  
Honolulu, HI 96813  
(808) 533-BLUE (2583)



**FRED M. NOA (S)**

*Principal*

T | (808) 533-BLUE x101  
F | (808) 369-8669  
frednoa@bluerockhi.com



**ANTHONY J. HUNT (B)**

*Principal*

T | (808) 533-BLUE x102  
F | (808) 369-8669  
anthonyhunt@bluerockhi.com

With these dynamics in play, among others, the cumulative effect on RPT is noteworthy and garnering more attention. We are currently working on two deals with retail clients where the RPT is higher than the common area maintenance charges. This can fluctuate depending on a variety of factors, but the properties involved in these instances would not be outliers by most in the industry. Admittedly, these instances are in relatively simple retail platforms but located within high profile trade areas on Oahu.

Clearly paying triple nets at that level requires a higher level of attention than the “rounding error” approach many times taken in the past. For tenants, occupancy costs are occupancy costs regardless of specific allocation, but these much higher RPT amounts have an erosive effect on their ability to pay base rent.

This erosion to base rents has obvious & negative impacts that transfer to the developer or shopping center owner. As if the economic challenges of development were not high enough in Hawaii with construction costs and high land values, now the increase in RPT is incrementally becoming yet another factor of significance.



*SamKoo Development's purchase of 1391 Kapiolani was one of the more noteworthy large purchases that set a new high water mark.*



223 S. King St, Ste 200  
Honolulu, HI 96813  
(808) 533-BLUE (2583)