

Estate expected to reduce lease fees

Trust's investment chief promises only to review land values

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Kamehameha Schools has placed a 120-day moratorium on the sale of its remaining residential leasehold properties in a move that could lead to lower leasehold conversion prices.

The \$6 billion charitable trust, Hawaii's largest private landowner, said it will take the time to re-evaluate prices for the remaining 4,920 condominium and 390 single-family home leasehold properties that it has not converted.

"We recognize that market conditions may have changed since the last valuation of our inventory so we are taking this opportunity to update our sales prices based on the current market," said Wendell Brooks, the estate's chief investment officer.

The moratorium -- which took effect yesterday -- is a major development in the decade-old leasehold conversion controversy, which has been the subject of numerous court battles and legislative debates.

It also underscores the trust's long-term strategy to exit the residential leasehold market altogether.

Critics have complained that the estate's ousted trustees, Henry Peters, Richard "Dickie" Wong, Oswald Stender, Gerard Jervis and Lokelani Lindsey, charged exorbitant prices for lease-to-fee conversions. The former board members accused lessees of trying to steal land from native Hawaiians.

Kamehameha Schools was established in 1884 by the will of Princess Bernice Pauahi Bishop to educate children of native Hawaiian ancestry.

Brooks said prices could increase or decrease as a result of the estate's four-month review. But observers said they expect the estate to drop prices by as much as 50 percent.

Kamehameha Schools last evaluated its lease-to-fee prices in 1991, when real estate values were at their peak. But with the pullback of Japanese investment in Hawaii and a decade-long downturn in the local economy, land values have fallen significantly.

Local real estate economist Michael Sklarz estimated that the estate could drop its leasehold land prices by between one-third and a half.

He said that land values have declined more than 25 percent statewide since the early 1990s. Sklarz added that the estate's previous management significantly inflated offering prices when they first began the lease-to-fee conversions more than a decade ago.

"If the trust really wants to sell, the prices have to come down," said Michael Pang, principal broker at Monarch Properties Inc., which specializes in leasehold issues. "Everything has come down in the last seven or eight years."

Prior to its voluntary sales program more than a decade ago, the estate owned the leasehold interest to 14,865 single-family homes and 12,700 condo units.

The estate has since sold the fee interest to all but 390 single-family homes and 4,920 apartment units.

But Pang noted that hardly any of the leasehold conversions were conducted during the past five years, due to a stagnant market and unattractive prices. He estimated the rate of return on the properties has been less than 3 percent.

The estate's re-evaluation of its land values is part of a larger plan to exit the overall residential leasehold market, according to Brooks.

He noted that the trust is looking to shift its leasehold lands to more profitable ventures that are subject to less government control.

"In accordance with Kamehameha's overall investment policy, our strategy continues to be to move Kamehameha Schools out of the residential leasehold business so those assets can be redeployed to other asset classes," Brooks said.

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