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Oahu home prices back on top

Honolulu stable as other cities see values plunge, but trouble may be ahead

Pacific Business News (Honolulu) - by [Janis L. Magin](#) Pacific Business News

For the first time in more than a decade, Honolulu home prices are once again the most expensive in the nation.

For once, that may be good news.

It means the Oahu real estate market is relatively stable compared to the wasteland of Mainland cities where new subdivisions sit empty and foreclosures have driven down prices by as much as 40 percent in California.

But not so fast, economists say.

Job losses and income declines in the private sector, and the proposed furlough of state employees, will drag on the local economy and pull down prices as cash-strapped home-owners look to get out from under mortgages they can no longer afford.

“We’re going to continue to see home prices fall here,” said Carl Bonham, director of the **University of Hawaii Economic Research Organization** and a member of the state Council on Revenues. “We’re not going to get the type of drops that California has seen.”

In the early 1990s, Honolulu’s median single-family home price was higher than in the San Francisco, San Jose, Anaheim and Santa Ana markets. But Hawaii’s economy suffered a nearly decade-long downturn at the same time California’s was rising because of the dot-com boom, especially in the Bay Area and Silicon Valley.

That trend began to reverse last year, and was evident in the first-quarter numbers published by the **National Association of Realtors**, which showed that Honolulu’s median single-family home price of \$570,000 was far above the San Jose market’s median price of \$450,000.

“I think it shows the stability in the market,” said Harvey Shapiro, research economist for the **Honolulu Board of Realtors**, which released statistics this week showing May’s median single-family home price of \$515,000 was down 15 percent from May of last year.

For the first quarter, Honolulu’s median price was down 8 percent from 2008. Year-to-date, the median price held at \$570,000 for the first five months of the year, but that was 9.5 percent off the same period in 2008.

By contrast, first-quarter median prices were down by more than 40 percent in the Bay Area and by more than 28 percent in Orange County.

“It’s good news that our prices are holding out,” Shapiro said.

Jack Leslein, principal broker and owner of East Oahu Realty, has seen the cycles of the Honolulu real estate market go up and down during more than 30 years in the business. The finite aspect of available land on Oahu tends to be a stabilizing force, he said.

“Now that we are again the most valuable real estate in the country, I think it particularly attests to the fact that our market didn’t take the severe swing that the rest of the country did,” Leslein said. “Our market tends to be more stable because of the limited access of property.”

Shapiro believes the most positive sign from May’s statistics is that inventory, the number of houses and condominiums for sale, was lower in May than it was a year ago.

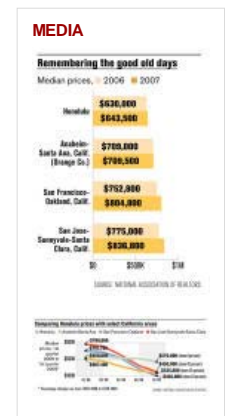
“In Hawaii, our prices are weak but it’s not because of exploded inventory,” he said. “Our prices are weak because of reduced demand, but we’re not getting the double whammy of reduced demand and the inventory going way up.”

Yet, economist Paul Brewbaker points out that while prices may be holding relative to other cities, there’s really only one direction they can go.

“It’s comforting that Hawaii hasn’t fallen as much as anywhere else,” Brewbaker said. “At this point forward, the risk to Oahu is to the downside.”

One factor affecting demand for homes is interest rates, which have started to rise.

The rate for a 30-year fixed-rate mortgage was 5 percent at Hawaii’s three largest banks this week, three-quarters of a percentage point



higher than the record low rates of around 4.25 percent in recent months.

Tighter underwriting standards weed out buyers with low down payments and less-than-stellar credit, and a fear of inflation could cause other prospective buyers to wait on the sidelines.

Yet, the primary risk to Oahu's housing market is still "what happens to jobs," Bonham said.

"When people's income goes down, or they lose their jobs, they're being forced to throw their house on the market," he said. That, coupled with adjustable interest rates that are adjusting upwards, could cause Honolulu to see its foreclosure rate continue to rise, he said.

While Hawaii did not see the huge number of foreclosures that crashed many Mainland markets, the state was ranked 14th in the nation in the number of foreclosure starts during the first quarter, according to the **Mortgage Bankers Association's** National Delinquency Survey.

"For us, the primary reason for foreclosures is going to be job loss and income loss, and adjustable rates," Bonham said, noting that a lot of foreclosures on the Mainland were due to adjusting interest rates. "Our cycle was later so we had more of them to work off."

And foreclosures will put more downward pressure on prices, he said.

UHERO has forecast a drop in home prices of 9 percent in 2009 and another 5 percent in 2010, predictions that are driven largely by the job picture.

Since the forecast was released in early March, the outlook for job growth for the state has worsened.

"With the additional problems of the fiscal crisis, the outlook has worsened again, and the home price forecast will go down again," Bonham said, referring to the state's projected budget shortfalls over the next two years.

Despite that, Honolulu will likely keep its distinction as the most expensive place to buy a house, since California's priciest markets are unlikely to see any type of a rebound, he said.

jmagin@bizjournals.com / 955-8041

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