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THE KOBAYASHIS AND THE MACNAUGHTONS



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Two generations of Kobayashis and MacNaughtons: Patrick, left, and Bert Kobayashi, left photo; Duncan, left, and Ian MacNaughton.

Building Hawaiï

Two kamaaina families that have helped transform Hawaii for decades now turn their sights to upscale Kakaako

By Vicki Viotti
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The face of Kakaako is changing, and the contrasting elements can be seen literally side by side. In the midst of roadwork noise off Pohukaina Street, near graffiti art and other marks of an urban zone in transition, prospective Asian buyers pick their way through the dusty alleyway into the sales offices for Vida, one of the luxury condominiums going up in the neighborhood.

They'll get a clear sense of the new product because inside, just through the doors of the replica of the semi-private elevators planned at the project, there's a full-scale mock-up of one of the condo floor plans.

Several blocks farther east, others contemplating a multi-million-dollar purchase can see the stunning views afforded by a home at Park Lane, the exclusive property overlooking the

seaside from its perch on what is now the Ala Moana Center parking deck.

The executives at the helm of these particular projects, among many others, are members of two families who have left an outsized imprint on Hawaii development trends. They are part of the latest trend, too, which is tapping into the high upscale market for island residential properties, especially along the Kakaako waterfront.

They are the MacNaughtons and the Kobayashis, the developer and builder, respectively, of numerous projects in the state. The Kobayashi Group continues to make its mark in residential development; The MacNaughton Group is probably best known for retail developments. But the profile of both companies — each has neighboring offices in the Hokuia tower that was one of their joint enterprises — continues to rise along with the luxe condo towers in their

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>> BlackSand Capital finances the family partnership. **E4**

portfolios.

Their success is a story of generations, with deep local ties. Duncan MacNaughton's dad was an executive for Dole Pineapple and then C. Brewer & Co. He could see that the days of Big Ag were numbered, said MacNaughton, who found his career in real estate development.

Bert Kobayashi learned his trade in the school of hard knocks. His father pressed the teenager into service picking up nails and scrap wood on the job site — throwing them all away after each day. The idea, it turned out, was not to save them but to learn all the component materials of the builders' trade, he said.

"My dad started the business in 1956," Kobayashi said. "But he was a single proprietor, with only one laborer and one carpenter."

"He had to decide if he was going to sell his station wagon to buy one truck — which he did," he added, grinning at the recollection. "We had three kids. My youngest brother stayed in the front with my mom and dad, and my brother right next to me in the back, with the canvas over our head all the time."

How things have changed. Both companies are now multigenerational enterprises of these families, with myriad projects that also involve partnering with the various local business associates in their networks.

There is an offspring company, too, involving younger partners of the

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BUILD

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parent firms: BlackSand Capital, a real estate investment firm with various Waikiki assets currently, including King’s Village. Its principals are Ian MacNaughton and B.J. Kobayashi, with offices in the same building (see story below).

The MacNaughtons and Kobayashis have done well by reading the economic signs and trying to get ahead of the demand. These days, there’s an unquestionably lucrative call for the top-market condos of Kaako, and the international interest is also undeniable. But, the principals continue to point to the local demand as well — from those who already own homes but want the downsized urban lifestyle, to be sure, but local all the same.

“We build to the market,” said Duncan MacNaughton, the chairman and founding partner of the firm. Before the companies turned to the residential condominium boom, he had capitalized on the capacity for retail growth he perceived in Hawaii, especially during the nationwide trending toward big-box and outlet stores. At the outset, he said, it was all news to him.

“I went to a seminar, a real estate seminar on the East Coast, and one day was devoted to talking about the future expansion of the big box retailers in the country,” MacNaughton said. “They had been established in various parts of the country, but not here yet. And I had never known what the big-box retailer was.”

He found out soon enough, and that was the impetus for a series of deals to establish several mainland retailers in Hawaii, not the least of which were Costco, Starbucks, Kmart and Jamba Juice. There was also the acquisition of the locally based Pricebusters in bankruptcy, which the firm ultimately closed for financial reasons.

However, MacNaughton points to the overall increase of budget-oriented retail competition as the legacy of his dealings. He doesn’t believe that process is exhausted yet, either.

“Hawaii, Oahu in particular, is under-retailed in comparison to other communities across the nation,” he said. “Still true. Look at the retail on the mainland. You can walk down the street and there are retail stores all over the place.”

The isle public, while it has clamored for the opening of one retail chain after another, has resisted commercializing on the mainland scale that MacNaughton cited, and he acknowledged that the state’s and counties’ comparatively zoning and land-use laws will keep them in check.

But the retail landscape is transformed. Many other players were involved in that, but Costco represented the big first step.



COURTESY

An image from a promotional brochure for Park Lane shows the view of Ala Moana Beach Park from the condominium units for sale.

“The introduction of those value retailers clearly changed Hawaii, but it also changed our business,” said Ian MacNaughton. “My father scaled The MacNaughton Group around the entrance of these retailers to the Hawaiian islands.

“He brought the likes of Costco, Kmart, Eagle Hardware, Borders Books and Music, and built shopping centers on Oahu as well as the neighbor islands surrounding these retailers’ entrance. That was a major growth vehicle for The MacNaughton Group.”

The residential focus would come later, but for the Kobayashis, that was largely what they did for years — though at the middle-class end.

“We did a lot of affordable rentals, affordable sales,” said Bert Kobayashi. “In fact, that’s all we did. The first time we did any high-

end thing was at Kukio, on the Big Island” — a reference to the luxury resort community on the Kona-Kohala coast.

“That project would have gone under, if I never had the partners that we had, because it required a lot of cash. We spent \$300 million, and no sales. You know why? The week we went to sales, guess what happened — 9/11.

“It was tough, but we went through that.”

Sons B.J. and Patrick also worked for the construction company — on the Moana Surfrider renovation — before heading off to college. Patrick remembered rejoining the company during another low ebb, the recession of the 1990s.

“What we did was focus in on any opportunity that would come our way,” he said. Some of the first work that we ended up doing

ended up being deemed 100 percent affordable housing, just because the market and ‘affordable’ was the same, because everything was so low.”

Different projects seem suited to different markets, he added, and the Park Lane development had high-end emblazoned on it. Sears had controlled the parking deck for the duration of its long lease, but when the company left, the option of building on that frontage opened up.

“It’s a very desirable area; you have wonderful ocean right in front of you, a unique look at things, with Magic Island there,” he said. “Then to have Ala Moana Center as your back yard, and being able to enter into that vibrant center when you want to and have a calm and relaxing home at other times was just a special opportunity. That called for something that was higher end, and also low rise.

“The Park Lane site is so big, at over 7.3 acres, that it’s the first time we’ve ever had that amount of space, where you don’t have to compromise on anything.”

The developers say that over 70 percent of those units are currently selling to buyers with local addresses. But, the senior Kobayashi acknowledged, the resale likely will change that proportion.

For example, at Hokua, he said, “it was over 75 percent local when we sold it. But then the price that we sold it for — \$1 million for ‘D’ unit — one year later it sold for \$4 million. So the first buyers really made out.” And a lot were Asian, he said, as well as from the mainland.

Both of the families hear the critique that catering to the luxury buyer doesn’t serve the housing needs of the larger population here. There is a broader benefit, though, Patrick Kobayashi said.

“As we can attract this new type of buyer to Honolulu, these are people that are paying 100 percent of the taxes that are owed, but only using the services to a very small degree, because they’re only here some of the time,” he said. “And we should always take that opportunity, to have people that pay in 100 percent, but only use a little bit.”

BlackSand Capital: Financing the development businesses

The MacNaughton-Kobayashi pairing is such a family affair that it’s not surprising the marriage would produce a “child” — BlackSand Capital — and one that can serve the purpose of the parents, too.

BlackSand is a private equity firm that puts together funds, acquires a development asset and makes money for the investors. It can supply some of the money needed for projects engaging MacNaughton and Kobayashi, but other partners as well. The bonus, say its principals, is that because most of the capital comes from Hawaii investors, the gains tend to stay in-state, too.

It’s run by B.J. Kobayashi and Ian MacNaughton, scions of the longtime partnership firms. The niche is financing Hawaii-based projects, a process that can be easier and faster for a locally based equity company to navigate.

After law school, Kobayashi was drafted by his father to put together capital for the larger projects the construction firm wanted to do. Ian MacNaughton returned to Hawaii after working for the Swiss investment banker UBS, Goldman Sachs and Starwood Capital Group.

“That’s when I first began thinking about doing it here in Hawaii,” he said. “Because Ian would make a great partner, because he’s worked in the business. I did not work in the business; I worked a lot across the table from them, but I was not inside the belly of that beast.”

Not everyone’s related in the family enterprises. Kathryn Inouye is a partner at Kobayashi, for example, and Dick Gushman, Jeff Arce and Eric Tema are among the many names mentioned at MacNaughton offices. But just rounding out the family roster, brother Brett MacNaughton is a development associate focused on design, and sister Alana Kobayashi Pakkala is executive vice president and marketing director.

— Vicki Viotti, Star-Advertiser