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Passco Enters Hawaii with \$26.9M Retail Buy

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July 01, 2004
 By Jennifer D. Duell, Senior Editor

Passco Real Estate Enterprises Inc. made its first acquisition in Hawaii with the purchase of The Kaua'i Village Shopping Center from Kaua'i Village Associates for \$26.9 million.

"We're really excited about the asset," said Thomas Jahncke, a senior vice president with Passco, which made the acquisition through a tenant-in-common structure with 22 investors. "We like Hawaii's growing economy and the barriers to entry that mean it is unlikely there will be competition."

Built in 1990, the 113,495-square-foot center is located in Kapaa on the Island of Kaua'i and is anchored by Safeway and Longs Drugs. Additionally, Kaua'i Village is one of Kaua'i's largest and most popular retail destinations. The eight-acre center features an eclectic mix of national and regional tenants and a variety of restaurants that appeal to both residents and tourists.

According to Jahncke, the cap rate for the center was between 8.5 percent and 9 percent. "It was a very attractive cap rate compared to most properties today," he said. Passco was represented by Great Western Finance Inc. in the transaction, while the seller was represented by Meridian Pacific Ltd.

Jahncke said that Passco is interested in acquiring additional retail properties in Hawaii, which has seen significant investor interest from Mainland capital. For example, Hotel giant Host Marriott Corp. bought The Fairmont Kea Lani Maui, a 450-suite property located in the posh Wailea Resort area, for \$355 million.

Moreover, Hawaii experienced a record year of investment in 2003, with nearly \$2 billion worth of commercial real estate trading hands. Large deals included The Shidler Group's purchase of a two-building portfolio including Davies Pacific Center and Pan Am Building in Honolulu from the California State Teacher's Retirement System for \$90 million and HRPT Properties Trust's acquisition of the Damon Estate commercial and industrial lands in Oahu for \$480 million.

Real estate experts point to Hawaii's economic growth as a driver for investment. The state's Gross State Product increased an average of 3.5 percent per year for the past three years compared to an average of one percent nationally.

Additionally, Hawaii's unemployment rate of 4.4 percent is the lowest in the nation, and the state is expected to experience job growth of 2 percent this year and 1.7 percent in 2005, according to the State Economic Forecast. However, the state has outperformed the forecasts since 2001, posting a gain of 4.6 percent at the end of 2003.

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