



# IMANAKA KUDO & FUJIMOTO

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## HAWAII CONDO FAX

A Faxletter on Condominium Development Issues in Hawaii

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### CONDOTEL PERMITTING PROCESS PROPOSED

In response to the growing trend of the conversion of existing hotels into condominium hotels, or “condotels”, and citing a decrease in the number of hotel guest rooms to meet the needs of transient guests, Honolulu City Council Chair Donovan M. Dela Cruz recently introduced Resolution 05-284, proposing a bill establishing a permitting process for condotel conversions. As Chair Dela Cruz explained, “If the trend continues, the number of hotels converting to condominiums will significantly reduce the number of guest rooms available on our island and more importantly, reduce the number of local jobs in our economy.”

Under the proposed legislation, any hotel with more than 200 lodging units desiring to convert into a condominium will be required to apply for a hotel conversion permit. The process includes a 90-day review period by the director of the Department of Planning and Permitting, a 60-day Council review of the report and a public hearing to approve or deny the application.

The proposal would also require the director of the Department of Planning and Permitting to not recommend the approval of a hotel conversion permit if the director finds that the cumulative effect of hotel conversions (past, present and future) to have a “significant and negative” impact on hotel room availability. “Significant and negative” is defined in the ordinance as a reduction in the total number of transient vacation units in the hotel by more than ten percent, or the reduction in transient vacation

units resulting from a proposed conversion by more than five percent, when combined with previous conversion permits affecting the same hotel.

The proposed legislation creates a significant hurdle for developers interested in undertaking a condotel conversion. In addition to adding an additional step to the process, the ordinance fails to recognize serious securities issues for developers. Although many units in condotel conversions remain available for rental, either through direct rental or rental through a manager, because a developer is not allowed to require purchasers to participate in a rental program as a condition of purchase, a developer could not submit any justification or evidence regarding the effect of the conversion on hotel room availability.

Resolution 05-284 may be found online at <http://www4.honolulu.gov/docushare/dsweb/Get/Document-37421/0rhwg5db.pdf>.

*‘A ‘ohe hana nui ke alu ‘ia*

*No task is too big when done  
together by all.*

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