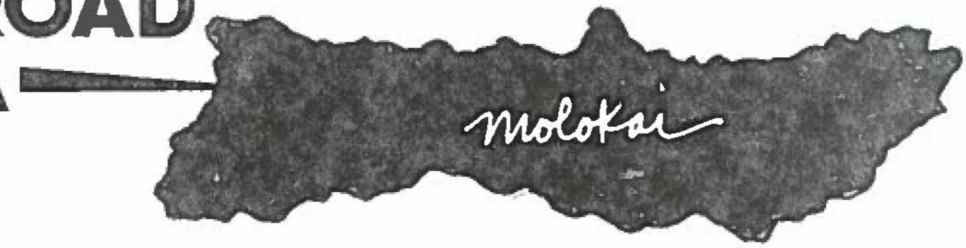
from Hawaii Investor
Oct 86
V 6. No. 10

West Molokai's beleaguered Kaluakoi resort thought it had a winner until the Swig family abruptly withdrew from a luxury hotel project. Over the past few years, it's been . . .

A ROCKY ROAD AT KAIAKA



"I was stunned," said the developer. "It was an absolute shock," said the landowner.

Unpleasant surprise was the disorder of the day this August when the well-heeled Swig family of San Francisco announced it was pulling out as financial backer and operator of the proposed 375-room Kaiaka Rock resort on Molokai's windy west end. The Swigs, owners of four posh Fairmont hotels on the Mainland, had wanted to slightly redesign the Kaiaka development and decided that escalating costs and possible permit problems weren't worth the huge risk. "The project just wasn't economically feasible," said Melvin Swig.

Even by Hawaii's skewed development standards, the Kaiaka Rock project has had a lively past. But the $80 million question is: Does it have a future?

Of course, developer Stephen Thomas, who's put nearly four years into it, believes it does. Landowner Kaluakoi Corp., a subsidiary of Louisiana Land & Exploration Co., hopes it does. Molokai's oft-combative community, which was deeply split over whether to support the ambitious project, doesn't know what to think.

Yet there's more hanging in the balance than a planned Mauna Kea-class resort and the hundreds of badly needed construction and service jobs it would provide. At stake is the future of the 6,800-acre Kaluakoi resort, about 5,000 acres of which are still owned by master developer Louisiana Land's Kaluakoi Corp.

New Orleans-based Louisiana Land, principally an oil and gas company, has poured more than $25 million in infrastructure improvements into the Kaluakoi property since it was acquired in 1974, but so far the resort has been a dry hole. Several planned Kaluakoi condominium projects have failed to get off the ground. Kaluakoi Corp. lost more than $3 million last year, and early this year announced it was indefinitely reducing its financial commitment to the resort by "between 25 and 50 percent."

Parent company Louisiana Land, stung by lower energy prices, showed a profit of $19.9 million—down 61 percent from a year earlier—on revenues of $435 million for the first half of 1986. Aggressive investor Harold Simmons recently acquired 5.1 percent of Louisiana Land's stock and may buy more, and Simmons doesn't like his companies to hang on to unprofitable assets. Louisiana Land executives say there haven't been any bona-fide offers for the Kaluakoi acreage, but few doubt that Louisiana Land would sell out in a minute if the price was right.

Meanwhile, Kaluakoi Corp. tightens its belt. "We're still in this austerity program, until the hotel goes or does not go," says Phil Boydston, Kaluakoi vice president. "We still have the project, and still believe it's viable. We just have to ride this horse."

It hasn't been a smooth ride. Mainland developers Stephen and John Thomas first moved to acquire development rights for the Kaiaka project in late 1982, and after meeting with the community and carefully working out plans, applied for a Maui county special management area permit under Kaiaka Associates in mid-1984.

Then came the firestorm. A Molokai community newspaper published a story about what it said was an FBI investigation into alleged illegal kickbacks made in a Colorado condominium project developed by the Thomas brothers. The Thomas brothers responded by slapping the newspaper with a libel suit. (The libel suit was eventually dropped. John Thomas, who resigned his interest in the Kaiaka project, last year was sentenced to two years in federal prison for bank fraud.)

After protracted hearings, Kaiaka Associates finally won SMA permit approval. Then, the activist group Hui Alaloa filed a state court appeal. Emotions ran high, and Lt. Gov. John Waihee this April stepped in to negotiate a settlement that satisfied Hui Alaloa's concerns about a heiau site, employee housing, water availability, and job training.

As approved by the county, the Kaiaka project would include a 375-room hotel, a 27-hole golf course, and six restaurants along Papohaku Beach. The cost has been estimated at around $80 million and the Swigs' plans would have added another $40 million.

But now it's back to the hunt. Thomas, who says between $2 million and $3 million has already been invested in the project, is confident he can find a new builder and operator. "I'm not discouraged," he says.

Thomas won't say who he's talking to. Several upscale hotel management groups, including Four Seasons, have been eyeing Hawaii. But finding a new financial partner or co-developer may be more difficult for Thomas, especially with the pending tax reform's effect on real estate investment.

While Thomas toils, Molokai waits and Kaluakoi Corp. watches the bottom line and the clock. "Always there's a point when time runs out," says Boydston. —B.V.