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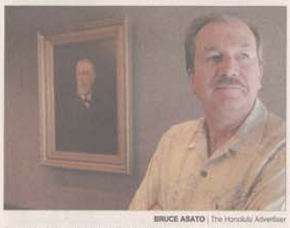
James Campbell Company Taking Shape



BRUCE ASATO | The Honolulu Advertiser

Steve MacMillan, Campbell Estate CEO, sees the estate's dissolution as an opportunity to further diversify its assets in the transition.

James Campbell Co. taking shape

For-profit company takes over as trust is dissolved by 2007

BY ROB PEREZ
Advertiser Staff Writer

KAMA'AINA TRUST

- Estate's assets and payouts to beneficiaries
- Its history is tied to sugar, land

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In less than two years, an era spanning more than a century in Hawai'i comes to an end.

Campbell Estate, one of the state's largest private landowners and the economic muscle behind the development of Kapolei, will cease to exist.

But that won't be the end of its operations. Even before Jan. 20, 2007, the dissolution date for the $2.2 billion estate, a transition into a for-profit company will be near completion.

The changes already in place and those expected to occur by 2007 have major implications for Hawai'i in general and Kapolei in particular. Some say the changes bode well for the estate, the state and the West O'ahu region. They say the surviving entity, James Campbell Co. LLC, will be better positioned to pursue ambitious plans for the area envisioned as O'ahu's second urban center.

"We see this as an opportunity to be a national diversified business in Hawai'i, and I think that's healthy for Hawai'i," said Stephen MacMillan, the estate's chief executive officer.

Others aren't so sure, particularly as it deals with Kapolei.

"I think the verdict is still out," said Lorrain Burgess, a 17-year Makakilo homeowner. Burgess

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CAMPBELL ESTATE IN TRANSITION

Campbell Estate photos

Campbell Estate's development of Kapolei has received its share of criticism, particularly because of traffic congestion in the area.

Estate

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gives the estate lukewarm reviews for its Kapolei planning, mostly because of the area's traffic congestion.

Few nationally diversified companies are headquartered in Hawai'i. Having a business like Campbell's based here means revenue and jobs for the local economy and, as a large property owner, provides a level of consistency in planning and oversight that would be more difficult to achieve with multiple owners, according to Nicholas Ordway, a University of Hawai'i real estate expert.

The potential downside: If a company's investments get so heavily concentrated on the Mainland, it eventually might relocate there for efficiency, he said.

"Too many of our big companies have become basically absentee landowners," Ordway said.

The estate says it is committed to keeping its headquarters in Hawai'i. But to prepare for life beyond 2007, Campbell restructured its operations in 2003, cutting a third of its staff. It now employs 77 people.

To help kick-start development in Kapolei, the estate in 2002 began offering would-be buyers the option to purchase the fee for the land. In the past, the estate offered only ground leases in the urban core and Kapolei Business Park. By selling property outright through its affiliates, the estate gives up some control but attracts buyers who prefer owning the land.

To maintain the look of Kapolei, however, restrictions are imposed on what can be built.

The 2002 change has brought a mix of new owners to Kapolei, including a California investment firm, Jupiter Holdings LLC, which recently acquired 91 acres at the business park, and a local development partnership, which has a pending deal to acquire 20 acres for a regional shopping center.

Other deals include The Honolulu Advertiser's acquisition of 11.6 acres for its new printing and distribution center.

LAND-RICH TRUST

The idea of developing the West O'ahu region dates to the late 1800s when James Campbell, a Scottish carpenter, acquired arid 'Ewa land and created Hawaii's first artesian well to get water there. By the time he died in 1900 when the for-profit trust was created, Campbell had amassed $3 million of real estate.

Campbell is one of two historically land-rich Hawai'i family trusts that have played major roles in O'ahu's development but are now headed toward termination. The other, the estate of Hawai'i bank pioneer Samuel Mills Damon, began its dismantling last year after the death of Damon's last surviving grandchild. That estate eventually will distribute hundreds of millions of dollars to roughly 20 beneficiaries.

James Campbell's will stipulated that the estate would end 20 years after the death of his last surviving daughter. Beatrice Wrigley's death on Jan. 21, 1987, started the countdown to midnight, Jan. 20, 2007.

The estate will survive that date for a short period to deal with final details of the transition. But by that date, all the estate's assets and liabilities are expected to be transferred to the new company, beginning a new era for the Campbell family.

Thirty-one of the 176 descendants of James Campbell currently get income from the estate.

Most of the 31 beneficiaries will be shareholders in the new company. When the estate ends, the beneficiaries will get "considerably" more than $1 billion worth of shares in the new company and cash, MacMillan said.

He declined to be more specific about the distribution value but some peg it at about $1.7 billion, with roughly three-fourths in shares and the rest in cash.

Given such large amounts, several beneficiaries said they expect more people will surface in the months ahead claiming to be Campbell descendants.

About six have emerged so far, beneficiaries say, though none were deemed to be legitimate heirs.

"When you have that much money at stake, people are going to be making claims," said Campbell heir Fred Trotter.

The estate today is hardly the estate of yesteryear, when its entire focus was on Hawai'i. As recently as the 1970s, it had virtually all its assets in the state.

Now, the for-profit trust increasingly looks outside the Islands for investments, a diversification strategy that business types applaud but that worries some Kapolei homeowners.

By the end of this year, the estate is expected to have 75 percent of its real estate investments, based on market value, outside the state. Just a few years ago that percentage was less than 50.

The trend has shrunk the estate's Hawai'i holdings to 57,607 acres as of the end of last year, compared with 70,700 acres in 1999. And the Hawai'i number is projected to shrink even more this year as pending deals, such as the sale of Whalers Village shopping center on Maui, are completed.

As the estate sheds local assets, much of that money is reinvested on the Mainland, where it already owns commercial properties in 15 states and the District of Columbia.

In February, MacMillan told a business group that Campbell expected to acquire up to $200 million worth of commercial real estate this year, mostly on the Mainland.

The estate hasn't purchased a major Hawai'i property since at least the 1980s. But Campbell's diversification strategy, which began in the 1970s and has picked up steam in recent years, makes the organization more financially stable and better able to weather economic downturns, as it did here in the 1990s, estate officials say.

"I don't think that's negative, nor is it any indictment of Hawai'i," MacMillan said.

Ordway said Campbell's shift to a Mainland investment focus makes sense given the "boom and bust" cycles experienced by Hawai'i developers over the past 20 years or so.

"What Campbell is doing is diversifying its risk so it won't be subject to the same ups and downs," Ordway said. "That's very intelligent."

Trotter, the Campbell heir who in the 1990s raised concerns about the estate's shrinking Hawai'i portfolio, has since become a supporter of the diversification strategy. "My fears are nothing today like they were back then," Trotter said.

What's more, much of the income the estate earns from its Mainland investments returns to Hawai'i via distributions to its beneficiaries, most of whom live here, and through spending on such projects as the development of Kapolei, MacMillan said.

The estate in 2003 distributed more than $66 million to beneficiaries, according to the most recent figures in court documents.

KAPOLEI EXPANSION

The continuing expansion of Kapolei, which the estate began developing in 1990, will be a primary focus for James Campbell Co., estate officials say.

Over the next 15 years, the estate and its successor are projected to spend more than $200 million on Kapolei, compared with more than $182 million spent in the past 15 years.

Asked if the $200 million projection will be reduced as Campbell sells more of its Kapolei land, estate spokeswoman Theresia McMurdo responded in an e-mail, "As with any budget or plan, if conditions change, that amount will need to be adjusted."

The uncertainty surrounding the pace of Kapolei's future development, especially for transportation needs, raises questions among some residents who already complain that traffic has worsened in recent years.

Many residents avoid Kapolei's main shopping area during regular business hours or on weekends, instead driving miles away to shop or dine. Given those conditions, some residents wonder whether Campbell's increasing Mainland focus will come at the expense of Kapolei.

"The estate always has fallen short on infrastructure," said Kioni Dudley, a Makakilo homeowner since 1979.

Added Makakilo resident Burgess: "For something that supposedly was so well planned, it's not really working very well."

MacMillan acknowledged that the estate didn't anticipate how much traffic would be generated by Kapolei's initial development. He said the estate is accelerating spending to help alleviate congestion, committing $11 million on road improvements this year.

MacMillan said the attention Kapolei gets won't lessen once the estate ends. "Our commitment to Kapolei, if anything, has increased as part of our ongoing business plan," he said.

Burgess, however, said she's still waiting for the region to be transformed into the well-planned urban center the estate and others have touted for years. That pitch was one reason she moved to the area.

"For such a young city, I expect more," Burgess said.

Reach Rob Perez at 525-8054 or rperez@honoluluadvertiser.com.

Campbell Estate owns land in Kahuku (above), although 75 percent of real estate investments will be outside the state by the end of 2005.

MAJOR LANDOWNERS

Largest private landowners in Hawai'i as of 2003

LANDOWNER	ACREAGE
1. Kamehameha Schools	365,760
2. Parker Ranch	134,446
3. Castle & Cooke	94,737
4. Alexander & Baldwin	90,000
5. Campbell Estate	59,645

Source: State of Hawaii Data Book

THE TRUSTEES: (clockwise, from upper left) David A Heenan, R.J. "Zap" Zlatoper, Richard W. Gushman and Clinton R. Churchill.

THE ESTATE AT A GLANCE

ASSET VALUE: In 2004: $2.2 billion **In 1999:** $2 billion

REVENUE: In 2004: $189 million **In 1999:** $158 million

HAWAI'I ACREAGE: In 2004: 57,607 **In 1999:** 70,700

MAINLAND HOLDINGS: In 2004: 12.5 million square feet of office, retail and industrial properties in 15 states and District of Columbia **In 1999:** 10.5 million square feet

DIVERSIFICATION: In 2004: 44 percent of real estate holdings (based on value) in Hawai'i, 56 percent on Mainland **In 1999:** 52 percent in Hawai'i, 48 percent on Mainland

EMPLOYEES: In 2005: 77 **In 1992:** 160 *(peak employment)*

BENEFICIARIES: In 2005: 176

BENEFICIARIES RECEIVING ESTATE INCOME: In 2005: 31

DISTRIBUTED TO BENEFICIARIES IN 2003: $66.7 million

Campbell Estate

Campbell Square in Kapolei is now the headquarters for the estate.

HAWAI'I HOLDINGS AS OF 2004