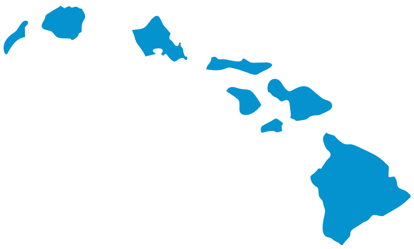
HAWAII MID-YEAR 2014

INVESTMENT MARKET REPORT



MARKET INSIGHT

"Safe haven with a strong upside appears to be a new reason for international investors to buy Hawaii investment properties."

- Guy V. Kidder (B) CCIM SIOR
Vice President

MARKET INDICATORS

	MID-YEAR 2013 - 2014
SALES VOLUME	↑
TRANSACTION COUNTS	↑
CAP RATES	↓

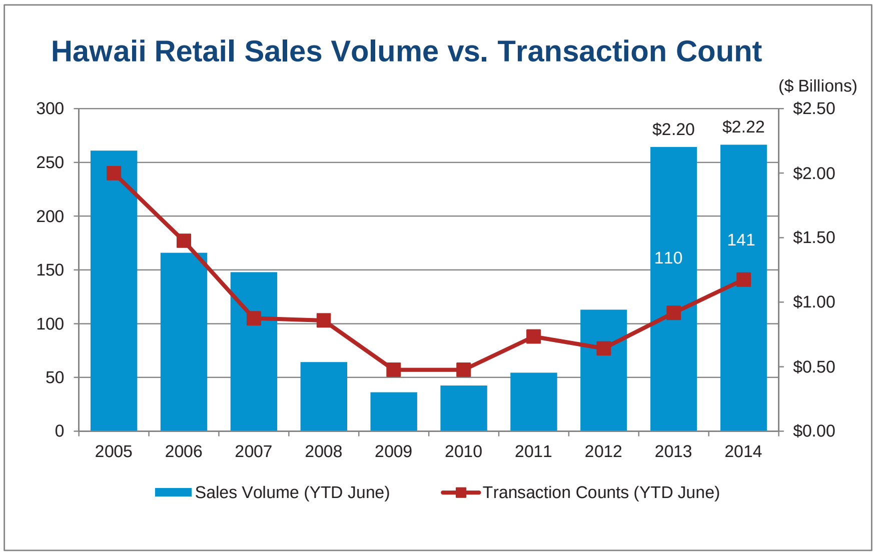
HAWAII HIGHLIGHTS

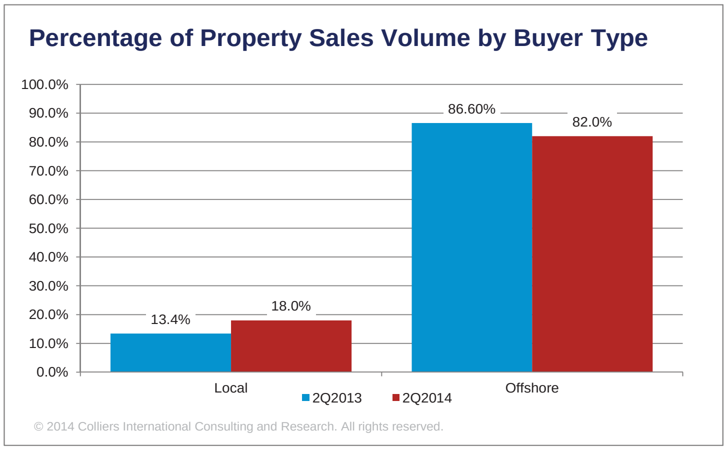
MID-YEAR 2014 $1M+ COMMERCIAL INVESTMENTS NUMBER OF TRANSACTIONS	141
MID-YEAR 2014 $1M+ COMMERCIAL INVESTMENTS SALES VOLUME	$2.22 Billion

New Mid-Year Sales Record Established

The amount of commercial real estate investment sales in Hawaii continues to be elevated. For the second consecutive year, the mid-year dollar volume reached a record level, rising above $2.2 billion. The number of transactions increased from 110 to 141, a 28.2% increase over the past year.

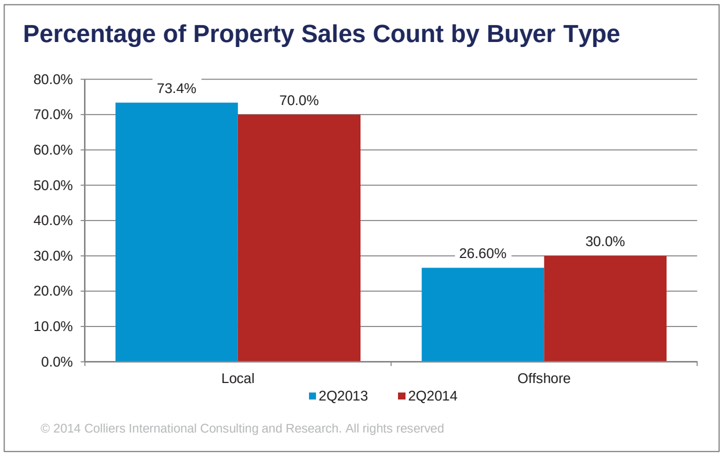
More than 82% of the mid-year sales volume can be attributed to offshore investors. The prolonged low interest rate environment, return of the availability of investment capital and healthy real estate returns have drawn interest from investors throughout the world to Hawaii's commercial investment assets.





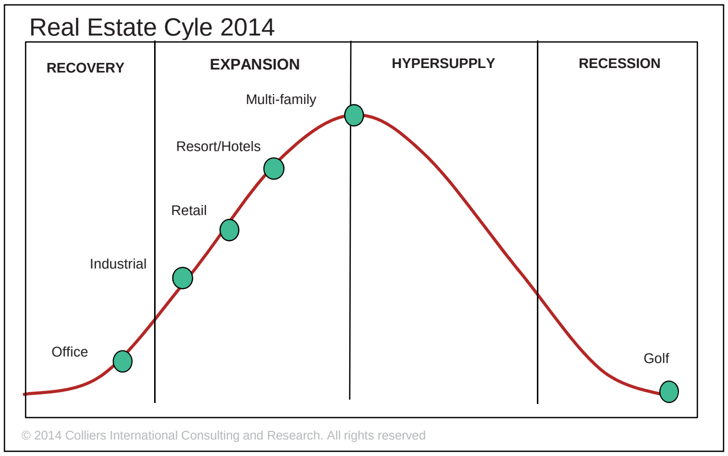
Generally, large institutional investors prefer to spend time evaluating the merits of a property transaction large enough to warrant the effort. The rising competition among investors for prime properties in top tier markets has forced capitalization rates downward. This cap rate compression forced many investors to widen their search criteria to include tertiary markets such as Hawaii.

Additionally, institutional investors appear willing to drop their investment thresholds from $50 million to $25 million per transaction with the hope of casting a wider net to find target returns. In 2012, the average transaction size by an offshore investor for a Hawaii property was $84.2 million. Over the past two years, this average had fallen to $42.5 million.



Real Estate Cycle – Expansion Mode

Colliers identified four quadrants of the real estate cycle: recession, recovery, expansion and hyper-supply. Currently, many of the commercial real estate property sectors are predominantly residing in the expansion phase where healthy tenant demand is driving rents upward. A true indication of the expansion phase is the amount of construction activity that is underway. Currently, developers are seizing the opportunity to capitalize on rising rents and sales prices by building high rise luxury condominiums, investing in hotel renovations and rebranding efforts and developing retail shopping centers.



Questions are being raised about the number of high-rise luxury condominiums being planned in Kakaako and whether the market is deep enough to sustain this level of growth. Additionally, concerns are being raised whether all the retail development (inclusive of General Growth's Ala Moana Center expansion, Taubman's International Marketplace, DeBartolo Development's Ka Makana Alii and Robertson Properties' Aiea Live Work Play) will be supported by consumer demand. It is not inconceivable that over the mid-term time horizon that an overabundance of construction will push us into the hyper-supply phase of the real estate cycle.

Hawaii Vulnerable to Financial Market Volatility

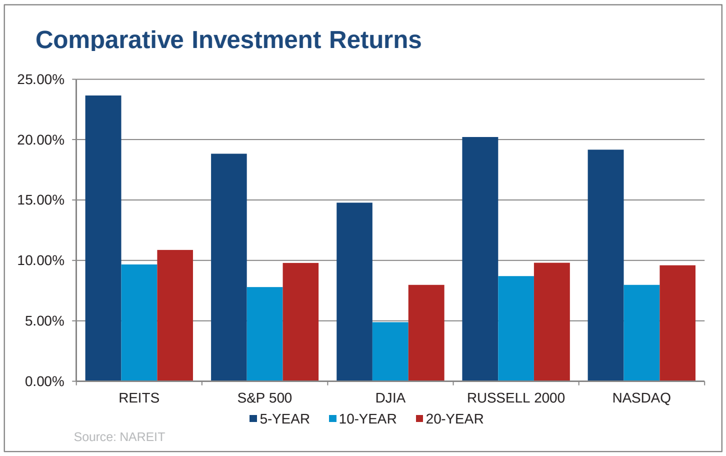
While the impact of major national and global economic damaging events used to take six to twelve months or longer to be felt in Hawaii, this is no longer the case. Hawaii is no longer isolated and oblivious to changes that are occurring around the globe. The internet and social media has made news around the world readily available to everyone 24/7. This globalization effect is also responsible for the speed in which Hawaii's real estate markets reacted to major events such as the internet meltdown in 2001, the SARS epidemic in 2002, Iraqi invasions in 2003, and the Great Recession of 2008. In fact, when Washington Mutual, Bank of America, Goldman Sachs, Countrywide Home Loans, Bears Stearns and others were embroiled in the financial markets downturn, Hawaii suffered immediately with a dramatic jump in loan defaults and rising number of foreclosures.

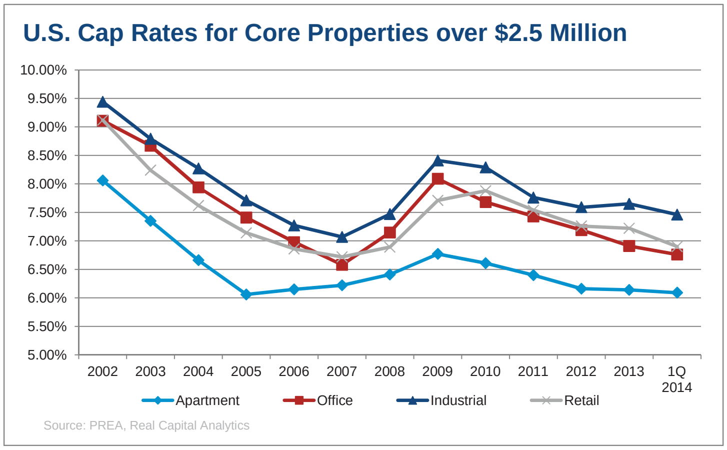
Commercial real estate investment and development rely heavily on the flow of capital from financial markets from around the world. Institutional funds in New York, Los Angeles and Tokyo often control the purse strings for prime properties in Hawaii.

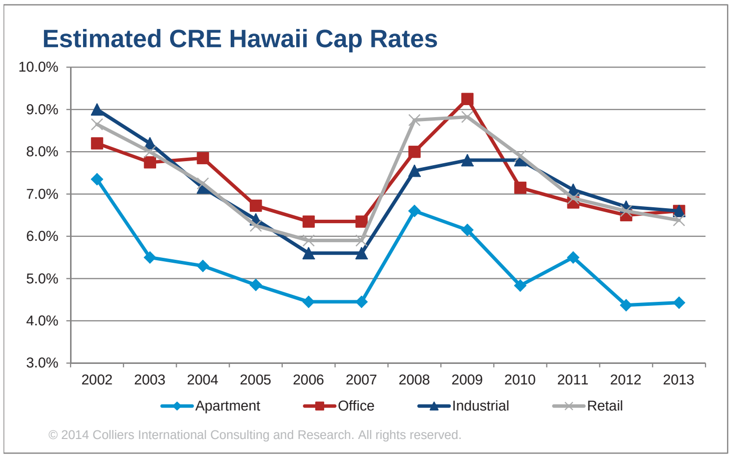
Nationally, commercial real estate loan originations are beginning to climb again as capital is flowing back into real estate investments. The National Association of Real Estate Investment Trusts had identified that REITS have generated 16.25% returns for 2014, much higher than that of comparable investments in the S&P 500, Dow Jones Industrial Average, Russell 2000 or NASDAQ Composite. These higher yields are attracting additional investment interest and driving sales prices upward.

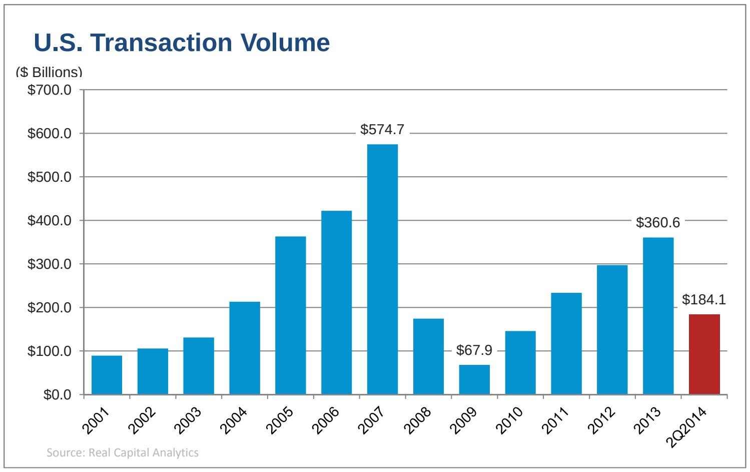
Capitalization rates continue to compress, having fallen consistently over the past five years. Retail properties faced the largest one year decrease, with average cap rates falling below 7% for the first time since 2008.

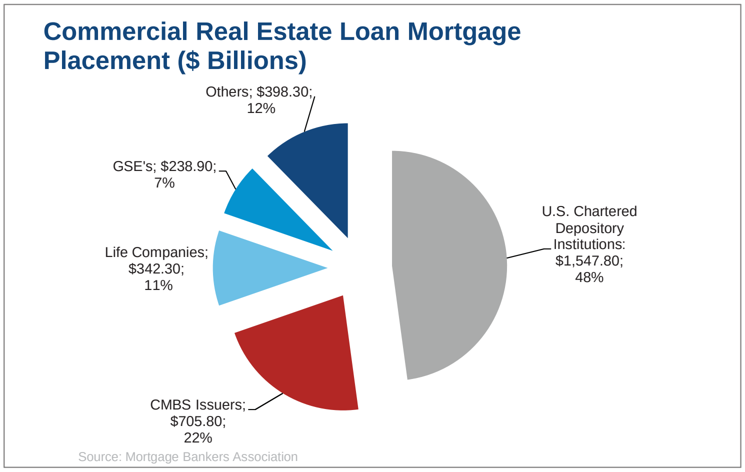
Locally, capitalization rates which had been falling over the past three years, appears to be flattening out. Investment returns are now hovering between 6% and 7% for most fee simple desirable investments. Multifamily properties remain in high demand with a capitalization rate above 4%.

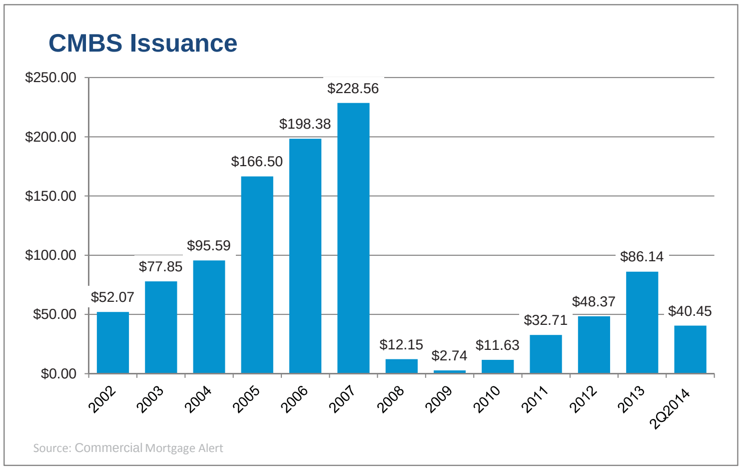












Not Out of the Woods… Yet

Real Capital Analytics, a firm that monitors commercial real estate transactions over $2.5 million in sales price, pegs the U.S. year-to-date June investment sales volume at $184.1 billion. Year-end 2014 sales volume is projected at $450 billion, a 25% jump over the year-end 2013 sales volume of $361 billion.

The strengthened investor demand combined with low interest rates has drawn increased lender interest. Last year, the boost in commercial real estate loan origination was primarily due to the loan placement by Commercial Mortgage Backed Securities ("CMBS") lenders. For 2014, CMBS loan origination has slowed, but other lenders are being drawn to the healthy risk adjusted returns from mortgages. According to Mortgage Bankers Association, life insurance companies and banks have posted healthy jumps in commercial real estate loans of 18% and 55%, respectively.

The Federal Reserve Board, which had cut short-term interest rates to near zero, is now faced with a tough balancing act. Inflationary risks are increasing with the steady improvement of the U.S. economy. A way to dampen inflation has been to increase interest rates. Unfortunately, a sharp rise in interest rates would likely correspond to a boost in commercial real estate loan defaults. A 150 basis point increase to interest rates on mortgaged properties with a debt service coverage ratio of 1.2 is projected to result in a 6.7% to 15.7% jump in problem loans for CMBS mortgagees. Trepp, a CMBS market monitoring service, estimated that nearly $330 billion in CMBS loan maturities can be expected by 2017. This surge in maturing loans is likely to create a difficult challenge for borrowers seeking to refinance should interest rates increase.

The Federal Reserve is anticipated to reduce its bond buying economic stimulus package from a current $35 billion per month to zero by Fall 2014. Should the economy continue to post positive gains, it is highly likely that the Federal Reserve will begin raising interest rates. In a Reuters' survey of economists, the median outlook anticipates that the first interest rate increase will likely begin by the second quarter 2015. The Federal Reserve could react sooner should inflationary fears become more widespread, but most economists believe that they will allow considerable time to elapse between the end of its bond buying program and an increase to interest rates.

Investment Highlights

Although top tier markets continue to garner the lion's share of investor interest, it is not unheard of that capitalization rates in these markets have fallen to near 5%. Investors seeking higher yields are now scouring secondary and tertiary markets for those properties that are "diamonds in the rough". Several of the notable transactions for the past six months include:

NOTABLE 2014 HAWAII SALE TRANSACTIONS (YTD JUNE)						
Property Type	**Property Name**	**Buyer**	**Seller**	**Sales Price**	**SF/Units**	**Sales Date**
Apartment	Lilihi Sunrise	Carlton Kusunoki	Okada Trucking Company Ltd	$10,200,000	30 Units	Apr-14
Hotel/Resort	Wailea Marriott	Sunstone Investors	Blackstone Investment	$325,500,000	521 Rooms	Jul-14
Hotel/Resort	Aston Waikiki Beach	Inland American Lodging Group	Gaylord Entertainment and RREEF Gobal Opportunity Fund II	$183,000,000	645 Rooms	Mar-14
Hotel/Resort	Ritz Carlton Kapalua	Colony Capital and Woodridge Capital LLC	Lehman Brothers	$142,000,000	463 Rooms	Feb-14
Office	Ocean View Center	Atalanta Realty	Morgan Stanley	$12,312,038	100,353 SF	Jun-14
Office	Haseko	Atalanta Realty	Morgan Stanley	$10,437,928	84,399 SF	Jun-14
Retail	Royal Hawaiian Shopping Center	JP Morgan	Kamehameha Schools (Leasehold)	$697,600,000	310,000 SF	Jun-14
Retail	Maui Mall	Walton Street Capital	A&B Properties Inc.	$53,255,610	185,243 SF	Jan-14
Industrial	1811-1821 Leleiona Street	Hawktree Land Inc.	A&B Properties	$5,800,000	56,177 SF	Apr-14
Land	Kapolei Business Park Phase II and Kapolei West	Walton Street Capital and Avalon Development	Kapolei Properties LLC/Jupiter Holdings LLC	$84,000,000	176.6 Acres	May-14

Bright Investment Outlook Continues

Investment sales volume is anticipated to remain elevated as investors facing lower yields from other investments diversify into real estate. Lenders will continue to make positive strides towards rectifying their bad loan portfolios as delinquency rates decline. Additionally, healthy improvement to Hawaii's economy should bolster rental rates which will encourage additional development and acquisition activity. The low interest rate environment is projected to extend into next year incentivizing investors and developers to act quickly to insure they obtain favorable financing.

Colliers projects that by year end, Hawaii investment sales volume will likely exceed the 2013 sales volume of $3.6 billion. There are several prime properties that are anticipated to close before the end of the year.

MID-YEAR 2014 SALES SUMMARY					SALES COUNT		SALES VOLUME	
PROPERTY TYPE	SALES VOLUME	SALES COUNT	% OF $ VOLUME	% OF SALES COUNT	LOCAL INVESTOR	OFFSHORE INVESTOR	LOCAL INVESTOR	OFFSHORE INVESTOR
MULTIFAMILY	$93,852,000	42	4.23%	29.79%	42	0	$93,852,000	$0
HOTEL/RESORT/GOLF	$816,244,949	9	36.76%	6.38%	1	8	$33,000,000	$783,244,949
INDUSTRIAL	$55,074,339	22	2.48%	15.60%	19	3	$43,174,367	$11,899,972
OFFICE	$71,337,486	14	3.21%	9.93%	8	6	$25,160,000	$46,177,486
LAND	$263,127,408	35	11.85%	24.82%	18	17	$110,751,882	$152,375,526
RETAIL	$920,985,910	19	41.47%	13.48%	10	9	$88,100,028	$832,885,882
	$2,220,622,092	141			98	43	$394,038,277	$1,826,583,815

Multifamily Attracts Investment Interest

William "Bill" Froelich
(S) JD CCIM SIOR
Vice President

At first glance, it seems odd that troves of investors, regardless of size, would identify multifamily properties as their top desired product type in Hawaii. These properties have average cap rates around 4%, are often subject to negative leverage, and are prone to the potential landlord headaches of fixing toilets and pestering tenants to pay their rent on time.

However, a deeper analysis lends four major reasons that investors continue to see upside potential and stability in multifamily assets.

1. **Housing Supply**: Oahu's apartment vacancy rate stands at just over 4%. Even with the planned housing units in Leeward Oahu and condo developments in Kakaako, new supply does not come close to keeping up with demand and population increases. This bodes well for a risk averse investor who knows the benefit a stable income stream from low vacancy rates and multiple tenants.

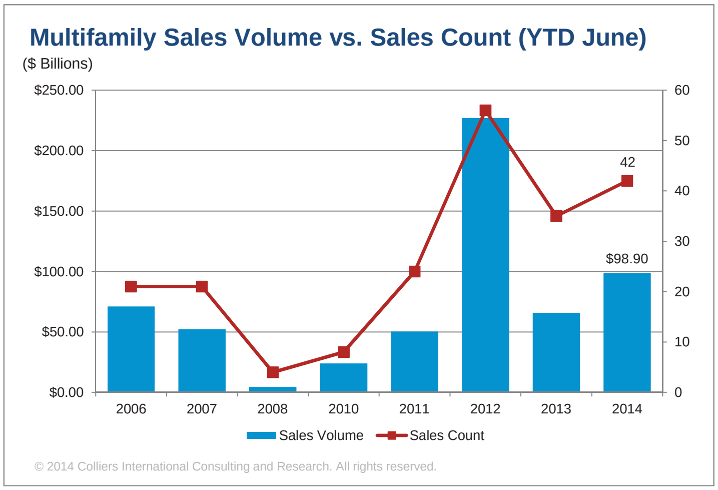
   With most of the current high-rise supply being built as fee simple condos, there are very little rental units coming on the market. I know of no projects other than public affordable housing projects that are being built for purposes of rentals.

2. **Barriers to Home Ownership**: As Oahu's single family average home price hovers around $700,000, many families are unable to qualify for financing. This strengthens the multifamily rental market option. Both housing supply and barriers to ownership increase demand for rental space which in turn increases rental rates. Can you please let us know as soon as possible

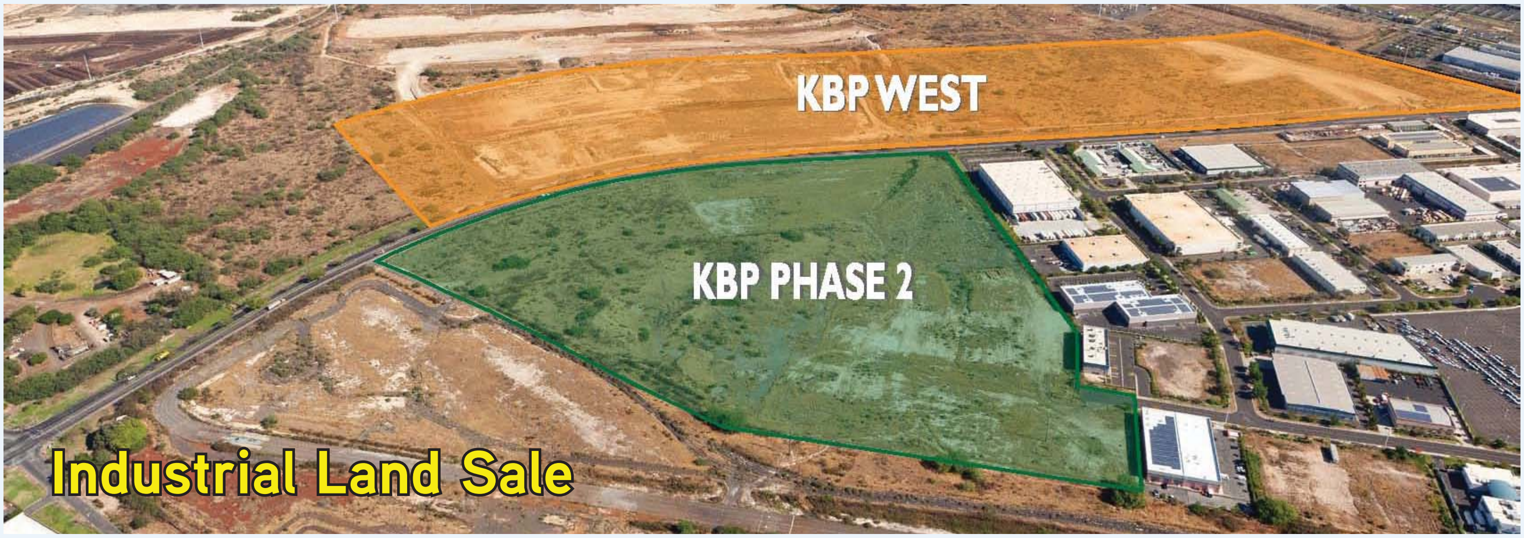
3. **Depreciation**: The IRS allows depreciation of multifamily buildings to occur over 27.5 years as opposed to a typical commercial building which uses a 39-year schedule. This puts more after-tax dollars in an investor's pocket as they can depreciate their asset faster.

4. **Financing**: Many lenders see the same multifamily fundamentals as a reason to offer attractive interest rates and longer term fixed financing than other commercial properties. This coupled with the ability of using Fannie Mae financing allows an investor to more safely model out their investment pro-forma, put less down payment and potentially avoid recourse financing.

   If an investor is searching for something more than a short-term yield, then there are many things for an investor to be excited about when pursuing multifamily investments.



Notable Colliers Transactions



Kapolei Business Park West & Kapolei Business Park Phase 2

Kapolei, Hawaii 96707

Sales Price:	$84 Million
Tenure:	Fee Simple
Zoning:	I-2 Industrial Intensive
Land Area:	176.6 Acres
Agents:	Scott L. Mitchell (B) SIOR Guy V. Kidder (B) CCIM SIOR

Haseko & Ocean View Center

820 Mililani Street, Hononlulu, Hawaii 96813 (Haseko)
707 Richards Street, Honolulu, Hawaii 96813 (Ocean View)

Sales Price:	$22,750,000 (combined)
Tenure:	Leasehold
Zoning:	BMX4
Building SF:	184,000 SF (combined)
Buyer:	820 Mililani Holdings, LLC
Agents:	Mark D. Bratton (R) CCIM* Karen Birkett (S) Brandon Bera (S)

*Bratton Realty Advisers, Ltd.

Select Colliers International Available Sales Listings

HOOPILI GATEWAY

Asking Price: $33,000,000
Address: Kapolei, Hawaii 96707
Tenure: Fee Simple
Land Area: 38.028 Acres
Agents: Mark D. Bratton (R) CCIM*
Scott L. Mitchell (B) SIOR
Guy V. Kidder (B) CCIM SIOR

1500 KAPIOLANI BOULEVARD (REDEVELOPMENT OPPORTUNITY)

Address: 1500 Kapiolani Boulevard
Honolulu, Hawaii 96814
Tenure: Fee Simple
Land Area: 78,973 SF
Agents: Mark D. Bratton (R) CCIM*

KAPOLEI COMMERCE CENTER

Asking Price Range: $12,750,000
Address: Kapolei, Hawaii 96707
Tenure: Fee Simple
Land Area: 13.781 acres
Agents: Scott L. Mitchell (B) SIOR
Guy V. Kidder (B) CCIM SIOR
Kelli Y. Wilinski (S)

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