

INVESTMENT MARKET REPORT

Year-End 2015

Accelerating success.

Market Volatility Creates Safe Haven Effect on Real Estate Acquisitions

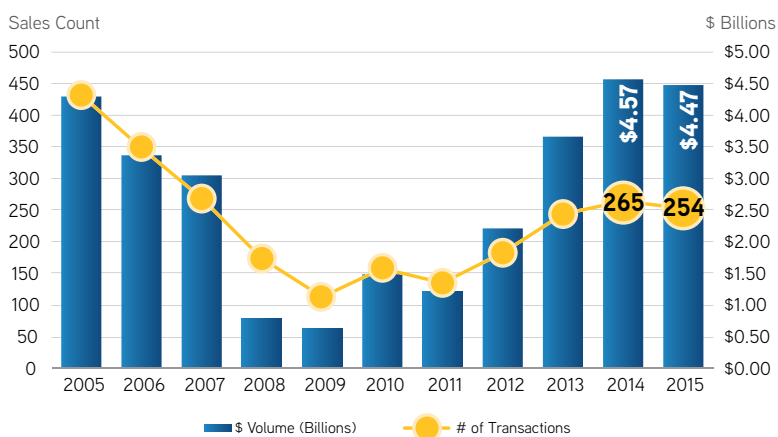
Mike Hamasu Director of Research | Hawaii

For the first time in four years, the commercial real estate investment sales volume in Hawaii declined. After establishing a record high last year of more than \$4.57 billion, the transaction volume dipped slightly for a year-end 2015 total of \$4.47 billion. Despite the decline, this was the second highest level recorded in the last ten years. The number of commercial real estate sales transactions also fell, registering a 4.2% decline from 265 to 254 sales over the past year.

“As the primary markets in the U.S. became heated and picked over, Hawaii experienced strong interest due to its positive economic drivers, international desirability, and relative stability compared to other investment alternatives.”

William “Bill” Froelich (B), Senior Vice President

Commercial Real Estate Sales Volume vs. Sales Count



Market Indicators

Relative to year-end 2014

Market Indicator	Year-End 2015
SALES VOLUME	↓
SALES COUNTS	↓
CAP RATE	↓

Hawaii Highlights

Year-End 2015 Investment Market

Number of Transactions	254
Sales Volume	\$4.47 Billion

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YEAR-END 2015 SALES SUMMARY			SALES VOLUME		SALES COUNT	
Property Type	Sales Volume	Sales Count	Local Investor	Offshore Investor	Local Investor	Offshore Investor
RESORT/GOLF	\$695,164,300	17	\$36,454,300	\$658,710,000	3	14
INDUSTRIAL	\$175,814,397	47	\$133,956,097	\$41,858,300	40	7
LAND	\$431,222,577	30	\$70,872,275	\$360,350,302	13	17
MULTIFAMILY	\$175,435,612	78	\$155,885,612	\$19,550,000	73	5
OFFICE	\$140,547,931	22	\$77,890,807	\$62,657,124	16	6
RETAIL	\$2,852,121,854	60	\$154,047,680	\$2,698,074,174	31	29
TOTAL	\$4,470,306,671	254	\$629,106,771	\$3,841,199,900	176	78

Increased Market Volatility

The elevated level of commercial real estate investment activity is partly due to the extreme volatility being experienced by alternative investment markets.

Over the past six months, the various investment markets demonstrated declining values resulting in the S&P 500 losing 10% of its value, yields for the 10-year bond market falling by 24%, oil prices dropping by 50%, and copper prices declining by 23%.

The slowing of China's economy from double-digit gross domestic product ("GDP") growth rates to a projected 6% rate for 2015-2016 seemed to catch everyone by surprise. Oil, metals and even food prices have been impacted by China's fluctuating demand, resulting in downward pricing for many commodities. Major trading partners will have to adjust to China's slowing growth pattern and curb their overproduction to stabilize commodity markets.

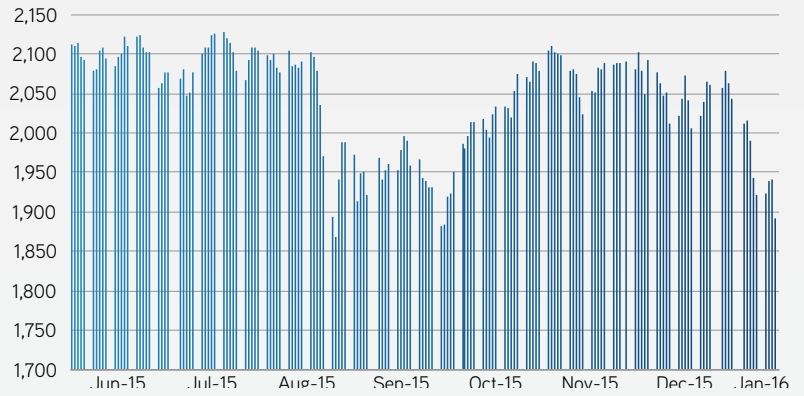
U.S. Market Strength Serves as a Safe Haven

For the first time in nearly a decade, the Federal Reserve Bank increased its short term Federal Funds rate by 0.25%. Healthy U.S. job growth and improved consumer confidence provided the impetus for this increase. Much of this publicized event came with so much advanced warning that markets had likely incorporated the change into future stock and bond pricing.

The timing of this increase coincided with China's stock market crash and the economic turmoil in Japan and the Euro-zone.

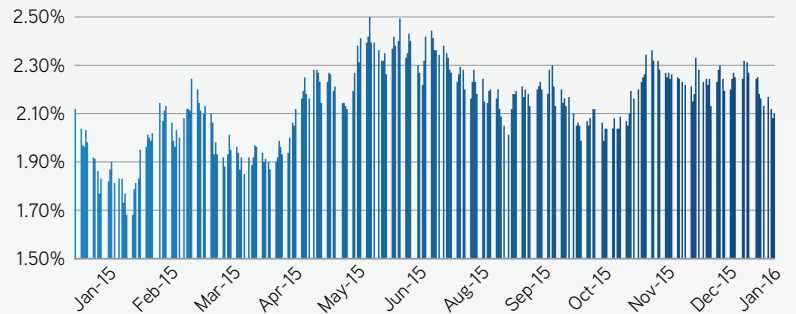
Skittish investors faced with falling stock, bond and commodity prices, as well as increased international economic uncertainty, are aggressively seeking safe haven real estate investment opportunities. In the annual survey conducted by the Association of Foreign Investors in Real Estate, the U.S. is identified by 60% of the survey takers as the prime safe haven market. Roughly 45% of those surveyed anticipate investing in U.S. commercial real estate in 2016. Real Capital Analytics estimated that \$62 billion had been invested by foreigners into U.S. real estate over the twelve month period ending in October 2015.

S&P 500 Index



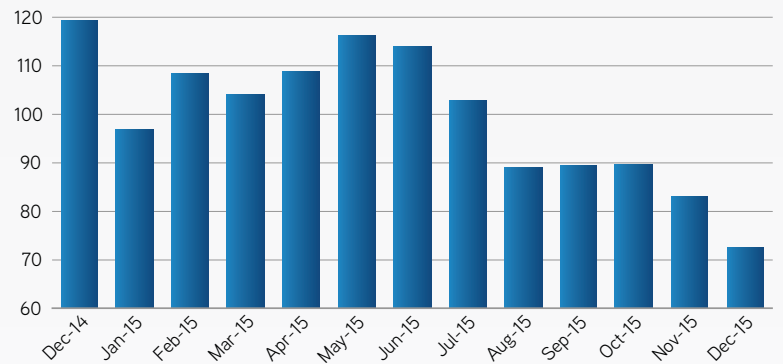
Source: Federal Reserve of St. Louis

10-Year Treasury Bond Yields



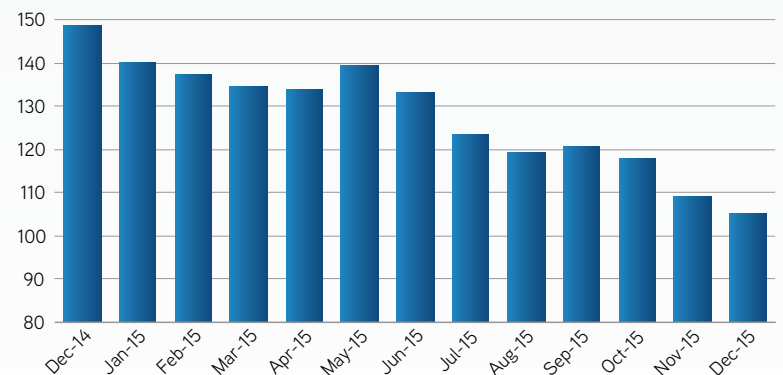
Source: Federal Reserve of St. Louis

Commodity Fuel Index



Source: International Money Fund

Commodities Metal Price Index



Source: International Money Fund

This phenomenon has not been overlooked by Chinese investors who boosted their U.S. foreign direct investment in the U.S. to \$15.7 billion for the first half of 2015, a 30% jump over last year's levels. These investors benefited from the 2012 change in China's governmental policy which created a less restrictive environment to invest abroad by insurance companies.

According to Real Capital Analytics, U.S. commercial real estate sales volume rose for the sixth consecutive year, surpassing \$533 billion for the year. In addition to stock market volatility, weakening foreign economies, and crashing commodities markets, investor desire to park capital in relatively "safe" investments is driving many to consider commercial real estate as a viable investment option.

Capital Flowing into Real Estate

The aftermath of the financial crisis of the Great Recession has subsided, resulting in an increased willingness by commercial banks to place debt on real estate acquisitions and developments. Contributing to this paradigm change has been the reduction in the amount of loan delinquencies which had skyrocketed during the past recession, and has slowly returned to pre-recession levels.

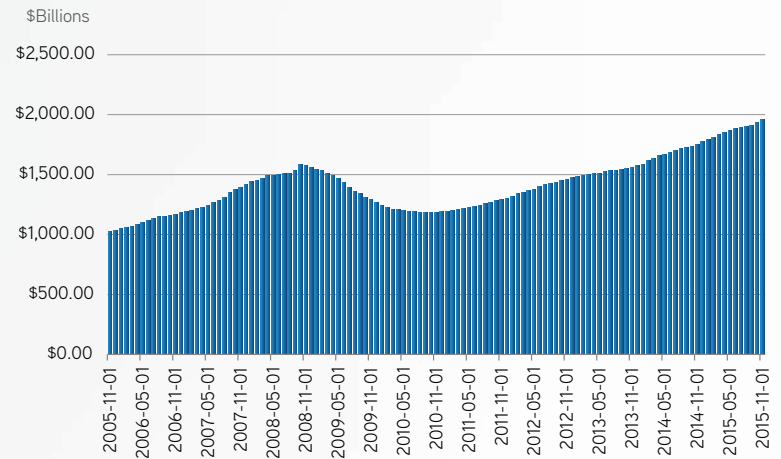
Over the past six years commercial bank mortgages steadily increased more than 65% from \$1.2 trillion to nearly \$2.0 trillion. This jump is a strong indication that market conditions combined with a low interest rate environment is spurring borrowing activity. Even the Commercial Mortgage Backed Securities ("CMBS") market, which had been left for dead in 2009, has reemerged as a major funding source.

Hawaii Commercial Real Estate in High Demand

For only the third time since 2001, Hawaii's commercial real estate transaction volume exceeded \$4 billion. While external conditions such as stock market volatility, dropping bond yields, and low interest rates contributed to the heightened concentration in U.S. commercial real estate investment, Hawaii's attractiveness was enhanced by the health of its economy and positive real estate market conditions.

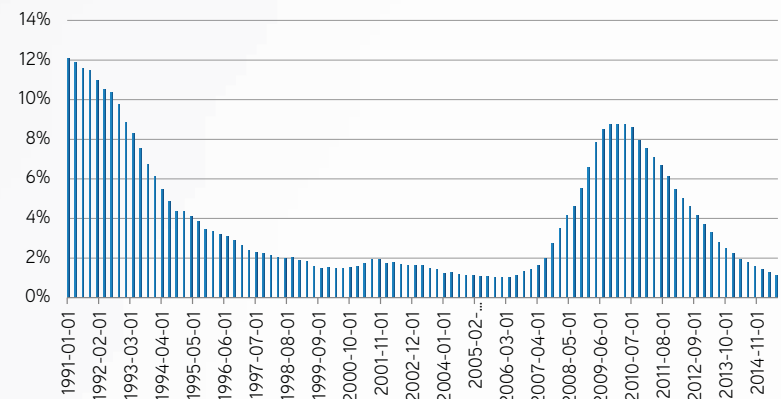
Hawaii's unemployment rate remains one of the country's lowest, standing at a seasonally adjusted 3.2% for December 2015. Civilian employment counts rose to 660,600 with the Hospitality/Leisure, Professional/Business Services, and Education and Healthcare sectors posting the strongest job growth rates.

Commercial and Industrial Loans - All Commercial Banks



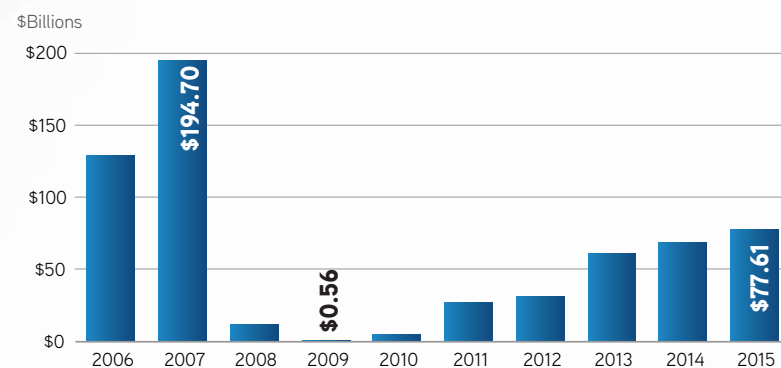
Source: Federal Reserve Bank of St. Louis

Delinquency Rate on Commercial Real Estate Loans (All Commercial Banks)



Source: International Money Fund

U.S. CMBS Issuance (September YTD)



Source: Commercial Mortgage Alert

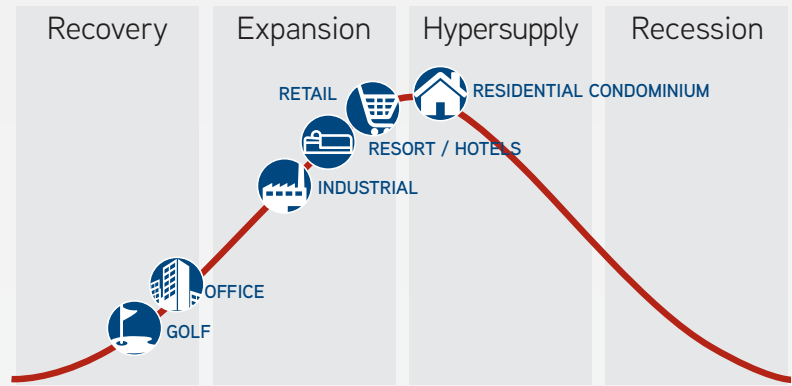
The State of Hawaii Department of Business, Economic Development and Tourism (“DBEDT”) forecasts 2016 real GDP growth to be a healthy 2.3%. Non-agricultural jobs are projected to increase by 1.2% over the next year and real personal income is currently projected to grow 3.6% in 2016. Additionally, the tourism industry established a new air passenger arrivals record by exceeding 8.66 million for year-end 2015, keeping the island’s hotel sector near full occupancy.

Colliers segments the real estate cycle into four quadrants: Recovery, Expansion, Hypersupply and Recession. Currently, the retail, hotel, industrial and multifamily sectors are encountering rising rents, low vacancy rates (below national averages) and heightened development activity. These are all characteristics of the Expansion quadrant and as a result, investors have targeted these properties for investment. Capitalization rates are projected to remain compressed for prime investment properties.

Top tier hotels, shopping centers and development sites are garnering strong attention from both institutional and international players. International investors spent more than \$1.37 billion on Hawaii commercial real estate investments, or roughly 30% of the 2015 total sales volume. Buyers included an Australian pension fund, Australian Super; a Chinese conglomerate, Oceanwide Holdings Group Co. Ltd.; and a Korean global investment firm, Mirae Asset Global Investments.

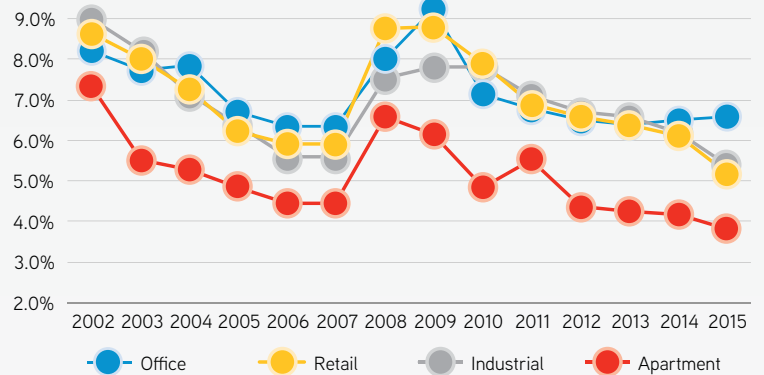
Offshore investors (which primarily include mainland institutional and international investors) were responsible for 86% of the total dollars invested and roughly 31% of the number of transactions for 2015. The average dollar amount spent for a Hawaii property by an offshore investor was \$40.86 million. In contrast, local investors closed on more than 69% of the 254 transactions and spent an average of \$3.57 million per transaction. This is an 11:1 ratio when compared to the average offshore investment dollar amount.

Colliers Hawaii Commercial Real Estate Cycle



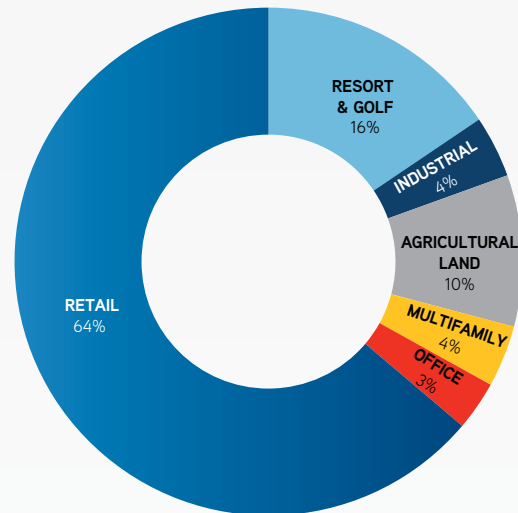
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Hawaii CRE Estimated Capitalization Rates

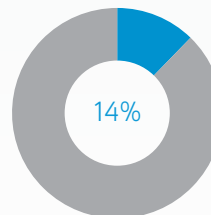


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Percentage of Total Sales Volume

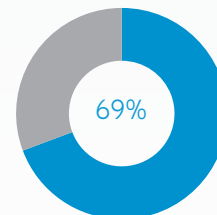


Percent of Sales Volume



Local
Offshore

Percent of Sales Transactions



Local
Offshore

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Hawaii Regional Malls Were Prime Investment Targets

More than 60% of the 2015 commercial real estate investment dollar volume was concentrated among retail properties. General Growth Properties sold off fractional interests of Ala Moana Center to Australian Super (25%), and TIAA CREF (12.5%). These two transactions totaled more than \$1.36 billion and topped the list of notable transactions.

WP Glimcher sold a 49% share of their retail portfolio which included Pearlridge Shopping Center to O'Connor Capital Partners for an estimated \$492 million.

Rounding out the largest retail transactions for the year was the sale of the Shops at Wailea for \$342 million from Mills Group to Heitman Capital Management, LLC. This transaction was valued at more than \$2,100 per square foot for this highly desirable retail resort center in the upscale Wailea-Makena area on the island of Maui.

Investment Volume to Slow for 2016

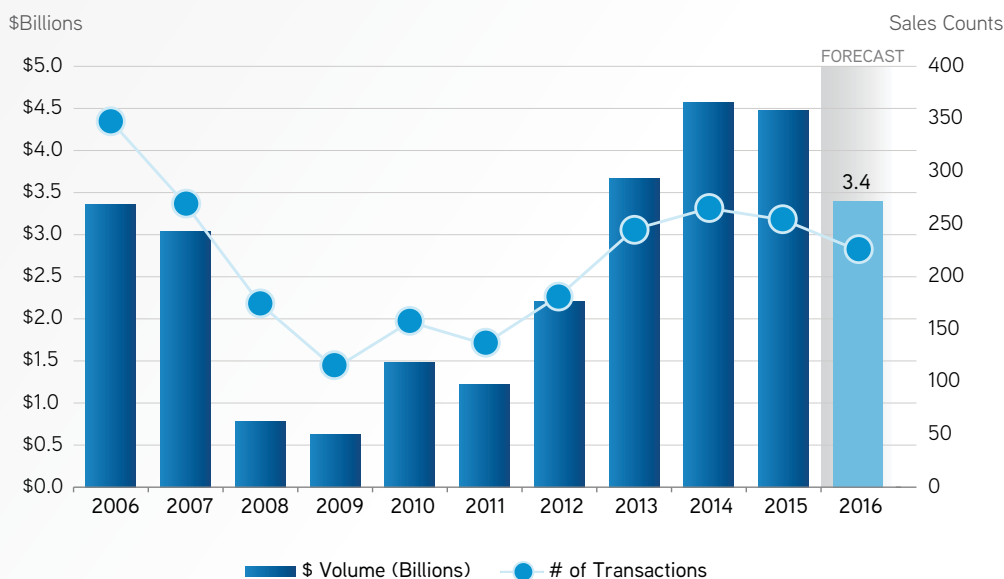
Many believe that the recent global financial market volatility, coupled with weakening international economies, will continue to motivate foreign investors to seek the relative calm of U.S. commercial real estate markets. With fears rising of a global economic slowdown, investors typically seek investments that provide stability and security in uncertain times, such as real estate.

For Hawaii, economic and real estate conditions remain positive. Economic forecasts for 2016 indicate continued job growth and rising real personal incomes. Prime hotel, shopping center and development site opportunities remain highly desirable for both institutional and international investors. Capitalization rates are projected to continue to compress as property prices reach new heights.

Despite the optimism for Hawaii's real estate market, the current boom cycle now enters its seventh year. Historically, Hawaii's real estate cycles have ranged between 7-10 years in length, and discussions are being raised as to whether this market will begin to slow or if the recovery from the Great Recession will be a protracted event.

Past boom cycles were undone by the aftermath of external "black swan" events (i.e. Japanese Bubble, Internet Bubble, and Financial Crisis). Without even considering these types of events, Colliers anticipates that transaction volume will be impacted by the lack of 2016 prime properties that are on the market for sale. This will result in a slowdown in deal velocity. Colliers projects that the 2016 sales volume will likely slow by 20% to 25% below 2015 levels to \$3.4 billion as transaction counts decline 10% to 225 for 2016.

Hawaii CRE Investment Sales Volume vs. Sales Count Forecast





Hawaii Hotel Investment Market

F. Kevin Aucello (B)* Vice President



Despite continued strength in Hawaii’s visitor industry, the total volume of Hawaii hotel transactions dropped by 63% in 2015, while the number of transactions dropped by 17%. Despite this drop, there is continued interest in the Hawaii hotel market, as evidenced by the planned construction of new hotels and an increase in the renovation of existing hotels.

Hawaii Hotel Transactions

The Hawaii hotel investment market has maintained a brisk pace but transaction volume has dropped compared to the previous three years. In 2015, 10 hotels with 2,567 rooms traded at a total consideration of \$505 million or just under \$200,000 per room. Six of the ten transactions in 2015 were lower-end Waikiki hotels that will be receiving substantial upgrades. The weighted average cap rate on Hawaii hotel transactions rose from 4.5% in 2014 to 4.9 % in 2015.

	2015	2014
# of Transactions	10	12
# of Rooms	2,567	3,424
Total Sales Volume	\$505 million	\$1,355 million
Price per Room	\$197,000	\$396,000
Going-In Cap Rate	4.9%	4.5%

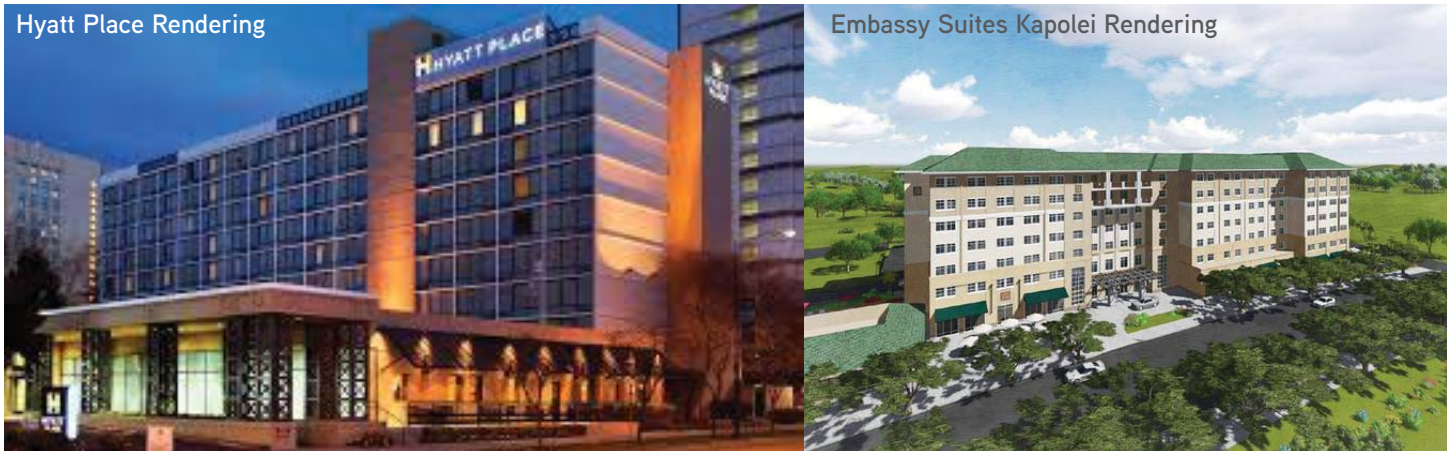
Some of the larger transactions of 2015 include:

- > Oaktree & Woodbridge sold the 542-room Fairmont Orchid to Mirae Asset Management for \$220 million (\$400,000/room)
- > Blackstone sold the 545-room Marriott Waikoloa to a group led by Ed Mace for \$68 million (\$124,000/room)
- > YHB Koreana sold the 314-room Queen Kapiolani to Prospect Hill Group for \$51 million (\$163,000/room)
- > The 600-room Maile Sky Court sold to Clearview for \$103 million (\$171,000/room)

*Pacific Hotel Investments LLC, exclusively contracted to Colliers International HI, LLC

Hotels on the Market

There are currently quite a few hotels being actively marketed in Hawaii. The 121-room Koa Kea closed in mid-January while the 226-room Park Shore and the 67-room Equus and have not yet closed after about a year on the market. Properties put on the market late in 2015 include the 633-room Westin Maui, the 521-room Sheraton Keauhou and the 119-room Pacific Marina Inn. The Pacific Marina Inn is back on the market after some unsuccessful offerings over the past few years. Recent market offerings include the 404-room Ritz-Carlton Kapalua, 311-room Courtyard Kauai, the 298-room Ambassador Waikiki, 132-room Waikiki Pearl, the 25-room Maui Sunseeker and the 16-room Paia Inn. Also being marketed is an equity interest in the Turtle Bay Resort and the front desk and commercial spaces in the 1184-unit Ala Moana Hotel.



New Hotel Construction

The strength of Hawaii's hotel market is encouraging the development of new hotel product. In addition to the recently opened 144-room Courtyard by Marriott in Laie, the following limited-service hotels are planned:

- › Hampton Inn at Debartolo's Ka Makana Alii Kapolei regional mall
- › Hyatt Place in Robertson Properties' Live Work Play Aiea project
- › Embassy Suites on the former Kisco site in Kapolei
- › Globally-branded hotel for Krausz's Downtown Kihei development

These developments / redevelopments will also add high-quality visitor product:

- › Waikiki Trade Center conversion to a 230-room hotel
- › Redevelopment of the Coco Palms into a 350-unit hotel with a Hyatt soft brand and management
- › A Hilton timeshare is planned for the former Maui Lu site
- › Two Ritz-Carlton Residences with the first 324-unit tower to be completed in early 2016 followed by a 246-unit second tower to be done in 2017
- › 248-unit luxury condo-hotel planned on the Kings Village site in Waikiki

2016 and Beyond

The Fed's 25 basis point increase did not appear to dampen the hotel investment market, but China's slowdown and related financial unrest could push the rest of the globe toward a slowdown. Lodging REITs are on the sidelines as their shares have fallen nearly 40% in the last year. We anticipate more hotels will be coming to market as owners take advantage of a strong, stable visitor market, cheap debt and lower investor yield requirements. For Hawaii hotel owners, it may be the time to take some chips off the table.

NOTABLE 2015 INVESTMENT TRANSACTIONS

PROPERTY TYPE	PROPERTY NAME	ACQUIRED INTEREST	SALES PRICE	BUYER ENTITY	SELLER ENTITY	SALES DATE
Multifamily	2555 Cartwright Road	90 units	\$14,000,000	Go Ewa Owner LLC	Danella M. Loo, et. al.	Dec-15
Multifamily	Poinciana	23 Units	\$5,335,000	Brian Sakamaki & Donna Walden JV Giampaolo Buschetti	Synergy Ventures, LLC	Apr-15
Resort/Golf	Fairmont Orchid Hotel	540 rooms	\$220,000,000	Mirae Asset Global Investments	Oaktree Capital Management	May-15
Resort/Golf	Ko Olina Resort Land	26 acres	\$191,942,835	Oceanwide Resort LLC	Resort Group	Dec-15
Resort/Golf	Maile Sky Court	523 rooms	\$102,600,000	Clearview Hotel Capital LLC	Och Ziff Capital Management	Jun-15
Resort/Golf	Waikoloa Beach Marriott	555 rooms	\$72,000,000	Mariner RE Management JV Silverwest Hotel Partners JV Global Endowment Management	The Blackstone Group LP	Feb-15
Resort/Golf	2057 Kalakaua Avenue	17,257 sf land	\$30,500,000	Best Hospitality LLC	Leahi LLC	Aug-15
Resort/Golf	Hawaii Kai Golf Course	18 hole and Exec course	\$20,500,000	LA Koreana	Katsui Kokusai Kanko, HI	Nov-15
Industrial Land	Kalaeloa Industrial	22.26 acres	\$21,000,000	Kaluki LLC (Pineridge Trucking)	Kapolei Lot 16916 Holdings VVI LLC	Jun-15
Industrial Land	Kapolei Business Park Phase IIa	4.69 acres	\$6,743,219	Ito-En International	KBP Holdings VII, L.L.C.	Dec-15
Office	Kapolei Medical Park	52,000 sq. ft.	\$17,000,000	HTA - Farrington EAT, LLC (Healthcare Realty Trust)	Kapolei Medical Park Venture, LP	Jan-15
Office	Tissue Genesys Tower 810 Richards Street	79,120 sq. ft.	\$8,900,000	Endless Luck LLC	Pacific Office Properties	Jan-15
Retail	Ala Moana Center	37.5% share	\$907,000,000	Australian Super	General Growth Properties Inc.	Apr-15
Retail	Pearlridge Center	49% share	\$492,000,000	O'Connor Capital Partners	WP Glimcher	Jun-15
Retail	Ala Moana Center	12.5% share	\$454,000,000	TIAA CREF	General Growth Properties Inc.	Apr-15
Retail	Shops at Wailea	161,626 sf	\$342,000,000	HART Wailea LLC (Heitman Capital)	Mills Group	Aug-15
Retail	Maui Mall	185,737 sf	\$96,000,000	JLL Property Income Trust	Alberta Development Partners	Dec-15

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