



# Investment Market Briefing

INVESTMENT | THIRD QUARTER 2010

*“Upon receiving clarity regarding the direction of the economy and future tax policies, commercial real estate investment activity will rebound quickly.”*

- Scott L. Mitchell (B) SIOR  
Executive Vice President

## MARKET INDICATORS

THIRD QUARTER  
2009 2010 2011

SALES VOLUME	▼	▲	▲
SALES COUNTS	◀	▲	▲
CAP RATE	▲	▼	▼

## HAWAII HIGHLIGHTS

Third Quarter 2010  
\$1M+ Commercial Investment  
Number of Transactions:  
**48**

YTD Third Quarter 2010  
\$1M+ Commercial Investment  
Number of Transactions:  
**103**

Third Quarter 2010  
\$1M+ Commercial Investment  
Sales Volume:  
**\$560.4 Million**

YTD Third Quarter 2010  
\$1M+ Commercial Investment  
Sales Volume:  
**\$910.0 Million**

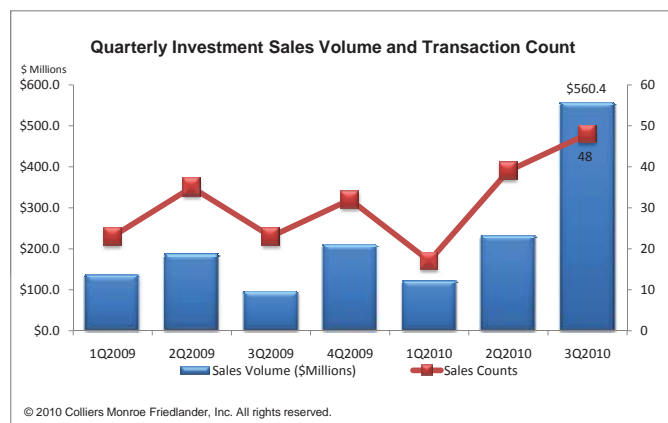
## Year-to-Date Sales Volume More Than Doubles

Investment sales volume got a shot of adrenaline when Bishop Square traded hands during this past quarter. Third quarter transaction dollar volume rose to \$560.4 million, its highest quarterly level in more than three years, and more than double the level established in the second quarter of 2010. Transaction counts rose by 27.2% over year-to-date third quarter 2009 levels to 103 sales. Year-to-date 2010 sales rose 118.0% over last year to \$910.0 million and is on pace to exceed \$1.25 billion by year-end. Should this projection be achieved, sales volume will be nearly twice the \$627.0 million transacted for all of 2009.

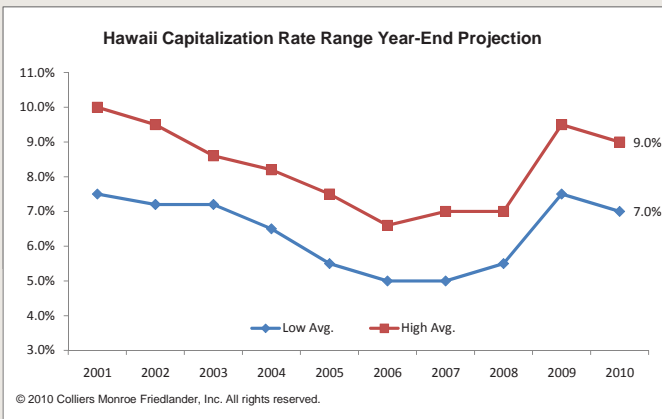
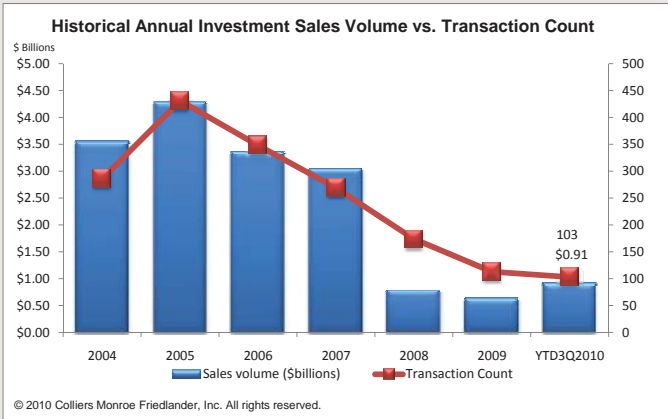
Similarly across the nation, commercial real estate sales activity appears to have begun to rebound from the depressed levels established in 2009. Even the once

defunct Commercial Mortgage-Backed Securities (CMBS) market, which had been eschewed for nearly two years, is staging a recovery. There is an increasing sentiment that the worst is over and that property values have reached bottom and will begin to rebound. Many investors have begun to dip their “toes” back into the real estate pool. Opportunity funds that had been sitting on the sidelines waiting for a flood of distressed properties to be offered for sale are now concerned that they may have missed the market.

Additionally, there appears to be a shift in the investment spectrum. What had been a CMBS fueled marketplace a few years ago now includes a broader array of pension funds, REITS, and wealthy individuals/partnerships. These investment entities are now competing for available prime properties. Capitalization rates that had moved upward from 2008-2009 have stabilized and are trending downward.



## Is this the Beginning of the Market's Recovery?



A major sticking point that remains is the difficulty in pegging the trajectory and pace of the economic recovery. Commercial real estate relies heavily on job growth as a necessary driver for demand. Until the employment outlook improves, positive net absorption will remain elusive. In the September Bureau of Labor Statistics report, despite the addition of 64,000 private sector jobs, layoffs within the government sector resulted in the fourth consecutive month of job losses. National unemployment rates remained steadfast at the 9.6 percent level.

Analysts point out that there appears to be a trifurcation in the marketplace for those top tier major metropolitan markets with prime real estate. Many are experiencing an increase in sales prices with healthy demand from investors. For secondary markets, real estate sales volume is projected to remain flat. For underperforming markets such as Las Vegas, Miami and Phoenix, sizeable price declines are anticipated. These regions will have to work through the mounds of excess space that had been built during their speculative development boom cycle.<sup>1</sup>

The "Pretend and Extend" coping strategy that had been adopted by many financial institutions still remains the primary method of dealing with the vast array of loan maturities and defaults. According to Fitch Ratings and Moody's Investor Services, the national CMBS delinquency rate is estimated to range between 8.2% and 8.7%. This is an eightfold increase over the past eighteen months. According to Fitch Ratings, due to its large hotel/resort loan exposure, Hawaii's CMBS delinquency rate of 18.03% places it second only to Nevada's 25.85%.

Several noteworthy Hawaii properties faced loan defaults that resulted in a subsequent change in ownership. The Makena Resort, which was purchased at the height of the market for \$575 million, was recently sold for a discounted price of \$95 million. Both the Fairmont Orchid and the Ritz Carlton Kapalua loans were in default resulting in the lender taking the properties back in lieu of foreclosure. The 311-room Kauai Aston at Makaiwa was purchased by JMI Realty and Behringer Harvard Opportunity REIT II for an estimated \$38 million which roughly covers the amount of the outstanding loan balance.

<sup>1</sup> Source: REITS.com



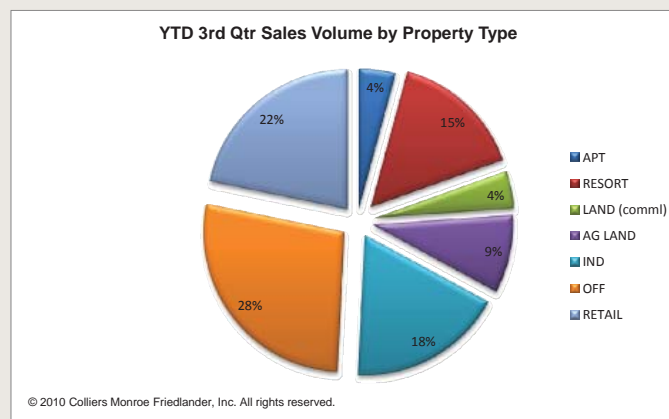
Of the \$560.4 million in third quarter transaction volume, the distribution of dollars by property type boosted the office category significantly. Office transactions constituted 43.2% of the total at nearly \$242.2 million, followed by industrial at \$70.75 million and retail with \$45.7 million, respectively. After a lull in transaction activity, resort and golf course sales transactions have begun to increase. Both the Kapalua Bay Golf Course and Kapolei Golf Course sold during the third quarter 2010.

Local entities purchased 78% of the properties over the course of the quarter for an average purchase price of \$4.7 million. The remaining 22% of the properties were acquired by out-of-state entities who purchased their properties for an average of \$35.2 million.

Anecdotal evidence from brokers indicates an increasing interest by investors to purchase debt on financially distressed properties. By securing discounted notes, these investors gain the option to purchase the property should the loan go into default and foreclosure proceedings progress.

### Optimistic Forecast

Despite the many challenges that still remain for the commercial real estate investment market, the increase in transaction activity is a welcomed sign. With the exception of a few resort hotels and some industrial bulk land, Hawaii appears to have weathered the rapid price depreciation that has marred many tertiary mainland markets. The increase in investor interest, fueled by the concern about missing the bottom of the market, will help to drive additional sales.



### NOTABLE 3rd QUARTER 2010 SALES

Property Type	Location	Buyer	Transaction Date	Sales Price (\$ Millions)
Office	Bishop Square	Douglas Emmett	7/1/2010	\$229.99
Office	Queen Emma Building	Queen Emma Regency, LLC	9/22/2010	\$8.77
Industrial	Komohana Industrial Park	ABP Komohana, LLC / et al	7/20/2010	\$32.67
Resort/Golf	Makena Resort and Lands	ATC Makena Land MFI, LLC / et al	8/28/2010	\$95.00
Resort/Golf	Kapolei Golf Course	Hawaiian Golf Properties, LLC	9/20/2010	\$31.02
Resort/Golf	Kapalua Bay Golf Course	Ty Management Corp	9/22/2010	\$24.10
Retail	Former Safeway Beretania Site	Walgreen of Hawaii, LLC	8/16/2010	\$22.04
Resort/Golf	Kauai Aston at Makaiwa	JMI Realty / Behringer Harvard Opportunity REIT II	8/5/2010	\$38.00

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## Featured Properties For Sale

### COMMERCIAL LAND



#### Kukui Grove Village West

Kolopa Street, Pahee Street & Ulu Maika Street, Lihue, Kauai

Asking Price: \$3,972,215 (\$21.84 PSF)      Zoning: C-G Gen. Commercial  
 Size Available: 4.175 Acres / 181,878 SF      Tenure: Fee Simple  
 TMK NO: (4) 3-3-10: parcels 32, 33, 34, 36, 37, 40 & 41  
 Contact: Ronald Ward (S)

### REDEVELOPMENT



#### Honolulu YMCA

401 Atkinson Drive, Honolulu, Hawaii

Asking Price: Submit Offer      Zoning: A-2 (Medium Density Apt.)  
 TMK NO: (1) 2-3-36:5      Tenure: Fee Simple  
 Size Available: Land: 1.77 Acres / Building: 67,576 SF  
 Contact: Mark Bratton (R) CCIM / Andrew Friedlander (B) SIOR

### VACANT LAND



#### Mililani Tech Park

Mililani, Hawaii

Asking Price: \$1,227,250 - \$3,267,000      Zoning: IMX-1  
 Size Available: 49,090 SF to 3 Acres      Tenure: Fee Simple  
 TMK NO: 1-9-5-46-43  
 Contact: William Froelich (S) JD CCIM

### SHOPPING CENTER



#### Pearlridge Center Uptown II

98-1005 Moanalua Road, Aiea, Hawaii

Asking Price: Submit Offer      Zoning: B-2, Com. Bus. District  
 TMK NO: (1) 9-8-16:49      Size Available: 9.313 Acres  
 Tenure: Leasehold (w/CPI increases/decreases)  
 Contact: Mark Bratton (R) CCIM / Nathan Fong (B)



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