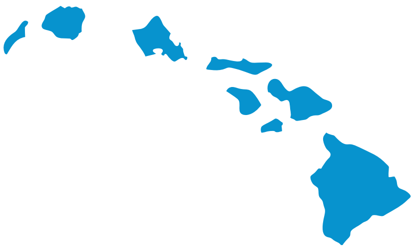
HAWAII MID-YEAR 2013

INVESTMENT MARKET REPORT



MARKET INSIGHT

"Healthy gains in sales volume can be attributed to the resurgence in hotel investments and a return of institutional investor interest in Hawaii's marketplace."

- Mark D. Bratton (R) CCIM
Vice President

MARKET INDICATORS

	MID-YEAR 2012	MID-YEAR 2013
SALES VOLUME	↑	↑
TRANSACTION COUNTS	↓	↑
CAP RATES	↓	↓

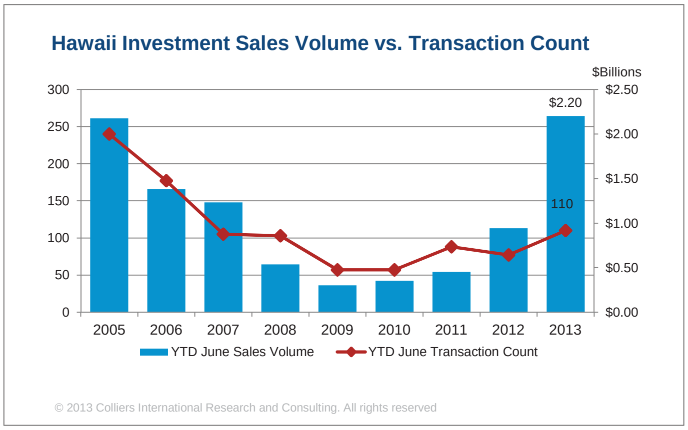
HAWAII HIGHLIGHTS

MID-YEAR 2013 $1M+ COMMERCIAL INVESTMENTS NUMBER OF TRANSACTIONS	110
MID-YEAR 2013 $1M+ COMMERCIAL INVESTMENTS SALES VOLUME	$2.20 Billion

Investment Transactions Surge Ahead

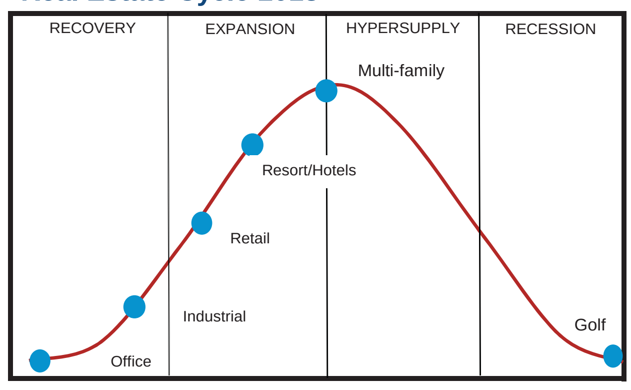
For the first six months of 2013, commercial real estate investment activity surged as transaction sales volume jumped to $2.2 billion, a robust 134% gain over mid-year 2012 levels. Transaction counts for commercial real estate properties valued at over $1.0 million rose by a healthy 43% during this period as 110 properties traded hands. Should the current pace of activity continue, the year-end 2013 sales volume could surpass the record established in 2005 when $4.3 billion in sales were recorded.

This rise in mid-year investment sales activity marks the fourth year of higher sales volume as investors continue to remain bullish in the Hawaii commercial real estate market. Tightened market conditions should persist for Oahu's retail, industrial, and hotel sectors as rental rates are projected to increase over the mid-term time horizon. Evidencing Hawaii's economic recovery, a boom in the construction industry is underway as several large high-rise residential, government public works and regional mall projects break ground.



Real Estate Cycle Expansion Phase

Real estate market performance is generally identified through its boom and bust cycles. Colliers segments these cycles into recession, recovery, expansion, and hyper-supply quadrants. Each quadrant can be identified by unique characteristics relating to vacancy rates, rents and development activity. In the recession quadrant, poor economic conditions cause vacancy rates to increase, rents to drop and construction projects to be shelved or postponed. The recovery quadrant generally coincides with a decline in vacancy rates, stabilization of rents and an increase in development planning. The expansion quadrant reflects a market with low vacancy rates, higher rents and a boom in construction. In the hyper-supply quadrant, market conditions reverse with climbing vacancy rates, falling rents, and a construction saturation point.



As most of the property sectors enter the expansion phase, concerns are being raised that the considerable amount of new residential development in the Kakaako area will result in an oversupply situation without the level of demand needed to absorb the number of units planned. In addition to supply and demand factors, issues relating to construction labor shortages, rising material costs and a boost in mortgage interest rates could potentially dampen the parade.

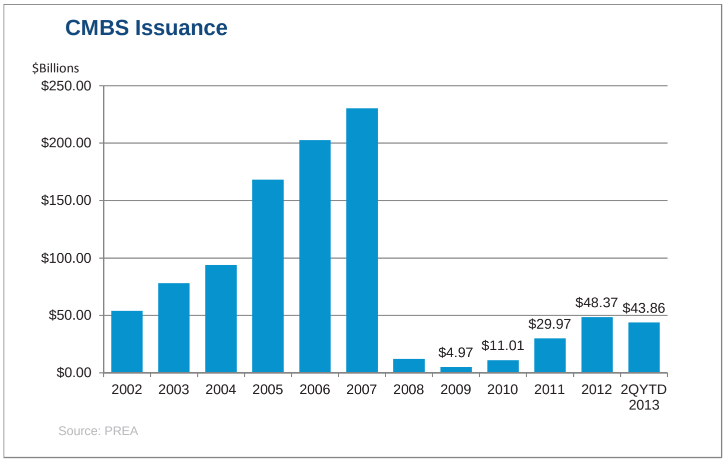
The rapid recovery being experienced in the hotel sector is a primary factor in the jump in sales volume. During the Commercial Mortgage Backed Securities ("CMBS") heyday, many hotel owners were able to borrow funds based on pro forma revenues for acquisition, expansion, or redevelopment. When the recession hit, the tourism industry suffered and those pro forma income levels were a distant dream. A number of Hawaii hotels were placed on lender watch lists and fell under special servicer control while these loans were sorted out.

Since 2009, the tourism industry has made a comeback with a record number of visitor arrivals and many resort properties benefitting from the rapid improvement in occupancy and room rates. Hotels have regained their luster and institutional investors have jumped back into the hotel investment pool. By mid-year 2013, hotel sales constituted nearly 78% of the total investment sales volume. The estimated $774 million Grand Wailea Resort sale on Maui and the $450 million Hyatt Regency Waikiki acquisition topped the list as the largest dollar volume transactions for 2013 so far. Several other hotels are anticipated to sell by year-end 2013.

SALES SUMMARY TABLE

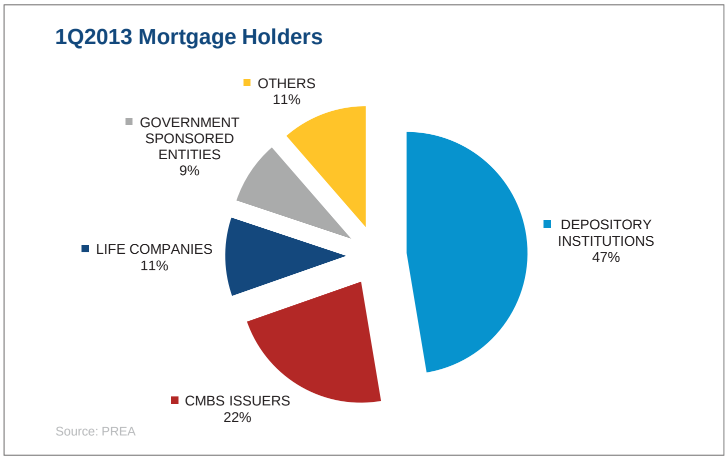
PROPERTY TYPE	SALES VOLUME	SALES COUNT	% of $ VOLUME	% OF SALES COUNT
Apartment	$65,983,888	35	31.8%	3.0%
Resort/Golf	$1,716,537,046	8	7.3%	78.2%
Industrial	$62,604,845	16	14.5%	2.9%
Office	$112,400,000	11	10.0%	5.1%
Retail	$116,163,228	17	15.5%	5.3%
Land	$124,218,114	22	20.0%	5.7%
Church	$4,475,000	1	0.9%	0.2%
Totals	$2,202,382,121	110	100.0%	100.0%

Another interesting trend has been the increase in land investment. Over the past several years, financial institutions have become risk averse and shied away from development opportunities. This appears to be changing as lenders have become more accommodating. By mid-year 2013, land sales activity more than doubled from the same period last year with 22 transactions, totaling $124 million. Notable deals include the acquisition of the leased fee interest for the Sears Distribution Center for $30 million, the sale of the Hawaiian Telcom site in Mapunapuna for $13.8 million and the sale of several large parcels at the Malakole Industrial Park in Kapolei.



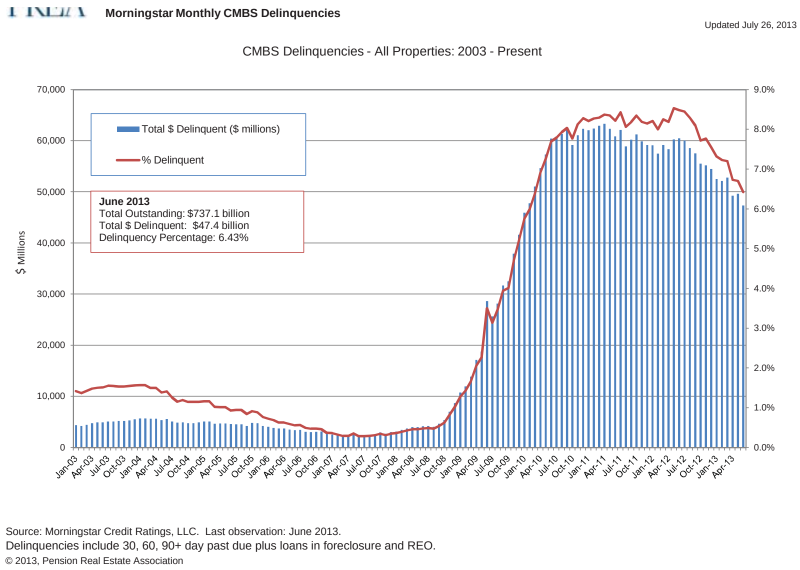
CMBS Delinquencies Decline

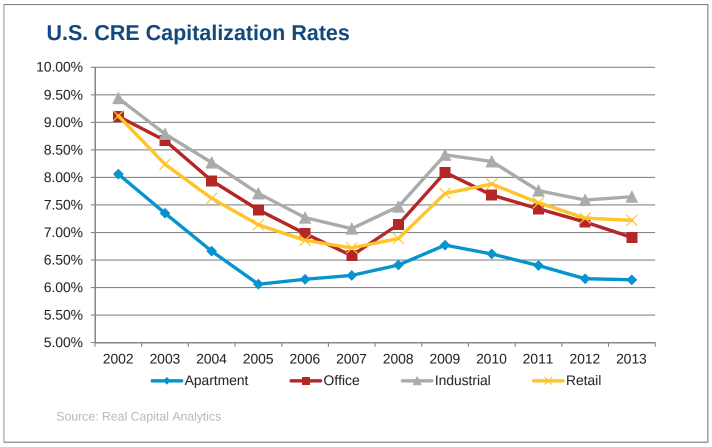
Between 1990 and 2013, commercial mortgage debt nearly tripled from $1.1 trillion to $3.1 trillion. During this time period, depository institutions continued to hold the largest percentage of outstanding commercial mortgage debt with more than 47% or $1.46 trillion for 1Q2013. This is down slightly from roughly 50.1% recorded in 1990.



The largest shift in mortgage debt during the past 23 years has been the rapid rise in CMBS issuance, as this financing vehicle grew from $39.8 billion to $230.2 billion. This segment of the mortgage debt market greatly contributed to the rapid downturn experienced during the past recession when faulty oversight and lax underwriting resulted in a collapse of this funding mechanism. Because of rising loan defaults and a jump in delinquencies, federal regulators have placed increased scrutiny on existing loans and have been highly critical of future CMBS issuances. CMBS delinquencies increased to nearly $64 billion by January 2011, and by May 2012, nearly 8.5% of the debt outstanding was past due.

The steady improvement to the U.S. economy and commercial real estate market performances combined with successful efforts by special servicers, have whittled away the number of delinquent loans. Currently, delinquent loans comprise roughly 6% of the outstanding CMBS debt.

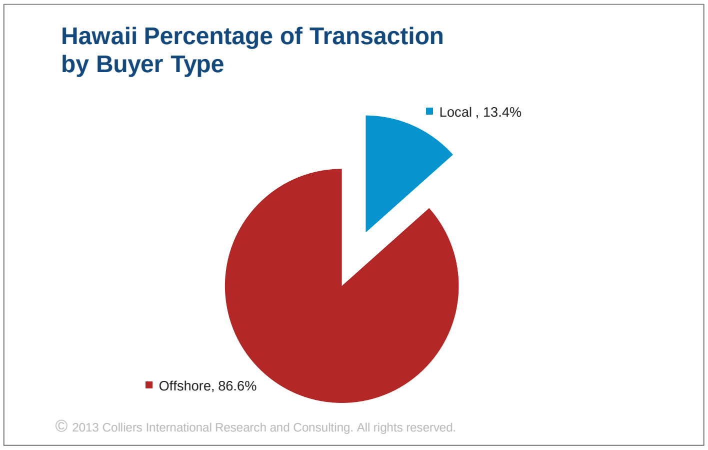




National Capitalization Rate Trends Reflected Locally

Nationally, commercial real estate transaction activity grew a healthy 33.6% over last year to $145.3 billion. With money market certificates and U.S. ten-year treasury bonds at extremely low rates, investors seeking higher returns have turned to real estate investments as an alternative. This increased demand, combined with improving market dynamics, has resulted in a compression of capitalization rates ("cap rates") over the past four years.

Real Capital Analytics pegs cap rates for office buildings at 6.91%, retail centers at 7.22%, industrial properties at 7.65%, and apartments at 6.14%. Locally, Colliers estimates that cap rates have compressed as well with current office cap rates estimated at 6.60%, retail rates at 6.38%, industrial rates at 6.60%, and apartment rates at 4.43%.



CRE Investment Sales Comes in Waves

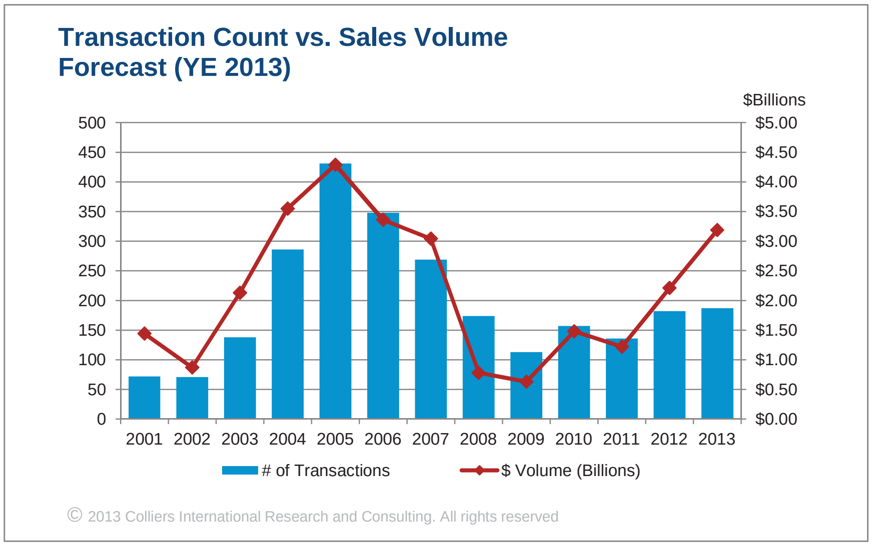
Based on transaction sales activity over the past eighteen months, it appears that investors are purchasing prime Hawaii commercial real estate in waves. The first surge focused on retail properties when Sears Ala Moana Center, Pearlridge Shopping Center, Lahaina Cannery and Lahaina Gateway were acquired. The next wave focused on large residential rental housing communities when The Waterfront at Puuloa and the City and County Affordable Housing Portfolio sold. The most recent trend is the jump in hotel transaction activity which started with the sale of Shell Vacations Club to Wyndham Vacation Resorts and the acquisitions of The Grand Wailea, Hyatt Regency Waikiki Resort, Courtyard by Marriott Waikiki Beach and Hyatt Place Waikiki Beach.

There is a dichotomy in the buyer profiles for commercial real estate in Hawaii. Typically, offshore buyers are comprised of major institutions that acquire trophy properties valued in excess of $25 million. This group has spent more than $1.9 billion during the first six months of the year for an average acquisition price of $66.0 million. The other buyer profile includes local buyers that typically purchase owner-user facilities or small investments for family entities. For this buyer profile, the average transaction size was $3.7 million. Only eight of the 80 transactions that sold to local entities were priced in excess of $10 million. For offshore acquisitions, 12 transactions out of 30 were above $10 million in sales price.

Forecast: Transaction Volume Will Eclipses 2007 Levels

With several luxury hotels expected to trade hands by year-end and the Kaneohe Ranch Portfolio and part of the Kapolei Property Development Land Portfolio on the market for sale, it is highly likely that the total 2013 transaction sales volume could eclipse levels not seen since the last boom. Colliers remains bullish for the year-end 2013 forecast and anticipates sales volumes to exceed $3.2 billion for the year.

Cap rate compression is forecasted to continue as more and more investors seek a safe haven from poor returns in money market and treasury bill assets. Real estate has been known as a great hedge against inflation and as our economy continues to heat up, there will be concerns over rising inflationary pressures.



NOTABLE HAWAII SALES TRANSACTIONS (YTD JUNE 2013)					
SALES DATE	PROPERTY TYPE	PROPERTY NAME	SALES PRICE	BUYER	SQ. FT./UNITS
Mar-13	Hotel	Grand Wailea	$774.2 million	Government of Singapore	780 rooms
Apr-13	Hotel	Hyatt Regency	$450 million	Blackstone Capital	1,230 rooms
Jun-13	Hotel	Hyatt Place	$130.79 million	Host Hotels and Resorts LLC	426 rooms
Apr-13	Hotel	Courtyard at Marriott	$125 million	Highgate Holdings	399 rooms
Feb-13	Hotel	Ritz Carlton Kapalua	$100 million	Centerbridge Capital	62 units
Feb-13	Office	Waikiki Trade Center	$49.475 million	Seaside Equity	358,985 sq. ft.
May-13	Land	Sears Distribution Leased Fee	$30 million	Mun Waiau LLC	593,080 sq. ft.
Jan-13	Retail	Waianae Mall	$29.76 million	A&B Properties	174,827 sq. ft.
May-13	Retail	Napili Plaza	$19.18 million	A&B Properties	45,058 sq. ft.
Jun-13	Land	Hawaiian Telcom Site	$13.86 million	Wasa Electrical	147,233 sq. ft.
Mar-13	Multifamily	1719 Nuuanu Road	$5.85 million	Hawaii Aiolau LLC	34 units
Feb-13	Multifamily	436 Ena Road	$4.5 million	Hale Waikiki LLC	33 units

Improvement in Tourism Sector Fuels Hotel Investment Activity

MARK D. BRATTON (R) CCIM*
Vice President

After several years of falling investment sales activity, Hawaii's resort hotel sector posted solid gains in sales volume for the second consecutive year. In a typical year, Hawaii hotels comprise more than half of the total sales volume. By mid-year 2013, hotel transactions already constituted more than 75% of total sales for the year.

Contributing to this strong demand for hotels has been the resurgent growth in air passenger arrival counts and rising hotel occupancy rates. For the first half of 2013, more than 4.0 million visitors came to Hawaii, representing a 5.5% jump in passenger counts after a gain of 9.7% in arrivals between 2011 and 2012. Corresponding to this jump in visitor counts, statewide hotel occupancy rates rose above the 76.9% registered at year-end 2012 to 77.7% (June YTD 2013). More amazingly, Waikiki's occupancy rates are among the highest in the nation at 85.5%. This strong demand is already boosting statewide hotel revenue per available room $175.21, a gain of 12.4% over the past year. For local hotels, investors believe that this growth trend will continue at a conservative rate of 4% annually. However, even at this pace, hotels are arguably the fastest growing net income stream in commercial real estate across the country.

Hawaii hotel and resort investment demand is coming from around the world. The widened exposure from the boom in air passenger arrivals from international destinations such as Tokyo, Shanghai, Seoul, Sydney and Toronto, is also helping to fuel demand for Hawaii's residential properties. Airlift is anticipated to increase from Japan, Korea and China, as Hawaiian Airlines, Hainan Airlines, Japan Airlines and Korean Air expand their routes throughout the Pacific.

CMBS/Mortgage Debt Purchases

The level of delinquencies and loan defaults that rose during the past recession is quickly being resolved as strong occupancy gains and rising room rates quelled investor concerns. As the hotel investment market began to heat up, aggressive hotel investors sought creative ways to gain potential ownership interests in increasingly attractive hotel investments. Investor strategies ranged from purchasing primary and secondary mortgage debt or mezzanine loans to securing leasehold interests in existing hotel properties with the hope of establishing even a partial ownership position in a Hawaii resort location. These investors understood the supply constrained environment of Hawaii. With very few developable resort-zoned properties available for sale or development, existing Hawaii hotel properties are likely to continue to garner premium sales prices. Resort and hotel properties are getting multiple sale offers and benefiting from intense bidding wars as sales prices are driven upward and cap rates are further compressed.

We believe that the tourism sector forecasts indicate a continued strengthening and will result is healthy demand for Hawaii hotel and resort real estate through 2017.

HOTELS SOLD IN 2013 (YTD JUNE)					
SALES DATE	PROPERTY	BUYERS NAME	NUMBER OF ROOMS	PRICE PER ROOM	SALES PRICE
Jun-13	Hyatt Place	Waikiki Exchange LLC	426	$307,029	$130.8 million
Jun-13	Courtyard at Marriott	RJL Lodging	399	$188,722	$75.3 million
May-13	Hotel Renew	Renew Funding LLC	72	$326,389	$23.5 million
Apr-13	Courtyard at Marriott	Highgate Holdings	399	$313,283	$125.0 million
Apr-13	Hyatt Regency	Blackstone Capital	1,230	$365,854	$450.0 million
Mar-13	Grand Wailea	Government of Singapore	780	$992,555	$774.2 million
Feb-13	Ritz Carlton Kapalua	Centerbridge Capital Partners	146	$684,932	$100.0 million
				TOTAL	$1.68 billion

*Bratton Realty Advisers, Ltd. Exclusively contracted to Colliers International HI, LLC

PERSPECTIVE: Looking for George Jetson

SCOTT L. MITCHELL (B) SIOR
Executive President

In a recent conversation with one of our young up and coming agents, I was asked where I spent my time after getting hired at Colliers over thirty years ago. My answer was simple and with the expectation of acknowledgement and understanding; "I cut my teeth in the Honolulu Ironworks project," I said. The response wasn't quite what I expected, "Oh...nice! Was that out in Kapolei?"

After a brief explanation and a smile, it occurred to me that my perspective and that of the young business professionals inheriting the marketplace today are very different. In a nutshell, there has been quite a bit of change in the commercial real estate landscape. For the record, the Honolulu Ironworks project preceded Restaurant Row and Waterfront Towers in Kakaako and was home to hundreds of industrial users under two large roofs.

Flash forward to today and with roughly 15 new condo high-rises on the skyline and another 20+ planned, the vision of the Kaka'ako Special Design District is coming to fruition. For the urban industrial market of Kakaako, gentrification and "higher and better" uses are the wave of the future. West Oahu is now one of only a few viable alternatives for affordable industrial rents and developable land. Urban Honolulu warehouse rents are escalating as tight market conditions create heavy competition for limited industrial spaces. This is further compounded by the State's recapture of lands for harbor and airport expansion. It's only a matter of time before industrial land values begin to rise above the record $100 per square foot value.

Hawaii's economy has been improving since 2010 and the next round of landscape changes is well underway. As capital begins to flow back into real estate development, it is inevitable that additional gentrification will push industrial users out of urban Honolulu. If the past is any indicator of the future, we are heading into some very interesting times in the industrial marketplace. I keep looking to the skies for George Jetson to arrive. For the younger generation who doesn't know who that is... Google it. By the way, search engines weren't around back then either!

Select Colliers International Notable 2013 Sales Transactions

HAWAIIAN TELCOM

Sales Price:	$13.86 million
Address:	1021 Kikowaena Place, Unit 2 Honolulu, Hawaii 96819
Tenure:	Fee Simple
Land Area:	3.38 Acres
Agents:	Ronald C. Ward (S) Andrew D. Friedlander (B) SIOR

NAPILI PLAZA

Sales Price:	$19.18 million
Address:	5095 Napilihau Street Maui, Hawaii 96761
Tenure:	Fee Simple
Land Area:	4.05 Acres
Agents:	Mark D. Bratton (R) CCIM* Kim F. Scoggins (B)**

Select Colliers International Available Sales Listings

KAUAI LAGOONS

Status:	Offers Due by September 17, 2013
Address:	3351 Hoolaulea Way Lihue, Kauai, Hawaii 96766
Tenure:	Fee Simple
Land Area:	82.85 acres
Agent:	Mark D. Bratton (R) CCIM* Susan Morris

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