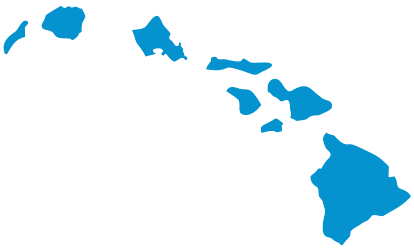
HAWAII MID YEAR 2012

INVESTMENT MARKET REPORT



MARKET INSIGHT

"Cap rate compression in top tier markets bolsters consideration for secondary markets and should boost Hawaii's investment sales activity through 2013."

- Scott L. Mitchell (B)
Executive Vice President

MARKET INDICATORS

	MID YEAR 2011	MID YEAR 2012
SALES VOLUME	↑	↑
SALES COUNTS	↑	↓
CAP RATES	↑	↓

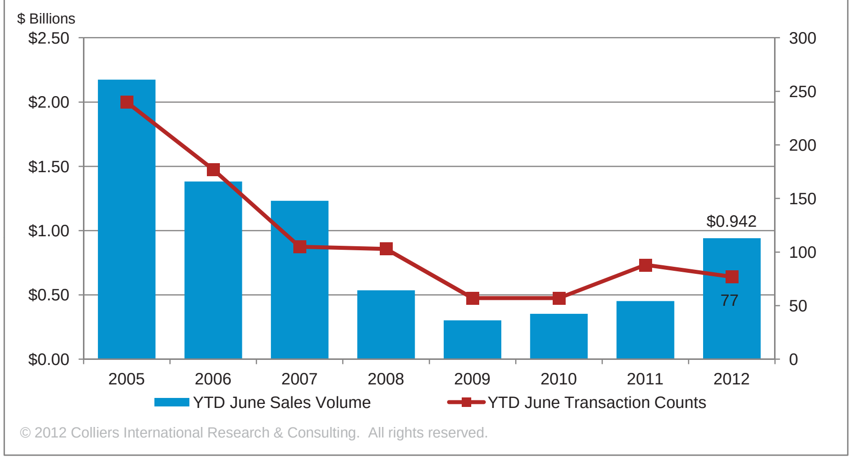
HAWAII HIGHLIGHTS

MID YEAR 2012 $1M+ COMMERCIAL INVESTMENTS NUMBER OF TRANSACTIONS	77
MID YEAR 2012 $1M+ COMMERCIAL INVESTMENTS SALES VOLUME	$942M

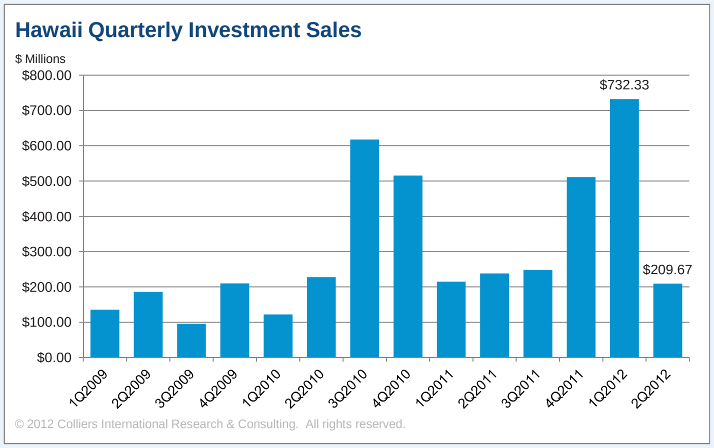
Surge in Retail Investment Volume

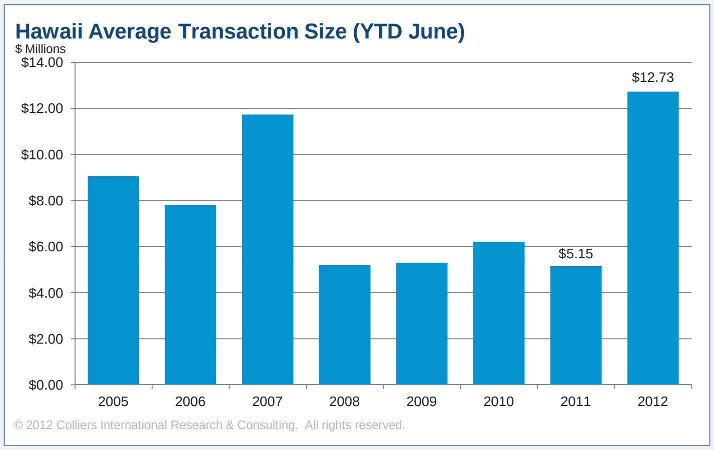
Hawaii's commercial real estate investment market continues to post improvement as transaction sales volume for the first half of 2012 reached nearly $1.0 billion, a healthy 111.1% jump over last year's levels. The number of transactions actually declined 12.5%, from 88 at midyear 2011 to 77 at midyear 2012. However, the average transaction size jumped to $12.7 million, a 147% increase over the $5.1 million average reported last year at this time.

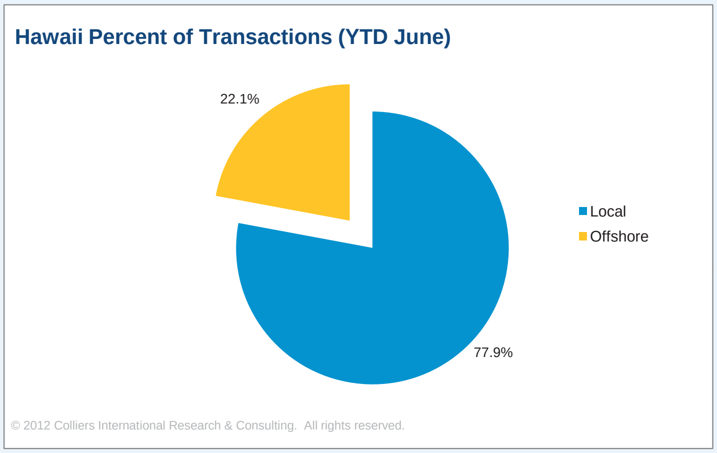
Of the 77 transactions, roughly 78% were to local investors and Hawaii-based owner-users at an average purchase price of $2.6 million. The remaining 22% of the properties were sold to offshore entities at an average purchase price of $46.3 million. This wide disparity in transaction sizes is indicative of the rising interest among national institutional investors seeking higher yields in secondary markets.

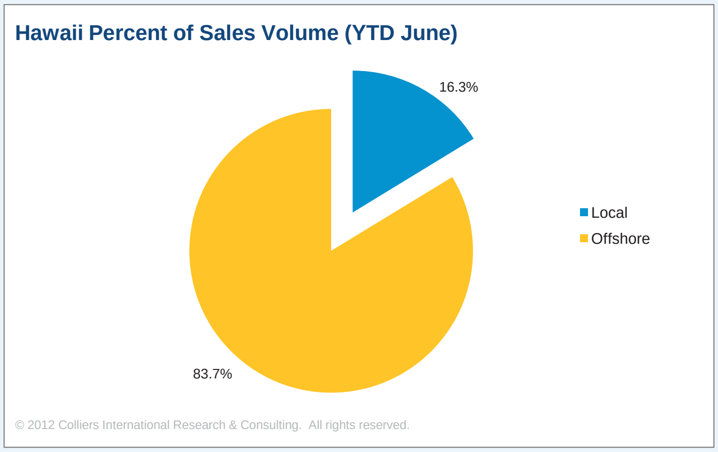


Hawaii Investment Sales Volume vs. Transaction Counts (YTD June)









The investment marketplace appears to be stabilizing after a tumultuous past few years. The rapid decline in interest rates has made it increasingly attractive for developers and investors to borrow money. Banks and financial institutions are rolling out the red carpet for those that qualify for loans. Although many bank loan underwriters remain extremely vigilant for any hint of potential problems, there appears to be an increase in bank loan flexibility as efforts are placed on boosting loan volume. For borrowers with solid credit ratings or a proven history of positive cash flow, this may be the right time to secure low cost capital to expand their business and/or buy a company facility.

Money market funds, bonds and savings accounts are not attractive investment vehicles for those seeking high returns. With rates below 1.0%, investors are taking another look at real estate as an alternative investment option.

Favorable currency exchange rates were likely a key factor for three transactions by foreign investors. A Chinese firm purchased the Makaha Valley Country Club golf course, while a Japanese firm bought some resort-zoned land in South Maui, and a Korean firm acquired a small apartment building in the Kapiolani Corridor. Despite such activity, it appears that investment activity from abroad still remains decidedly tentative.

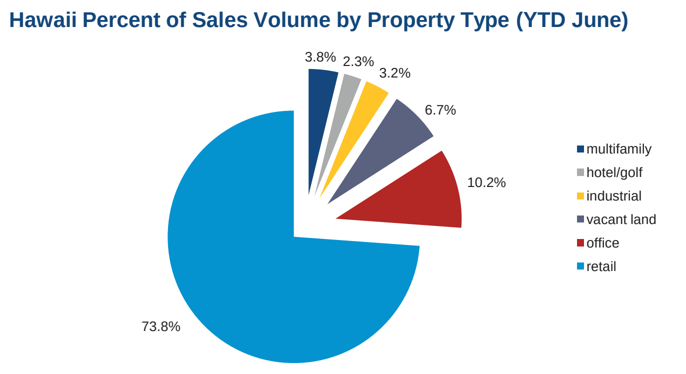
Transaction Review

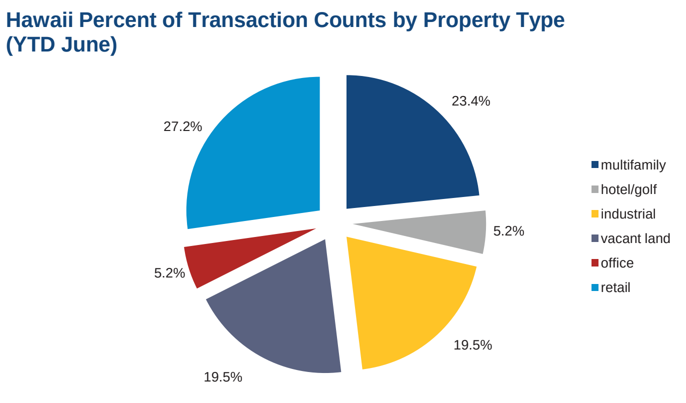
Two transactions topped the list of sales and comprised more than half of the accumulated sales volume for the first six months of the year. Glimcher Realty's acquisition of the remaining 80% share in Pearlridge Center for $289.4 million and General Growth Properties' $250.0 million purchase of the Sears anchor location lease at Ala Moana Center are the year's largest transactions so far. These acquisitions boosted retail investment sales volume to $695 million, representing 73.8% of the total volume for YTD 2Q2012.

Office investment sales activity ranked a distant second with $96.0 million in activity. First Insurance Center sold to Select Income REIT for $72.0 million and Peter Savio closed on Newtown Square in Aiea for $15.2 million. Newtown Square will be converted and sold as medical office condominiums.

Commercial vacant land sales totaled nearly $63 million at midyear. PACREP LLC, a mainland developer, purchased the former K3 site on Kuhio Avenue in Waikiki and has submitted plans for a 34-story condo-hotel tower. KK LC Hotels Holdings, a Japanese entity, purchased roughly 160 acres of agricultural-zoned land near the Makena Golf Course in South Maui.

Despite the lopsided dispersion of sales volume for the first half of the year, transaction counts appear to be more evenly distributed. Multifamily, industrial, retail and commercial vacant land product types each generated 19% to 27% of total sales transaction activity.

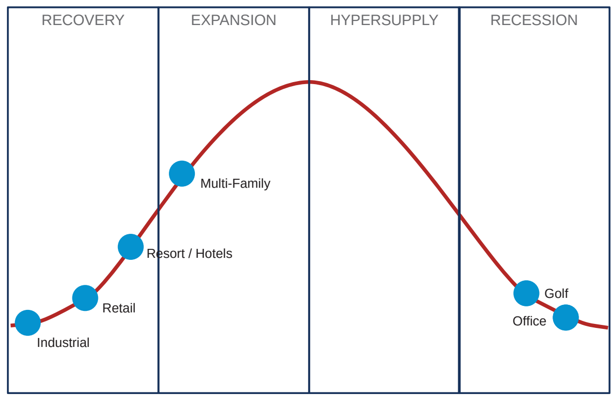




NOTABLE TRANSACTIONS

PROPERTY TYPE	PROPERTY NAME	BUYER	SALES PRICE	SALES DATE
Retail	Pearlridge Center	Glimcher Realty	$289,400,000	5/9/2012
Retail	Sears Ala Moana	General Growth Properties	$250,000,000	6/1/2012
Retail	Safeway Kapahulu	Honolulu Retail Owner LLC	$72,200,000	1/3/2012
Office	First Insurance Center	SNH Ward Ave. Properties Inc.	$71,595,369	6/20/2012
Commercial Vacant Land	2114 Lauula Street (K-3 Waikiki site)	PACREP LLC	$15,500,000	1/10/2012
Office	Newtown Square	KMC Partners LLC	$15,250,000	6/29/2012
Hotel	Waikiki Seaside Hotel	Seaside Waikiki Hotel Fund LLC	$13,817,425	2/29/2012

Real Estate Cycle



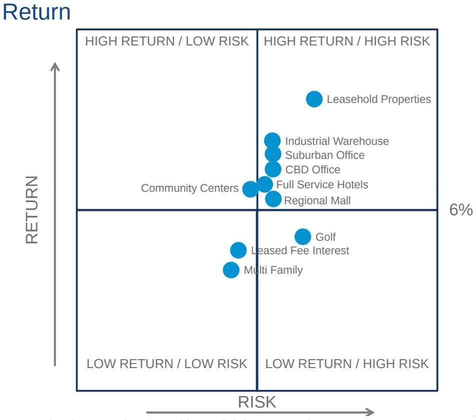
Real Estate Cycle Shows Steady Improvement

Fueled by tourism sector growth, Hawaii's economy is beginning to establish a foundation for rebuilding from the last recession. Most notably, hotel properties have benefitted from the growth in air passenger arrival counts and increases in occupancy, which, in turn, have resulted in peak revenue performances.

Colliers identifies four distinct quadrants to a typical real estate cycle. The recovery quadrant is represented by rental rates stabilizing from rapid declines and vacancy rates flattening out. The expansion quadrant is marked by developers entering the market due to rising rents and shortage of supply. The hypersupply quadrant occurs when an oversupply of product saturates the market. The recession quadrant occurs when rents start to decline as over development or poor market conditions upset the market.

The hotel product type has now steadily risen up the recovery quadrant of the real estate cycle continuum. Improvement to the retail and industrial sectors from year-to-date occupancy growth and strengthening market fundamentals has resulted in positive movement for these sectors from the recession quadrant to the recovery quadrant. Only office and golf properties still remain within the recession quadrant. Rising vacancy rates, soft office rental rates and declining daily golf rounds reflect continued slow market conditions for those properties.

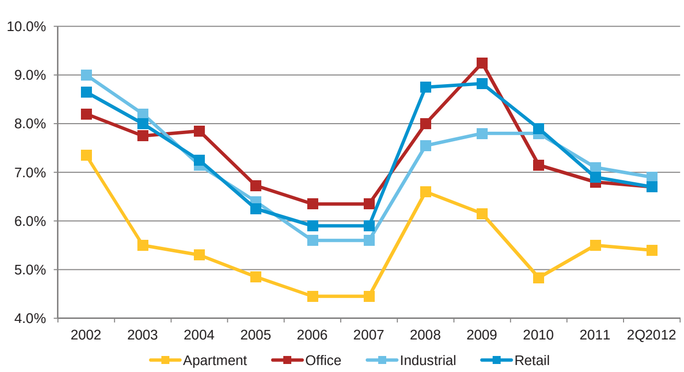
Risk vs. Return



Risk vs. Return

Capitalization rates ("cap rates") are a close reflection of the level of risk associated with the purchase of investment properties. As the Hawaii Estimated Cap Rates by Property Type graph indicates, cap rates for prime properties currently range from 5% for multifamily properties to 7% for industrial warehouses. Cap rate compression, which has existed in our market since the end of 2008, still appears prominent as the supply of available commercial real estate properties remains limited. Demand continues to exist for small investment properties by owner-users wishing to lower their occupancy costs and investors seeking an alternative to low returns on demand deposits.

Hawaii Estimated Cap Rates by Property Type (YTD June)



Distressed Sales Decline

For 2011, Colliers reported that $551 million, or 45% of the total Hawaii sales transaction volume, was directly attributed to the sale of distressed properties. The most notable of these transactions were the Fairmont Orchid Resort, Ritz Carlton Kapalua, West Kalaeloa Industrial Park and the Waipio Business Center industrial condominium project. By comparison, distressed sales volume is down considerably at mid-year 2012. Concurrently, approximately $100 million, or 10% of the total Hawaii sales transaction volume, can be attributed to problem properties.

Of the distressed properties sold, several were secured by their lenders through foreclosure auctions or were resolved through negotiated settlements with "deed in lieu" transfers. Compared to last year, the number of distressed hotel properties declined dramatically. In contrast to several properties worth hundreds of millions of dollars, only one hotel property, Days Inn on Maui, was auctioned through the foreclosure process. Several Oahu office properties, including Pacific Park Plaza and Airport Center, were taken back by their lenders. Laniakea Center in Waipahu, Oahu and Coconut Marketplace in Lihue, Kauai topped the list of distressed retail properties that changed hands this year.

Hawaii is not immune to the problems besetting the commercial mortgaged-backed securities ("CMBS") marketplace. Major resort hotel investors and operators secured CMBS funding for acquisition and redevelopment plans. The dramatic declines in volume and the subsequent lack of funding opportunities for mortgagees seeking to refinance placed an undue strain on the system and resulted in a rapid rise in loan defaults. In fact, CMBS analytics firm Trepp reported that more than 10% of the CMBS loans outstanding are currently delinquent. Real Capital Analytics surmised that of the $10.8 billion in U.S. loan defaults and transfers to special servicing for 2012, the majority of these new delinquent loans are the result of problem CMBS placements.

Nationally, problems still exist with the increasing number of CRE loans that are maturing over the next few years. More than $320 billion in loans are projected to mature by 2013. Loan defaults continue as distressed sales account for 12% of the transaction volume during the first six months of 2012. Despite this huge percentage, the rate of distress is trending downward as lenders have resolved more than $6.2 billion in troubled loans over the past six months.

National Market Activity Stagnates

For the first half of 2012, Real Capital Analytics reported that there was more than $108 billion in transaction sales volume for the U.S., which mirrors the first half of 2011. However, if merger and acquisition activity is excluded, commercial real estate investment sales volume grew by 17% over the first half of 2011. Although counter to projections, many believe the dampening in the pace of investment sales growth reflects the current slowing in the economic environment as consumer sentiment continues to waffle. Fortunately, prices appear to have remained static overall as cap rate compression in the select sectors of multifamily and retail properties still exist.

Secondary and tertiary markets are beginning to experience an increase in activity as competition for top tier markets has driven cap rates downward. This broadening of investor geographic preferences is likely to benefit Hawaii's marketplace.

2012 Investment Market Forecast

Real estate continues to be an investment vehicle that can capitalize on low interest rates and compensate for depressed returns from money market funds. Alternative investments all appear questionable as stock market volatility, global financial concerns and the pending presidential election have investors a little skittish about the near term future.

In light of this market uncertainty, investment forecasts remain hazy as national commercial real estate sales volume remained flat over the past six months. However, Hawaii's outlook is brightening as market dynamics are beginning to trend into positive territory. Business growth is contributing to occupancy gains, which in turn will provide a favorable influence to the direction of rents within the next year. By year end 2012, Hawaii Investment transaction volume should reach near $2.0 billion as additional distressed hotel sales get resolved and several large multifamily portfolios are projected to close.

Office Buildings in Honolulu - A Tale of Two Different Markets

MARK BRATTON (R) CCIM
Vice President

Despite only five office properties trading hands during the first six months of the year, meaningful trends have emerged. One component of the market dealt with properties that faced financial problems.

Pacific Office Properties ("POP"), which is one of the largest owners of office buildings on Oahu, notified the Securities and Exchange Commission of their intent to withdraw the Company's common stock listing on New York Stock Exchange. POP had been notified by the Exchange on April 19, 2011 that it was not in compliance with the listing standards. POP faced losses in three of the past four years and had less than $4 million in equity when this occurred.

In an effort to correct this situation, POP marketed the First Insurance Building for sale and consummated a deal with Select Income REIT earlier this year. This $70.2 million sale produced a healthy profit for POP, which helped to reduce its overall debt and move capital back into its accounts for other office properties and potential acquisitions. Pacific Office Properties plans to sell other office buildings in Hawaii.

Two prime office buildings faced foreclosure proceedings and reverted back to their lenders. Airport Center, a 221,000 square foot office building, was previously owned by Airport Center Property Owner LLC until it defaulted on its loan and fell into CMBS special servicing. Pacific Park Plaza traded hands via a "deed in lieu" of foreclosure. This 262,615 square foot office building became another victim of the financial crisis of 2008. But, there is a bright spot. These properties now have a new cost basis which will allow new owners to undercut the market and in some cases, provide highly competitive rent. New owners will be able to improve the buildings by updating common areas and offer tenant improvement monies that will not only retain existing major tenants, but will also attract new, desirable ones.

Currently, there are forty-two other office properties on the market for sale. Unfortunately, many of these available office properties have high vacancy, remain functionally obsolete, or have high deferred maintenance or unrealistic asking prices which contribute to what may be years before a viable offer is considered.

Many of these available properties are targeted at the small investor/owner-user market. These buyers range from small and full-floor professional corporations to major medical facilities and clinics. We are seeing a strong trend for medical facilities and clinics, which were previously located on hospital grounds, moving into office buildings to expand their businesses. In particular, Newtown Square, an Aiea office building that was sold this year, is currently being converted to a medical office building with plans to add an additional 40,000 square feet to its existing 61,690 square feet of leaseable area.

So far, 2012 has proven to be a successful year in office building investments as compared to previous years. Office buildings comprised 10.2% of the total investment sales volume in Honolulu at midyear 2012 versus 4.0% at midyear 2011. From 2008 through 2011, office investors faced office building vacancy rates that soared to 14% and loan defaults that loomed on the horizon.

Fortunately this year, investors are gaining new interest in re-investing in existing office buildings. Limited developable land inhibits the construction of new product. We believe that tenant demand for existing office buildings will steadily build and result in a decline in vacancy rates. With no new supply of office buildings in Honolulu in the near future, investors are taking advantage of the improving market dynamics and are back investing in real estate. The most recent office building in escrow is the Bank of Hawaii Center in Waikiki which received over a dozen offers. Luckily for these investors, there are five more office buildings coming on the market soon.

Owner-Users: The Perfect Opportunity to Buy?

WILLIAM "BILL" FROELICH (S) JD
SIOR CCIM
Vice President

For 2012, local owner-user/investors accounted for an increasing share of the transaction counts and sales volume. Sales transactions below $3,000,000 in sales price constituted 80% of the total transaction count, 90% of the apartment transaction volume, 67% of all industrial sales volume, and 60% of total raw land sales volume.

When evaluating whether to purchase a property, a typical owner-user examines the projected return and cost of capital to buy a property versus the return of placing the same funds in another investment vehicle or reallocating it into its own business. Similarly, a typical investor would perform the same type of analysis for its borrowing power or capital, but would compare it to other opportunities in the marketplace. While these analyses are great tools, they don't tell the whole story. There are other dynamics that influence real estate acquisitions.

As tourism and military spending continue to surge, consumer confidence has risen and will likely lead to improved job stability and an increase in retail sales. The industrial sector has been positively affected with the pending construction of several urban residential condo projects, development activity in Kapolei, and the start of the rail transit construction. These factors have resulted in stabilization and projected increases in commercial and industrial rents.

Across most transaction types, Hawaii has seen a decline in property values since 2008, making assets more attractive for acquisition. However, many of these assets appear to have stabilized or are already in the process of recovery in 2012. As vacancy rates and rental rates begin to improve, property values are likely to follow suit.

With interest rates at all-time lows, we are seeing the potential for positive leverage in the majority of investment underwriting. This has been an attractive point for owner-users and investors. While underwriting remains very conservative, an increase in lending has reaffirmed confidence and given buyers options to purchase. SBA 504 loans have given lenders further comfort and lessened down payment requirements for owner-users.

For real estate, investment timing that corresponds to the real estate cycle ebb and flow improves the chances of a successful venture. The hopes of jumping into a market that appears to be bottoming out allows the investors to enjoy property appreciation that occurs with a recovering marketplace. This is contributing to an increased level of investment interest among owner-users and investors as transaction volume surges upward.

Notable 2012 Sales Transaction

Newtown Square
98-1247 Kaahumanu Street
Aiea, Hawaii

Seller Name:	Trustees of the Estate of Bernice Pauahi Bishop
Sales Price:	$15,250,000
Sales Date:	6/29/12
Land Area:	2.87 acres
GLA:	61,690 SF
Listing Broker:	Mark Bratton (R) CCIM

Featured Property For Sale

5156 Kalanianaole Highway
Aina Haina, Honolulu, Hawaii

Tenure:	Fee Simple
Building Area:	24,200 SF - Main Building (Two-Stories) 2,279 SF - Former Medical Clinic (Single-Story)
Land Size:	60,890 SF
Zoning:	B-1 (Neighborhood businesses)
TMK No.:	(1) 3-6-11: Parcel 1
Contact:	Scott Mitchell (B) SIOR Mark Bratton (R) CCIM

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