

# Investment Market Briefing

INVESTMENT | FIRST QUARTER 2010

## Investment Sales Market Slowly Trods Along

*We may have reached the bottom of the cycle, but a turnaround is not anticipated for the foreseeable future.*

- Ronald C. Ward (S)  
Vice President

### MARKET INDICATORS

FIRST QUARTER  
2009 2010 2011

|              |   |   |   |
|--------------|---|---|---|
| SALES VOLUME | ▼ | ◆ | ▲ |
| SALES COUNTS | ◆ | ◆ | ▲ |
| CAP RATE     | ▲ | ▲ | ▲ |

### HIGHLIGHTS

Hawaii First Quarter 2010  
\$1M+ Commercial Investment  
Number of Transactions:

**17**

First Quarter 2010  
\$1M+ Commercial Investment  
Sales Volume:

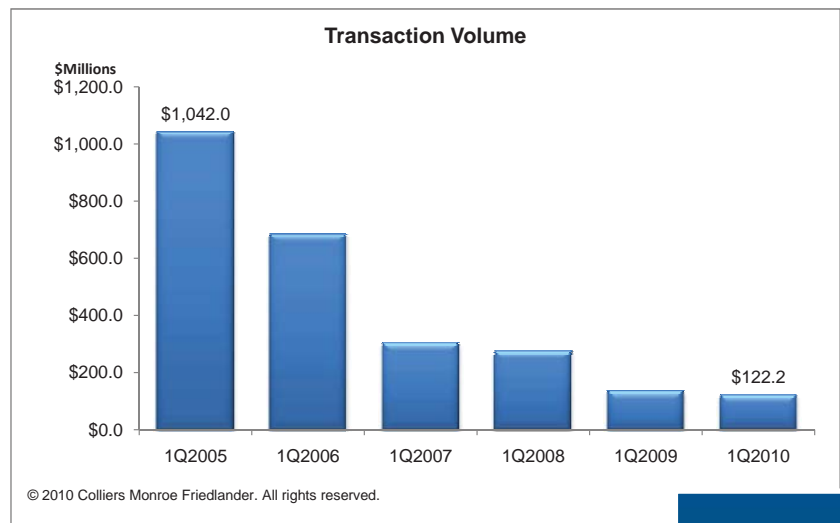
**\$122.2 Million**

Hawaii's commercial real estate marketplace posted another decline in transaction volume for the first quarter of 2010. Sales activity fell by 9.9% when compared to first quarter 2009 levels. Over \$122 million of investment transactions occurred during the first quarter, reflecting a drop of roughly \$12 million from last year's figures. Deal flow slowed to a trickle as only 17 properties were sold during the first three months. Of the few deals that have closed, the majority of them traded in excess of 8% returns.

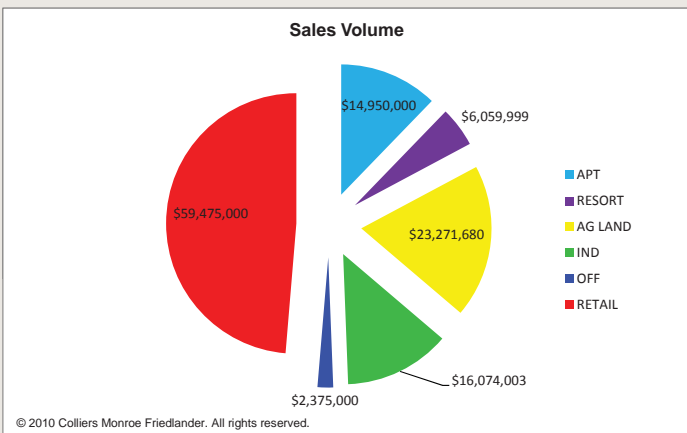
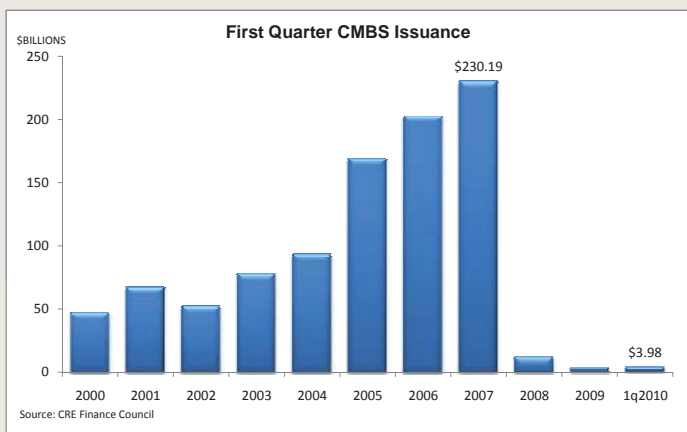
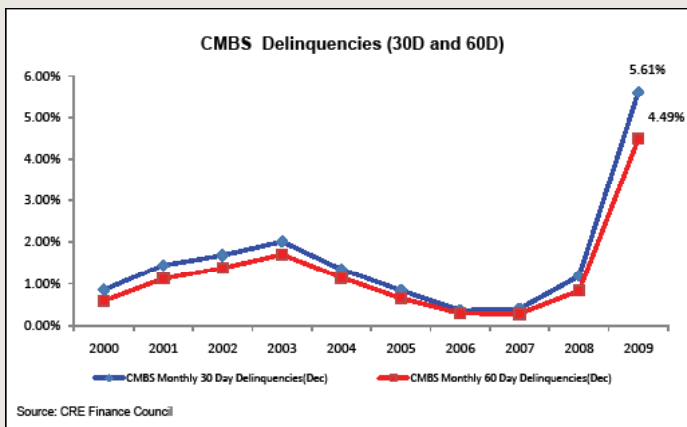
Investor cautiousness, tightened financial underwriting, the recession's impact on tenant demand, and seller hesitancy all conspired to create a difficult

market to consummate real estate transactions. However, capitalization rates, which provide general guidelines as to returns on investments, are forecasted to continue to increase.

Of the first quarter's most notable transactions, the \$50 million all-cash purchase of Mililani Shopping Center by Stoneridge Capital Partners topped the list. This was followed by the foreclosure sale of Hawaii Raceway Park to AC/CW Raceway Owner LLC for nearly \$14 million. Additionally, interest in agricultural lands continues to increase as bio-fuels, genetic seed and alternative energy companies seek these lower cost vacant land parcels to build their facilities.



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Big concerns still remain over those commercial assets that were purchased at the height of the market with Commercial Mortgage Backed Securities (“CMBS”). Nationally, there has been a dramatic increase in the number of distressed properties that are facing foreclosure, and Hawaii is an unfortunate participant. The Commercial Real Estate Finance Council, which tracks CMBS funds, reported that distressed property loans that were more than 30 days past due rose to 5.61% of the total CMBS balance as of December 2009. This is a seven-fold increase over the past year.

While the number of distressed properties in Hawaii continues to increase, previously troubled assets have resolved their financial troubles. For example, General Growth Properties was able to restructure their loans on their large Hawaii portfolio holdings on a short-term basis as lenders utilized the “delay and pray” strategy to combat today’s struggling market conditions.

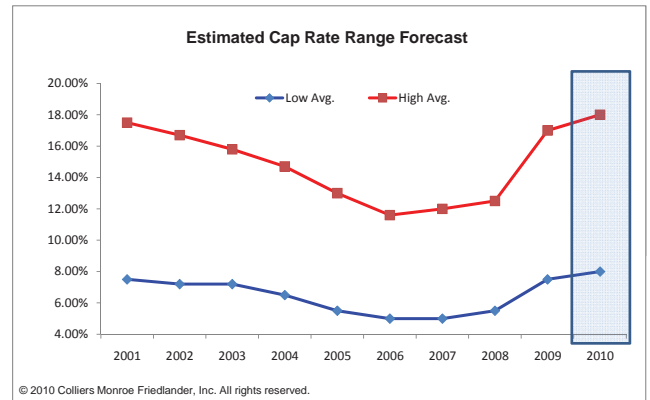
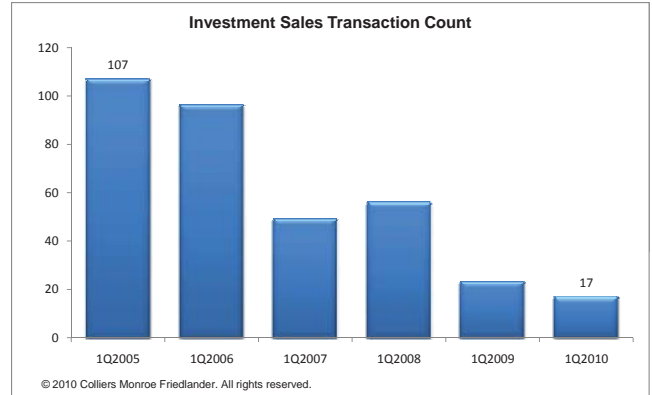
Other distressed properties have gone to foreclosure auctions, only to be scooped up by lenders or savvy investors at a fraction of the original purchase price. The former Hawaii Raceway Park was sold to a group of investors at a purchase price equal to about \$5.00 per square foot, significantly below peak market values of \$35 to \$40 per square foot. The long financially-troubled Turtle Bay Resort was finally taken back by a group of investment management firms including Wells Fargo & Company and Credit Suisse Group in February 2010 after nearly three years in foreclosure.

There appears to be a thawing in the commercial debt markets as the amount of CMBS issuances increased to nearly \$4 billion in the first quarter of 2010. This first quarter 2010 figure exceeds the \$3.1 billion in CMBS funds that were distributed for all of 2009, but is not comparable to the record \$230 billion issued for 2007. Similarly, banks appear more open to discussing real estate loan options, but underwriting criteria remains steadfastly stringent which will continue until rental rates begin to stabilize and property values gain firmer ground. Colliers Monroe Friedlander projects that



**ALLURE WAIKIKI COMMERCIAL LOT**

investment sales will start to increase over the next few quarters as opportunistic investors capitalize on the favorable buyer's market. Although the majority of prime distressed properties will likely secure an extension of their loan maturity dates, owners that are no longer able to hold off defaulting on their loans will be cornered into relinquishing their properties to vulture funds. However, there appears to be a consensus that declining market conditions have begun to stabilize and market recovery is expected to happen slowly over the next two to three years.



**NOTABLE FIRST QUARTER 2010 SALES**

| Property Type | Location                     | Buyer                         | Sales Price (\$ Millions) | Transaction Date |
|---------------|------------------------------|-------------------------------|---------------------------|------------------|
| Ag Land       | Farrington Highway           | Kunia Loa Ridge Farmlands     | \$7.73                    | March 2010       |
| Ag Land       | West Big Island Land         | Jawmin LLC                    | \$9.00                    | March 2010       |
| Apartment     | 3535 Lower Honoapiilani Road | Honokowau Villa LLC           | \$12.50                   | March 2010       |
| Apartment     | 704 Menehune Lane            | Menehune Sun, LLC             | \$1.25                    | February 2010    |
| Industrial    | Hawaii Raceway Park          | AC/CW Raceway Owner LLC       | \$15.10                   | March 2010       |
| Retail        | Mililani Shopping Center     | Mililani Shopping Center LLC  | \$50.25                   | January 2010     |
| Retail        | Maui Kele Shopping Center    | Maui Kele Shopping Center LLC | \$4.93                    | February 2010    |

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## Featured Properties For Sale

### DEVELOPMENT LAND



#### Kapolei Promenade

Land Area: 9 parcels (from 0.767 acres to 3.262 acres)  
 Zoning: B-2 (Community Business)  
 Tenure: Fee Simple  
 Contact: Kim F. Scoggins (B) / Scott L. Mitchell (B) SIOR  
 Guy V. Kidder (S) CCIM, SIOR (808) 524-2666

### SHOPPING CENTER



#### Waikoloa Shopping Center

Asking Sales Price: \$19,900,000      Cap Rate: 8.78%  
 Land Area: ± 7 Acres      Occupancy: 78%  
 GLA: ± 73,524      Tenure: Fee Simple  
 Contact: Mark Bratton (R) CCIM (808) 523-9708

### COMMERCIAL BUILDING



#### Kaimuki Plaza

Asking Sales Price: Submit Offer by June 15, 2010  
 Land Area: ± 27,387 SF      Occupancy: 89%  
 GLA: ± 61,669      Tenure: Fee Simple  
 Contact: Mark Bratton (R) CCIM / Sean Tadaki (S) CCIM  
 (808) 524-2666

### DEVELOPMENT LAND



#### Kukui Grove Village West

Asking Sales Price: \$3,972,215  
 Land Area: ± 4.175 Acres  
 Zoning: C-G (General Commercial)  
 Tenure: Fee Simple  
 Contact: Ronald Ward (S) (808) 523-9747



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If you would like additional information, please contact mike@colliershawaii.com.

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