Investment Market Report

OAHU | YEAR END 2010

"Improving market and financial conditions bolster optimism for 2011."

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

MARKET INDICATORS

	YEAR END 2010	2011	2012
SALES VOLUME	▼	▲	▲
SALES COUNTS	▼	▲	▲
CAP RATE	▲	▲	▲

HAWAII HIGHLIGHTS

Fourth Quarter 2010
$1M+ Commercial Investment
Number of Transactions:
52

YTD Year End 2010
$1M+ Commercial Investment
Number of Transactions:
157

Fourth Quarter 2010
$1M+ Commercial Investment
Sales Volume:
$ 515.65 Million

YTD Year End 2010
$1M+ Commercial Investment
Sales Volume:
$ 1.48 Billion

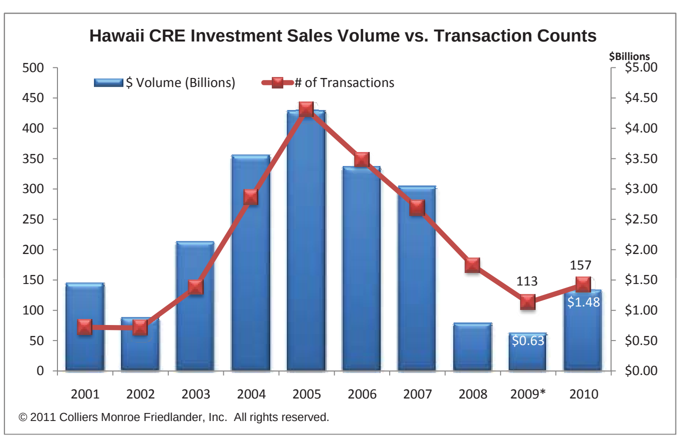
Market Bounces Off the Bottom

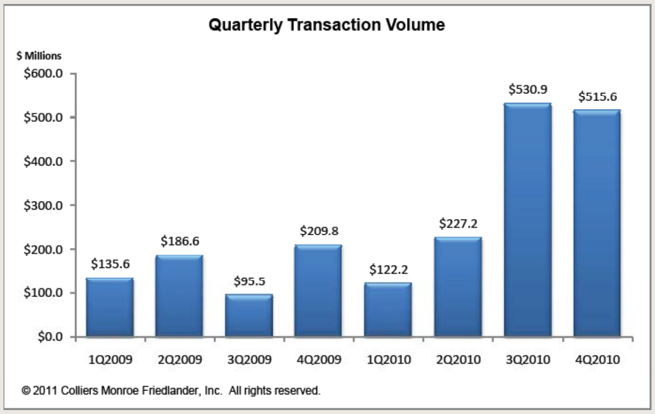
Hawaii's commercial real estate transaction volume more than doubled in 2010 to $1.48 billion from $630 million in 2009. Initially, we believed that sales activity would increase principally due to distressed property sales, but that was generally not the case. While Hawaii did experience a few distressed properties trading hands, the majority of the transactions were to investors seeking to build their Hawaii portfolios or diversify their real estate holdings into Hawaii's relatively strong real estate market.

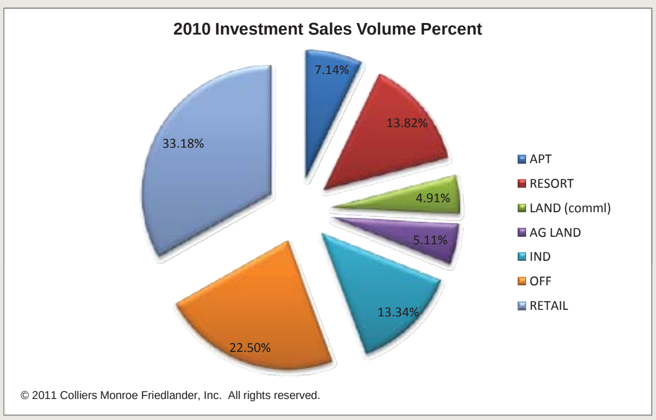
The year ended on a positive note as economists touted the rebound in the tourism sector and boosted the belief that the economy had turned the corner. The State of Hawaii is projected to have generated a positive 1.0% growth rate in GDP and a 0.2% rise in personal incomes for 2010, indicating a rebound from 2009 negative performances. Although job growth remains spotty and neighbor island economic conditions remain lackluster, a wider recovery is anticipated to take hold in 2011.

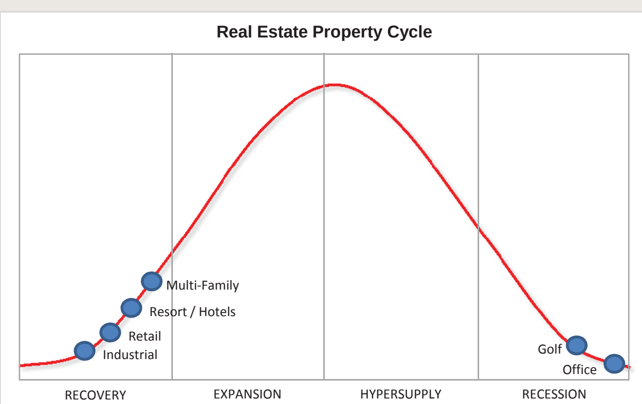
The improvement in the investment market is witnessed by the steady growth in the quarterly transaction volume since the first quarter of 2010. The average quarterly transaction volume over the past ten years has been roughly $500 million and the annual average has been $2.0 billion.

The Commercial Mortgage Backed Securities (CMBS) markets appear to be re-emerging as a financing source. Having more than tripled in volume from 2009 levels, institutional quality portfolios are exploring options with securitized financing. Over the past few years, Hawaii's resort and hotel properties were hit hard by the lack of CMBS financing. In 2011, these prime properties will have a wider assortment









of financing options available to them as CMBS and Wall Street financial firms get a better handle on their distressed portfolios. Nationwide, there appears to be a thawing occurring among banks and investment houses. Locally, banks are starting to aggressively place loans on commercial real estate.

Increase in Large Transactions

The distribution of property sales in 2010 was more evenly distributed than in prior years when hotel and resort properties comprised more than 50% of the total sales. There was an increased interest in office and retail properties which represented 22.5% and 33.2%, respectively, of the 2010 total.

Of the 157 sales transactions during the year, 29 were over $10.0 million in sales price. This is more than double the number of transactions in 2009 and definitely indicates improved access to capital markets. The majority of Hawaii's investment activity (roughly 77%) was comprised of sales for properties under $4 million in price. The average transaction size was roughly $8.7 million or 55% greater than the average sales price for 2009.

Transition from Recession to Recovery Quadrant

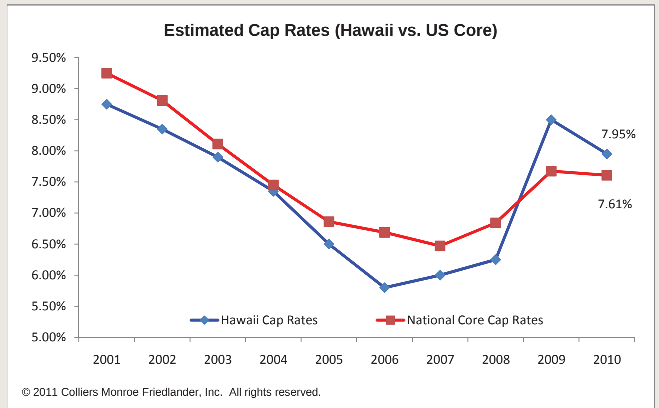
Real estate can typically be measured in cycles. During strong economic periods, development and capital appreciation occurs. During a recessionary period, rents and property values decline as development activity slows. Hawaii's market survived the recession healthier than most. Among many US mainland markets, overzealous developers flushed with cheap capital saturated markets with commercial and residential projects. Vacant and partially-built projects still exist and will take time to be absorbed. Despite some speculation in the resort/hotel sector and the industrial condominium market, Hawaii's construction activity has been fairly limited and is not expected to inhibit the nascent recovery.

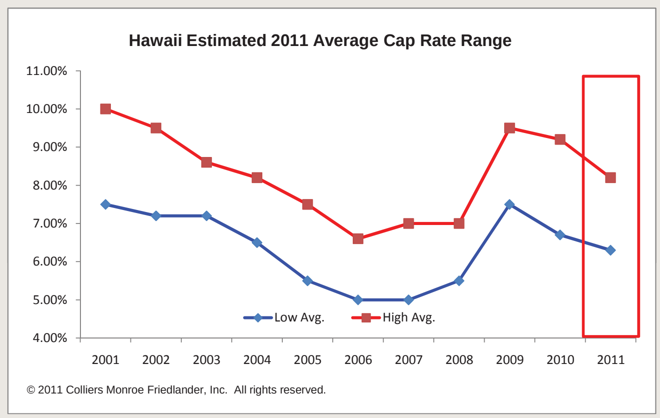
During 2009, most commercial real estate sectors fell into the recession quadrant where vacancy rates rose and rental rates fell. By year-end 2010, most markets had improved and are now in the early stages of the recovery quadrant.

Capitalization Rate Compression

As the commercial real estate market continues to stabilize, the level of investor uncertainty has begun to dissipate. Capitalization rates, which had been forecasted to rise to a range of 8.5% to 10.0% for 2010, actually declined. Prime retail centers and urban core office buildings that recently traded hands during the past year fell into a cap range of 7.0% to 8.5%. For multifamily projects with strong investor interest, typical cap rates ranged from around 4.0% to 5.0%.

Colliers Monroe Friedlander (Colliers) anticipates that capitalization rates are likely to compress further as institutional investor demand broadens to secondary markets. Increased competition for core assets located in 24/7 metropolitan markets have already faced a marked decline in cap rates over the past few quarters. Hawaii properties, which historically have had lower cap rates than their mainland counterparts, will experience rising mainland investor interest.





Estimated Cap Rate Ranges for 2010

Property Type	Number of Transactions	Sales Volume	Colliers Estimated Hawaii Cap Rate	National Cap Rates			
				Korpacz National	Real Capital Analytics	Integra Realty Resources	Emerging Trends/ULI
Apartment / Multifamily	27	$78,511,109	3.7% to 6.2%	6.51%	6.3% to 6.9%	7.14% to 7.16%	6.39% to 6.71%
Hotel	10	$261,994,219	7.8% to 9.2%	---	5.5% to 8.3%	10.01% to 10.11%	8.67% to 9.0%
Land	22	$189,725,718	---	---	---	---	---
Industrial	41	$197,050,163	6.9% to 8.7%	7.98%	8.3% to 8.4%	8.51% to 8.87%	7.75%
Office	17	$314,125,300	6.1% to 8.2%	7.53% to 8.17%	6.4% to 8.0%	8.3% to 8.5%	7.1% to 8.32%
Retail	40	$441,047,502	7.2% to 8.6%	7.58% to 8.08%	7.4% to 8.2%	7.96% to 8.48%	7.2% to 8.12%
Totals	**157**	**$1,482,454,011**	---	---	---	---	---

Notable Sales

Two of the most notable transactions for 2010 constituted more than 32% of the total sales volume for 2010. The $230 million Bishop Square office complex acquisition allowed Douglas Emmett to gain a stronger foothold in the Central Business District (CBD) office market by boosting its office portfolio by an additional 1.0 million square feet. The company's office portfolio includes 1132 Bishop Street, Harbor Court, and the Honolulu Club Building. The largest transaction of the year was the $245 million acquisition of Pearlridge Center by the joint venture of Glimcher Realty Trust and an affiliate of Blackstone Realty Advisors. This purchase of the second largest regional mall on Oahu is their first foray into the Honolulu retail marketplace.

The Makena Resort and its 1,700 acres of land, which was originally purchased by Morgan Stanley and Everett Dowling for $575 million, sold to its lender for $95 million. This is a whopping 83% haircut from its original acquisition price and does not represent the typical result from Hawaii distressed sales.

International investors showed an increased interest in Honolulu's commercial real estate in 2010. Due to the favorable yen to dollar ratio, Sanno USA, LLC from Japan acquired the Kapiolani Business Plaza located at 1357 Kapiolani Boulevard for nearly $31 million. In addition to Japanese investors, Chinese investors began investing in our market as well. The Kapolei Golf Course was purchased for $24.1 million by Hawaiian Golf Properties, LLC, whose members are from China. This is the first major purchase in our market by the Chinese since the late 1990s.

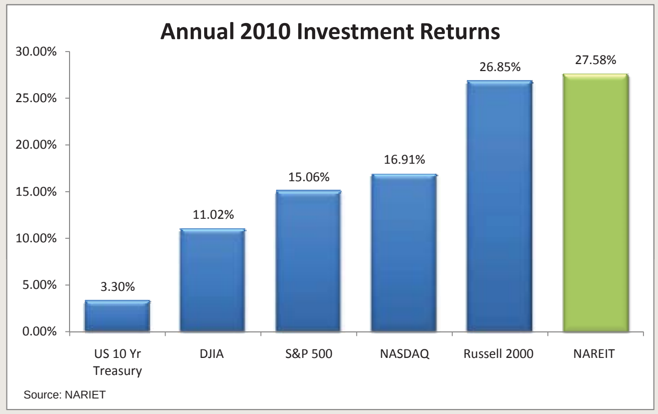
2010 Notable Transactions By Property Type

Property Type	Name	Purchaser	Sales Price	Sales Date
Industrial	* Komohana Industrial Park	ABP Komohana LLC	$32,670,407	7/2010
Industrial	Hawaii Raceway Park	AG/CW Raceway Owner I, II LLC	$13,852,443	3/2010
Land	Piilani Promenade	Piilani Promenade South LLC	$30,120,000	9/2010
Land	(K-2 Site) 2350-2371 Kealia Road	A&B Properties	$20,999,000	12/2010
Land	Kakaako Land	KZ Development Site	$16,000,000	7/2010
Office	Bishop Square	Douglas Emmett	$229,990,000	7/2010
Office	1357 Kapiolani Blvd	Sanno USA Inc.	$30,995,000	10/2010
Office	* Kaimuki Plaza	CUSO Hawaii Investors LLC	$20,800,000	11/2010
Resort	Makena Resort	ATC Makena Hotel, LLC	$95,000,000	8/2010
Resort	Aston Kauai Beach at Makaiwa	JMI Realty	$38,000,000	10/2010
Resort	Kapalua Golf Course	Ty Management Corp	$24,100,000	9/2010
Resort	Ocean Resort Hotel Waikiki	Kokua Hospitality, LLC	$17,602,000	12/2010
Resort	Hilo Hawaiian Hotel	Castle Resorts and RAM Corp	$17,300,000	7/2010
Retail	Pearlridge Center	Glimcher/Blackstone	$245,000,000	11/2010
Retail	* Mililani Shopping Center	Stoneridge Capital	$50,250,000	1/2010
Retail	Waianae Mall	TNP Waianae Mall LLC	$25,538,000	6/2010
Retail	Lanihau Center	A&B Properties	$22,500,000	4/2010

* Colliers Monroe Friedlander Brokered Transactions

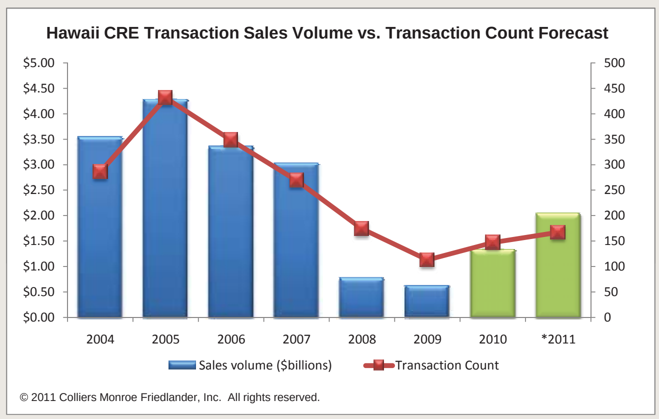
Real Estate Returns Outpace Alternatives

At year-end 2010, real estate investments tracked by the National Association of Real Estate Investment Trusts NAREIT indicated that their annual returns exceeded most all other alternative investments. Bonds, S&P 500, DJIA, Russell 2000 and NASDAQ all posted annual returns lower than Real Estate Investment Trust (REITs). Additionally, the 20-year average annual returns for REITs outpaced that of competing investment vehicles as well.



Investment Forecast

Optimism seems to be the prevailing investment market attitude heading into 2011. Many believe that there will be increased interest in real estate as an investment vehicle as the economy improves. Supporting this belief are the consensus opinions by the State's leading economists which indicate that Hawaii's recovery will experience a re-emergence of job growth and will continue to build on the tourism sector rebound. University of Hawaii Economic Research Organization (UHERO) projects that real gross state product will increase by a respectable 2.7% and real personal income will average 2.2% for 2011. As the economy gains firmer footing and there is a corresponding rise in business and consumer confidence, commercial real estate investment activity should benefit from both property appreciation and improved tenant demand.



Sensing that the bottom of the market has been breached, opportunistic buyers will likely increase efforts to acquire real estate with the hope of capitalizing on favorable market timing. Institutional investors seeking larger returns will tire of the increased competition for top tier markets and expand their search to secondary markets. The increase in interest rates and the spector of rising inflation are additional reasons investors will consider real estate as an investment vehicle. Typically, real estate serves as a good hedge against inflation (being a real asset) that appreciates with rising property values and rental income.

Colliers projects that the commercial real estate sales volume for 2011 will reach $2.0 billion by year-end.

150 KAHELU PLACE

Hotel & Resort Real Estate in Hawaii: "Where are the Great Buys?"

MARK BRATTON (R) CCIM
Vice President

In every resort destination around the world, the real estate chatter is focused around delinquent loans and distressed properties. We are here to tell you that in Hawaii, borrowers are holding off their lenders without much problem. Their strategies consist of loan extensions, capital calls and even reinvestment into their assets. Things may have been tough from 2009 through the first half of 2010, but in the majority of Hawaiian resorts, the tide is rising again.

Hotel occupancy and revenue per available room has been increasing. When booking your next Hawaiian vacation, you will notice that it is more expensive and a little difficult to get the exact dates you want. With cash flows increasing and projected to increase at 4 to 5 percent per year for the next four years, hotel owners will be better able to pay their debts and higher loan payments.

Investors and brokers are chasing hotels in Hawaii with great fervor. We receive a call-a-day from someone interested in acquiring a distressed 100-room fee simple beachfront hotel. These investors are capable of paying hundreds of millions of dollars in cash for the right property. There is great demand for Hawaii hotels, but only a few are available for sale. Currently there are two hotels for sale, and both have been recently renovated. A vast majority of buyers are not interested in leasehold properties. Banks have foreclosed on six hotels (three leasehold) throughout the state, and only two have been put on the market. The remaining properties are being held and operated by the lenders until they can profit on the sale in a recovered market.

The timeshare market held its own last year, with successful projects operated at very high occupancy levels. The buzz now is about, Aulani, the Disney resort on Oahu, which is set to open this summer. Sales are going very well and surprisingly, there are a fair number of local Hawaii residents buying into this property. We are starting to see new timeshare projects being planned.

Unfortunately, it is getting more and more difficult for hotel, timeshare and resort developments to acquire entitlements. Whether its is a source for new potable water on Maui or affordable housing requirements on all the islands, projects with entitlements in place are like gold.

In our opinion, resort retail in Hawaii has tremendous potential. However, investing in resort shopping centers is not for the faint of heart. Rents have fluctuated by 50% over the past four years and vacancy rates are still the highest of any retail product in the state. In these areas, we are aware of five resort shopping centers which have subsequently been taken back by their

2010 Hotel & Resort Transactions

Hotel Name	Buyer	Market	Address	Tenure	Number of Rooms	Sales Price	Sales Date
Waikiki Gateway	Gateway @Waikiki, LLC	Waikiki, Oahu	2070 Kalakaua Avenue	Leasehold	181	$6,059,999	3/30/2010
Continental Surf	Copley Investment Group, LLC	Waikiki, Oahu	2426 Kuhio Avenue	Fee simple	143	$14,700,000	4/9/2010
Hana Hotel	Heavenly Hana, LLC	Hana, Maui	Keawa Place	Fee simple	66	$11,491,747	5/20/2010
Makena Resort	ATC Makena Hotel, LLC	Makena, Maui	5400 Makena Alanui Road	Fee simple	310	$95,000,000	8/27/2010
Hilo Hawaiian Hotel	Castle Resorts and RAM Corp	Hilo, Hawaii	71 Banyan Drive	Leasehold	286	$17,300,000	7/24/2010
Aston Kauai Beach at Makaiwa	JMI Realty	Kapaa, Kauai	650 Aleka Loop	Fee simple	311	$34,000,000	7/31/2010
Ocean Resort Hotel Waikiki	Kokua Hospitality, LLC	Waikiki, Oahu	2550 Cartwright Road	Leasehold	425	$17,602,000	12/22/2010

lenders. Mortgages for three of these centers have been bought by astute investors. Lenders of the two remaining centers are trying to stabilize occupancy and fill vacant spaces prior to selling them. An opportunity exists to get in at what should be the bottom of this cycle. If you have the stomach to start out at a 50% occupancy rate and can successfully reposition these centers, these properties can make a good investment. Investment opportunities are available as the tide will continue to rise on the net income of Hawaii's commercial properties.

Distressed Properties: What a Difference a Year Makes

NANETTE MACAPANPAN (S)
Research Consultant/
Project Manager

As economic conditions began to improve in 2010, so did business and consumer confidence levels. The latter part of the year brought a noticeable turnaround to the commercial real estate investment market that had been stagnant for nearly two years. The renewed availability of credit for financing property acquisitions and refinancing of maturing debt, has improved markedly over the course of 2010. By year-end, private investors, institutional investors, and lenders expressed a sigh of relief as pricing trends firmed, and property fundamentals stabilized in major markets and the number of distressed properties declined. A broader range of lenders, including CMBS conduits, foreign banks and life companies have reemerged in the credit markets.

According to Real Capital Analytics, there were over 16,500 troubled assets in the U.S. for a total loan volume of over $288 billion in 2010, as compared to nearly 16,900 properties and $301 billion a year ago. Hawaii's investment market has remained stable with the estimated amount of distressed CMBS property loans (those over 90 days in default) at about $750 million at the end of 2010. However, while problem loans on high-value properties such as the General Growth Portfolio and Makena Resort were resolved through refinancing or sale, troubled assets such as the Grand Wailea moved further into distress and recently entered foreclosure proceedings. Over the past two years, Hawaii has had one of the highest outstanding hotel distress rates in the U.S. with 12 properties representing over $2.0 billion in loans. As shown in the table below, many of these properties have reverted back to their lenders.

Other property sectors have also seen their fair share of troubled assets with CMBS and financial institution loans. Weakened property fundamentals have hindered property values on highly-leveraged assets, resulting in refinancing difficulties. While 2010 did not bring an overabundance of distressed sales as had been anticipated, 2011 is likely to bring an increase of troubled assets on the market as owners and lenders begin to capitalize on increased financing capacity and the return of investor demand.

Hawaii Distressed Properties in 2010

Property	Property Type	Status
Aston Kaua'i Beach at Makaiwa	Hotel	Foreclosure complete. Property sold.
Grand Wailea Resort & Spa	Hotel	Foreclosure complete. Lender-owned.
Makena Resort	Hotel	Foreclosure complete. Lender-owned.
Turtle Bay Resort	Hotel	Foreclosure complete. Lender-owned.
Gold Coast Business Center	Retail/Industrial	In foreclosure.
Lahaina Square	Retail	Troubled asset. Property sold.
Waipio Business Center	Industrial	In foreclosure.
Waikiki Trade Center	Office	Foreclosure complete. Lender-owned.
Queen Emma Building	Office	Foreclosure complete. Property sold.
King Kalakaua Plaza	Retail	Foreclosure complete. Lender-owned.
Ala Moana	Retail/Office	Loans restructured.
Victoria Ward Properties	Retail/Office/Industrial	Loans restructured.

Source: Bloomberg data, Real Capital Analytics.

Notable 2010 Sales Transactions

Mililani Shopping Center

Sales Price: $ 50,250,000
Listing Agents: Mark Bratton (R) CCIM
Kim Scoggins (S)
Nathan Fong (B)

Komohana Industiral Park

Sales Price: $ 32,670,407
Listing Agents: Scott Mitchell (B) SIOR
Guy Kidder (B) CCIM SIOR

Kaimuki Plaza

Sales Price: $ 20,800,000
Listing Agents: Mark Bratton (R) CCIM
Sean Tadaki (S) CCIM

Featured Properties For Sale

220 Lalo Street

Kahului, Maui, Hawaii

Asking Price: $ 4,090,000
Land Size: 2 Acres / 87,120 SF
TMK NO: (2) 3-8-65: parcel 18
Contact: Ronald Ward (S)
Zoning: M-2 (Heavy Industrial Dist)
Building Size: 12,000 SF
Tenure: Fee Simple

The Shops at 505

505 Front Street, Lahaina, Maui, Hawaii

Zoning: H-2 (Hotel - National Historic Landmark & Historic District)
TMK NO: (2) 4-6-2: 7 CPR No. 200 Tenure: Fee Simple
Gross Leasable Area: ±63,558 SF
Contact: Mark Bratton (R) CCIM

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