HAWAII YEAR-END 2012

INVESTMENT MARKET REPORT

MARKET INSIGHT

"The low interest rate environment coupled with strengthening economic conditions will bolster property values. We are bullish about 2013, as sales volume and transaction activity will surpass 2012 levels."

- Nathan Fong (B)
Vice President

MARKET INDICATORS

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

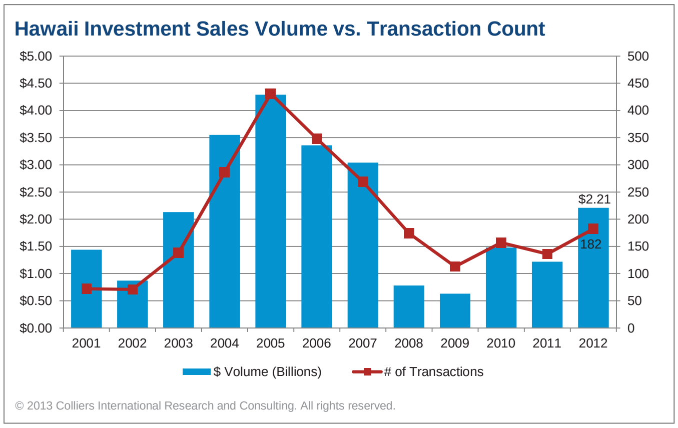
HAWAII HIGHLIGHTS

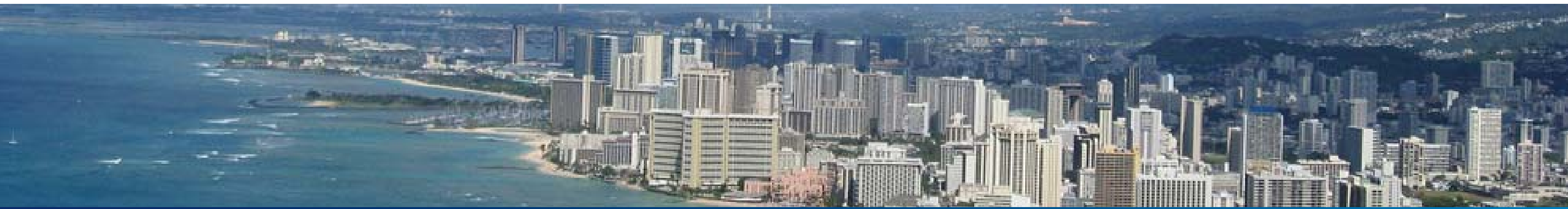
YEAR END 2012 $1M+ COMMERCIAL INVESTMENT NUMBER OF TRANSACTIONS	182
YEAR END 2012 $1M+ COMMERCIAL INVESTMENT SALES VOLUME	$2.21B

Investment Activity Returns to Normalcy

A healthy fourth quarter surge on commercial real estate investment activity drove Hawaii sales transaction volume up to $2.21 billion in 2012. This is more than an 81% gain over year-end 2011 levels. In addition, there were 182 transactions over $1 million in sales price that closed in 2012, representing a 34% year-over-year increase.

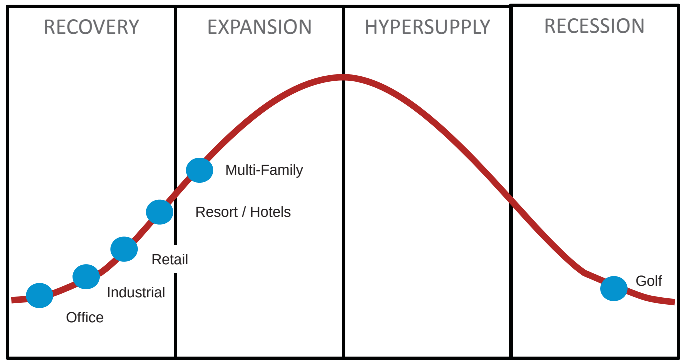
Since the depths of the recession in 2009, Hawaii commercial real estate sales volume has more than tripled, marking a return to levels seen prior to the "Great Recession". For the first time in six years, all major commercial property types (office, retail, industrial and hotel) posted positive year-end net absorption. This appears to coincide with the renewed business optimism that the economy is in recovery and that anticipated job growth will help fuel future gains in property values.





The Colliers real estate cycle graph, which takes into account historical and forecasted trends in the economy and real estate values, projects that every property type (with the exception of golf) has transitioned from the recession quadrant to the recovery and expansion quadrants. The recovery quadrant is characterized with falling vacancy rates, stabilizing rental rates, increased development planning and lower capitalization rates. Should further improvement occur to both economic and market conditions, the commercial property sectors would then move to the expansion quadrant. This quadrant is illustrated by rising rents, dropping vacancy rates and an increase in development activity. This is quite a marked difference from just a year ago when business contraction and job losses were more widespread, vacancy rates were rising, and rents were falling.

Real Estate Cycle 2013



Jump in Transaction Volume

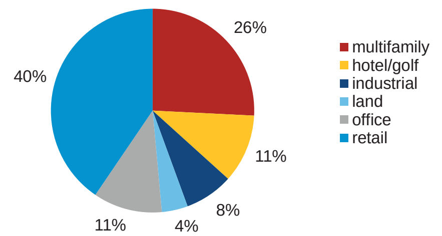
More than $1.15 billion in investment sales transactions were recorded for the fourth quarter of 2012. This is the highest quarterly sales volume since 2005, when a record $4.3 billion in transaction in annual sales volume was recorded. A combination of low interest rates, poor fixed income returns, and uncertain tax code changes contributed to this boost in year-end sales activity.

- Favorable Interest Rates and Financing - As a way to stabilize their occupancy costs and capitalize on the low interest rate environment, many businesses sought out facilities to purchase. An example of favorable financing opportunities is the current Small Business Association loan program where only a 10% down payment is needed to secure a ten year loan with low interest rates. As a result of such attractive financing, a number of commercial and industrial condominium units were purchased over the past year.

- Investors Seeking Higher Returns - With money market funds and certificates of deposit providing returns at a fraction of 1%, many investors have sought higher returns from alternative investment vehicles. With real estate capitalization rates (ratio of net operating income to the sales price) ranging from 5% to 7% for most property types, investors are funneling more capital into real estate acquisitions.

- Tax Code Changes -The fiscal cliff turmoil in Washington DC is likely to result in sequestration and purported sizeable changes to the tax code, including taxes on capital gains. With projected tax increases in 2013, some property owners opted to trade out of real estate by year-end 2012 in order to capture a larger amount in property appreciation by paying a lower capital gains tax.

Hawaii Percentage of Sales Volume by Property Type



YEAR END 2012

PROPERTY TYPE	SALES VOLUME	TRANSACTION COUNTS	% OF SALES VOLUME	% OF TRANSACTION COUNTS
Multifamily	$569,836,349	56	25.8%	30.8%
Hotel / Golf	$240,219,916	9	10.9%	4.9%
Industrial	$171,125,700	39	7.7%	21.4%
Land	$91,567,986	20	4.1%	11.0%
Office	$242,529,254	16	11.0%	8.8%
Retail	$894,639,322	42	40.5%	23.1%
TOTALS	$2,209,918,527	182		

Financial Crisis Being Resolved

Of the various mortgage funding sources, loans from banks and thrifts constitute 34% of the total CRE debt outstanding. The number of banks being seized by federal regulators has steadily decreased as it appears that the worst of the mortgage crisis has passed. Banks and thrifts mortgage delinquency rates declined by over 100 basis points to 2.9% in the third quarter of 2012 which indicates that they are getting a handle on their problem loans. Locally, banks appear to be more aggressively targeting commercial real estate borrowers despite the continuing heightened loan scrutiny.

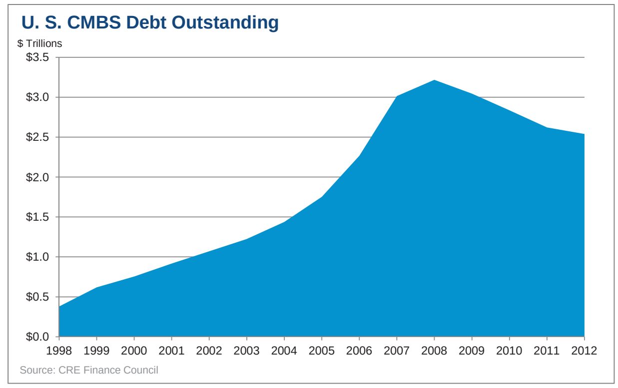
While the delinquency rate for debt held by life companies have been minimal due to conservative lending practices, Commercial Mortgage-Backed Securities ("CMBS") loans still continue to be problematic as delinquencies remain at record high levels. For the third quarter of 2012, the CMBS 30+days delinquency rate was 8.9%.

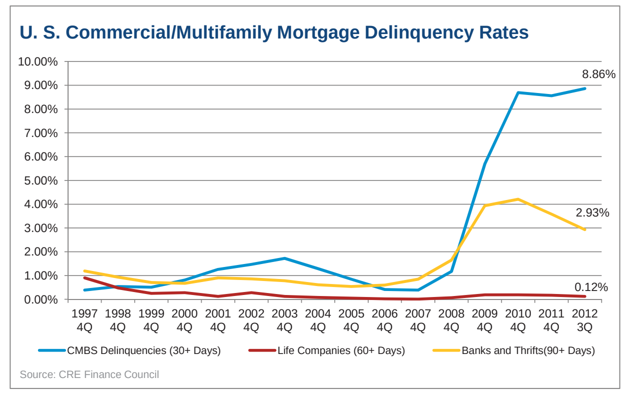
For properties with loans in default due to loan-to-value target ratios not being met, the steadily recovering economy should help to improve property values by increasing demand for commercial real estate and boosting rents. However, loan maturities are anticipated to continue to grow through 2017 as 10-year term loans established at the peak of the market are set to expire.

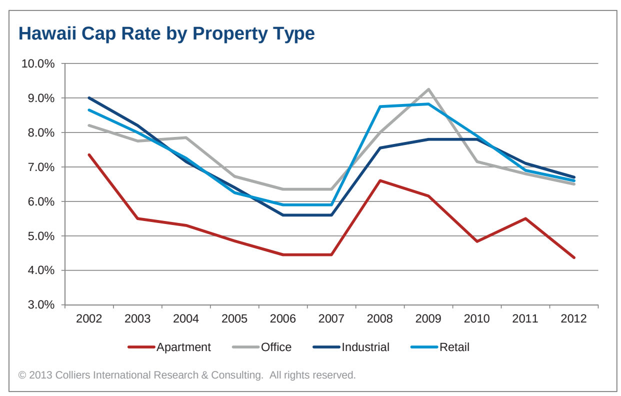
Nevertheless, CMBS loans are re-emerging as a funding source. More than $44 billion in CMBS funds were issued in 2012, representing a 48% increase over 2011 levels.

Cap Rate Compression Continues

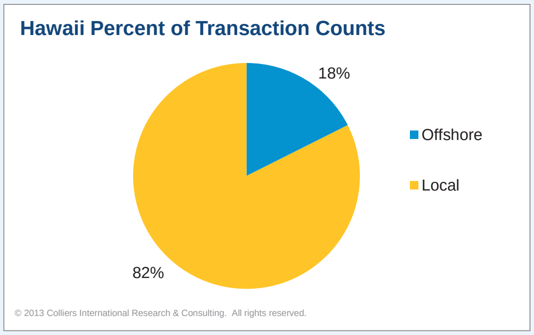
The National Association of Real Estate Investment Trusts pegged the 2012 year-end returns for publicly held real estate trusts at 20.14%. This is the fourth consecutive year that real estate generated solid positive returns. With the current low interest rate environment and volatile stock market conditions, many investors (from individual to institutional) sought out real estate as a source to diversify and strengthen their investment portfolios.





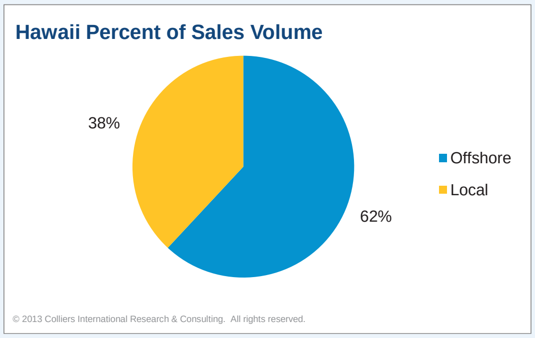


The capitalization rate ("cap rate") is impacted as higher demand for real estate drives sales prices upward. As a result, these rates are "compressed" as a smaller return is derived from the property. Institutional investors that originally targeted the top tier markets such as New York, Los Angeles, San Francisco, Washington DC, Boston and Chicago are now facing shrinking returns and widening their search for investment opportunities to secondary and tertiary markets. Hawaii has benefitted from this increased interest.



Of the total investment sales volume in Hawaii for 2012, offshore investors acquired more than $1.37 billion in large retail centers, prime hotels, and multifamily portfolios. The average sales price for an acquisition to an offshore investor was $42.76 million. In contrast, local investment yielded a higher percentage of the overall sales at 82% of the 182 transactions, while the average sales price of such transactions was lower at $5.61 million.

Across the board, cap rates for all property types declined over the past year. For Hawaii, prime investment real estate is trading in the 6% to 7% range with multifamily investment properties providing returns closer to 5%. As long as interest rates remain relatively low, cap rates should maintain their current trajectory.



Distressed Property Sales Decline

In 2011, more than $551 million or 45% of the sales volume was attributed to distressed property sales, including the Fairmont Orchid Hotel, West Kalaeloa Industrial Park and Waipio Business Center. Foreclosure activity and distressed sales fell to $100 million for 2012, as fewer properties faced foreclosure or special servicer status. This trend reflects strengthening real estate marketplace dynamics that helped borrowers who extended their loan terms and waited out the downturn. Declining vacancy rates and rising investor demand is helping to improve the outlook for real estate.

Retail Investments Surge

Retail transactions comprised nearly 40% of the total sales volume for 2012. Among the various property sectors, retail continues to post healthy absorption and stable rental rates. The boost in tourism and the subsequent rise in consumer spending increased the attractiveness of retail centers as acquisitions targeted by institutional investors.

Notable retail transactions reported in our mid-year report included Glimcher Realty Trust's purchase of Pearlridge Center and General Growth Property's buyback of the Sears lease at Ala Moana. Other large retail transactions included Safeway Shops at Kapahulu, Lahaina Cannery Mall, Lahaina Gateway and King's Village Shopping Center in Waikiki.

Multifamily Property Sales Hit Record Level

To encounter the sale of two large multifamily portfolios in one year is an extremely uncommon occurrence. The 1,461-unit Waterfront at Puuloa residential community acquisition by Carmel Partners from Hunt Companies for $311 million topped the list as the largest transaction for the year. The City and County of Honolulu sold its affordable housing portfolio for $142 million to Honolulu Affordable Housing LLP which includes Highland Property Development, LLC of Arcadia, noted local real estate investor Richard Gushman and attorney Steven Gelber. These two portfolio sales boosted the 2012 sales volume for multifamily transactions to a new record level at $570 million.

Hawaii is populated primarily with small apartment complexes that were built prior to 1970. In any given year, these types of properties generate less than 10% of the total sales volume in any given year. Local investors often seek out these properties as an alternative to low interest rate fixed income funds. Apartment cap rates that range from a low of 3.5% to 5.5% are the norm as demand remains high for these small investments. For the non-portfolio multifamily apartment sales, the average transaction size was roughly $2.16 million.

Robust Recovery in Hotel Market Dynamics

Record number visitor arrivals coupled with strengthening room rates contributed to a hearty improvement to hotel profit margins. As a result, only a few hotel properties were actively marketed for sale during 2012 with sales volume dropping 47% to $240.2 million from $452.7 million in 2011. Owners of hotels facing loan defaults likely renegotiated or lengthened their loan terms to capitalize on the boost in tourism activity.

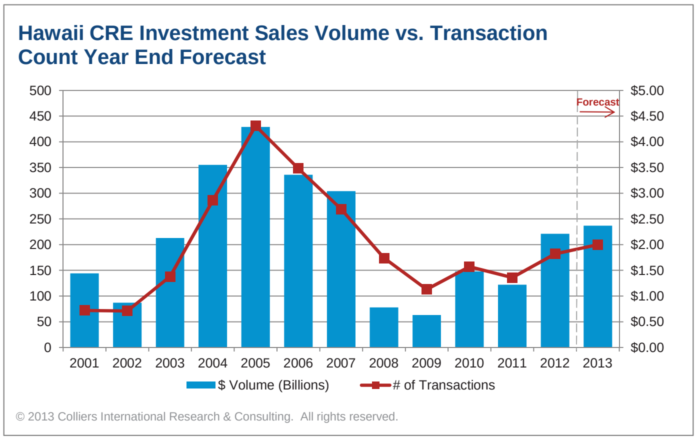
Wyndham Vacation Resort's acquisition of Shell Vacations Club's timeshare portfolio topped the list of the largest hotel transactions for Hawaii. Based on a per unit sales price of $200,000 for an estimated 850 units, Colliers estimates the sales price to be in excess of $175 million. In addition to this transaction, the Seaside Hotel Waikiki and the Days Inn Maui Oceanfront traded hands.

Next Phase - Expansion

In 2012, there was positive net absorption growth and stabilizing rents in every sector of the property continuum. UHERO and DBEDT economic forecasts project a healthy recovery is underway. Job growth and personal income growth should fuel demand for the commercial real estate market. Should things progress according to plan, the next phase of the real estate cycle will be marked by conditions that are favorable for new development.

There already appears to be an upsurge in development activity ahead as preplanning efforts are underway for several residential towers, retail centers and hotels. Howard Hughes, The MacNaughton Group, Forest City, Hunt Companies, Kamehameha Schools, Oliver McMillan and A&B Properties, all have residential developments slated for mid-term development. Similarly, DeBartolo Development, Property Development Centers (Safeway's development arm), Kyoya Hotels and Resorts, Hilton Hotels and Resorts, Pacrep LLC, Queen Emma and Robertson Properties Group, have hotel and commercial developments planned over the near term.

Investment interest should continue to remain strong for the near term as offshore institutional investors continue to covet prime Hawaii properties. Colliers projects more than 200 transactions and roughly $2.4 billion in investment sales in 2013.



NOTABLE TRANSACTIONS				
PROPERTY TYPE	PROPERTY NAME	BUYER	SALES PRICE	SALES DATE
Multifamily	The Waterfront at Puuloa	Carmel Partners	$311,000,000	Sep-12
Multifamily	City & County Affordable Housing Portfolio	Honolulu Affordable LCC	$141,999,849	Sep-12
Retail	Pearlridge Center	Glimcher	$289,400,000	May-12
Retail	Sears Ala Moana	General Growth Properties	$250,000,000	Jun-12
Retail	Safeway at Kapahulu	Honolulu Retail Owner LLC	$72,200,000	Jan-12
Retail	Lahaina Cannery	Property Development Centers	$62,000,000	Sep-12
Retail	Lahaina Gateway	TNP	$32,000,000	Sep-12
Office	First Insurance Center	SNH Ward Ave. Properties Inc.	$71,595,369	Jun-12
Office	HMC West	Queens Medical Center	$40,000,000	Dec-12
Office	Newtown Square	KMC Partners LLC	$15,250,000	Jun-12
Hotel	Shell Vacations	Wyndham Vacations	$175,000,000	Sep-12

Multifamily Properties Are Highly Desired

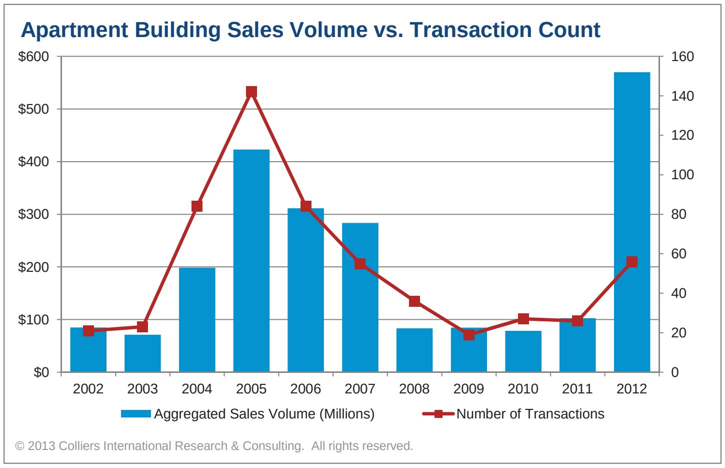
MARK BRATTON (R) CCIM*
Vice President

As mentioned earlier, multifamily property sales hit record levels in 2012. This increase in demand shows that investors continue to actively chase opportunities to invest in this commercial real estate product. Subsequent to the financial crisis and the rise in residential home foreclosures, many former homeowners are now back in the apartment rental pool. Rising demand for rental housing is placing strong pressure on apartment rents which are anticipated to continue to increase.

Apartment investors willing to fund minor capital improvements for their acquisitions will be aptly rewarded. For several property sales that Colliers was involved in, buyers were able to increase rents by 15% to 20% when they invested in minor repairs and upgrades. The greatest appreciation in property values occurred for higher end apartments (rental rates of over $2200 per month in rent), thereby garnering faster rental rate growth than for lower priced product (rental rates of under $1200 per month in rent).

Available financing for apartment projects is also a driver of these sales gains. Debt money appears to be plentiful with local lenders competing for smaller scale transactions (under $5 million). Borrowing interest rates between 3% and 4% and longer amortization periods for multifamily mortgages are attractive to all purchasers. At the higher end of the multifamily price point spectrum, positive leverage supported by agency debt from Fannie Mae and Freddie Mac is fueling additional transaction volume.

There were a total of 56 apartment buildings sold in Hawaii in 2012. This is more than double the number sold in 2011. Sales volume was up a whopping 456% over last year, surpassing the peak of $423.5 million established in 2005.



The majority of Hawaii's multifamily market is comprised of smaller low-rise buildings with less than 25 units. In 2012, only four apartment complexes sold for more than $5.0 million whereas 32 properties sold between $1.0 million and $2.0 million. Apartment cap rates ranged from 2.8% to 7.0%. These properties are typically self-managed by the investors that own them. As such, these smaller apartment complexes serve as the "bread and butter" for small investors and will remain a popular property investment choice.

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

Steady as She Goes... Industrial Market

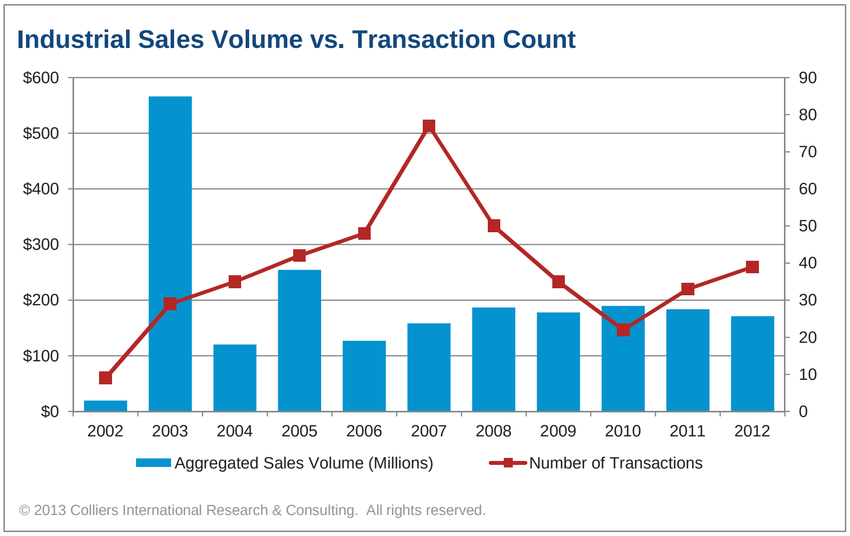
WILLIAM "BILL" FROELICH (S) JD
CCIM SIOR
Vice President

As we move on from the recession, one would have expected that the past several years would have shown a significant decline in sale prices and transaction volume. Similar to other states, one would also expect there to have been "blood in the streets" as a rise in building inventory and foreclosures became the norm throughout the nation. For Hawaii's industrial properties, this was not the case.

Unlike when the Japanese bubble burst where prices fell and properties did not trade, Hawaii's industrial properties saw very stable sales and transaction volume between 2009 and 2012. The exception was 2010 and 2011 when sales increased from 22 to 33 transactions, but volume remained relatively stable.

Oahu's industrial market is relatively small with 36 million square feet of inventory as compared to Chicago's 1.5 billion square feet. It may exactly be this small amount of industrial product, coupled with a dip or pause in sales prices that has kept sales and transaction volume stable. Our Colliers Industrial Division team can think of many instances over the past three years when a user or investor that was ready to purchase is left with only one or two options. The lack of inventory, favorable interest rates and lower valuations from reduced rental rates, have spurred people to continue to purchase. The limited amount of product that does come on the market on Oahu continues to sell in reasonable time frames with stable pricing.

Going into 2013, Hawaii users and investors are faced with the tightest industrial vacancy rates in the country. Average industrial rental rates in Hawaii are over three times the national average. These factors should continue to fuel sales activity for owner-users that are seeking business investments that allow them to control their occupancy costs. Additionally, investors seek opportunities to take advantage of the tight market conditions which lowers the risk of their investments sitting vacant.



Colliers Notable 2012 Sales Transactions

SALE / LEASEBACK COMPLETED

2029 Lauwiliwili Street
Kapolei, Hawaii

Seller:	H & W Foods Service/Palama Foods
Buyer:	Watumull Properties Corp.
Sales Date:	10/10/12
Land Size:	4.09 Acres
Bldg. Size:	77,520 SF
Sales Contacts:	Scott L. Mitchell (B) SIOR Ronald C. Ward (S)

The transaction completed a 3-year effort by the Colliers team which included the purchase of the fee simple interest in the land in 2012 and negotiation of a long term leaseback and sale of the state-of-the art cold storage facility within a 3-month period.

Hale Launa
91-737 Ft. Weaver Road, Ewa Beach, Hawaii

Seller:	G & F Apartments Co.	Land Size:	41,800 SF
Buyer:	Fort Weaver Dragon LLC	Bldg. Size:	23,868 SF
Sales Price:	$ 3,750,000	# of Units:	30 Units
Sales Date:	12/31/12		
Sales Contact:	Mark Bratton (R) CCIM Andrew D. Friedlander (B) SIOR		

889 Ahua Street
Honolulu, Hawaii

Seller:	889 Industrial Plaza LLC	Land Size:	1.1353 Acres
Buyer:	TSM Properties, LLC	Bldg. Size:	7,200 SF
Sales Price:	$ 6,300,000	Sales Date:	11/26/12
Sales Contact:	Alika Cosner (S) William "Bill" Froelich (S) JD CCIM SIOR		

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Accelerating success.

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