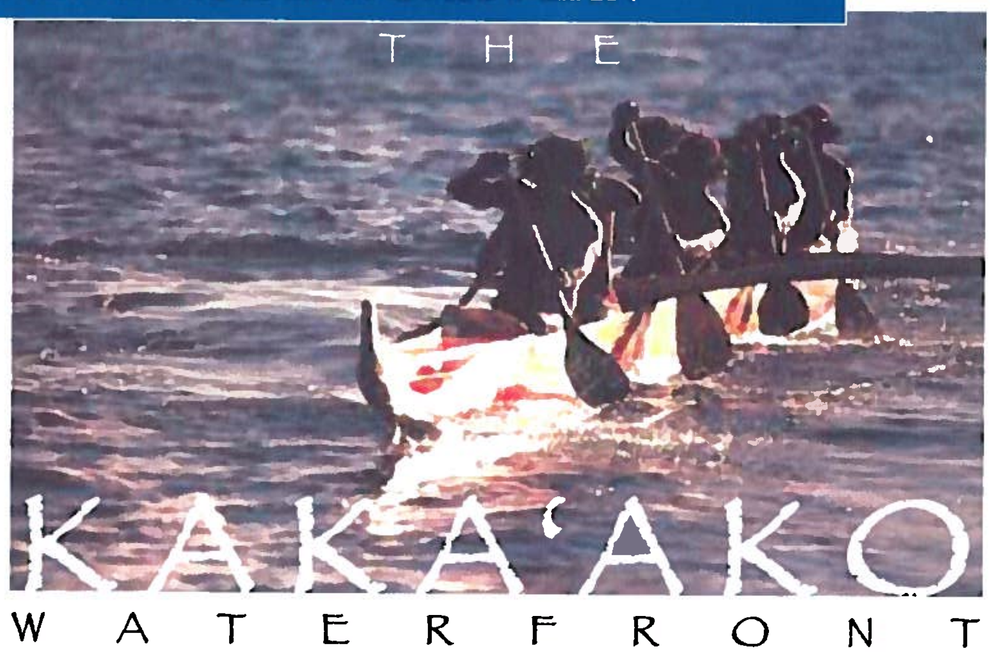
2013

KAKA‘AKO MAKAI

STRATEGIC MANAGEMENT FRAMEWORK PLAN



Market Assessment &

Land Value Analysis

Prepared for:

Office of Hawaiian Affairs

Prepared by:

Sanford Murata, Inc.

October 23, 2013

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I. EXECUTIVE SUMMARY

KULEANA

The Office of Hawaiian Affairs has been presented with an unprecedented opportunity to plan and create a model urban waterfront community at Kaka'ako Makai that will serve as a beacon for Native Hawaiian values, practices and 'ike na'auao (deep knowledge). OHA's mandate and vision, balanced by a sound strategic plan, will enable OHA to continue to fulfill its mission:

"To mālama (protect) Hawai'i's people and environmental resources and OHA's assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle, and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and nation, recognized nationally and internationally" (OHA website).

After many years of prolonged efforts to settle the ceded lands claims, the state and OHA finally agreed in 2012 to transfer title to 30 acres of state-owned land located in Kaka'ako Makai to OHA to satisfy the claims.

STRATEGIC FRAMEWORK PLAN

OHA has taken possession of the lands and has retained a consulting hui to prepare a strategic framework plan to guide OHA's kūkākūkā (deliberations) and decision-making as stewards of the lands. The plan consists of inter-related tasks and work products which synthesize the conclusions of the hui's research findings and evaluations.

MARKET ASSESSMENT AND LAND VALUE ANALYSIS

An early step in and integral part of the planning process is to understand the market conditions and land values that will influence use of the lands.

MARKET TREND AND DIRECTION

Partially created from submerged lands in the 1800's, Kaka'ako has changed slowly over time. From marshy, shoreline lands to quarters for squatters, to a fishing village, to immigrant camps, to a modest residential neighborhood, to a hodgepodge of industrial, commercial and government uses, the development of Kaka'ako has been largely bypassed until now. While the state established the Hawai'i Community Development Authority 37 years ago "to revitalize urban areas in need of timely redevelopment" (HCDA website), only relatively recently has the 600-acre Kaka'ako Community Development District been discovered by developers and consumers.

Following the urban redevelopment patterns in many U.S. cities and elsewhere, Kaka'ako, once a somewhat rough, underdeveloped, overlooked section of the city, is coming to life with an avalanche of new real estate projects. Macro-economic factors and demographic and land use trends all appear favorable for the long-term and sustained transformation of Kaka'ako from a small fishing village into the thriving mixed-use, high-rise, high-density urban village envisioned by the HCDA and major Kaka'ako land owners. Over

10,000 residential units are planned for Kaka'ako, some already under construction, and nearly all of those units have been sold through pre-sales programs.

With their waterfront location and adjacent park, OHA's Kaka'ako Makai lands are potentially the most valuable in Kaka'ako if residential uses are allowed. Carefully planned and executed, a significant new model community can be created on those lands.

LAND VALUE IMPLICATIONS

At the time the 30 acres of land were acquired by OHA in 2012, their total unimproved, unencumbered market value was estimated to be about $200 million by the two appraisers retained to appraise the lands. The appraisals concluded that commercial use is the Highest and Best Use for the lands. One appraisal (Hallstrom) assumed a maximum building height limit of 400 feet, 200 feet higher than the maximum height allowed on the lands. While it is not known how the appraiser calculated the value, given the 400-foot height assumption, the appraiser may have anticipated residential use as well. Due to this probability, residential use was included in this analysis.

A review of current ground leases on the lands show a total annual lease rental income of about $1 million. Typical returns on commercial properties with ground leases are about 7% to 8% of the unimproved market value of the land. At a value of about $200 million, the lands potentially could generate an annual income of about $14 to $16 million, many times the current annual income of about $1 million.

RESIDUAL LAND VALUES

The residual land values were derived for four hypothetical, single-purpose projects for a portion of the lands for comparison purposes. Residential condominium use produced the highest residual land value, while rental apartments and retail uses produced smaller residual land values, and office use produced negative land value. Since there is no specific project to analyze, this exercise is intended to serve as a preliminary reference point to shape alternative land use scenarios which are being developed as a part of this planning process.

PONO

Genuine place-making emanates from embracing the natural elements of the place and the culture of its people. OHA aspires to imbue the traditions of Hawai'i at Kaka'ako Makai. By being "pono" – doing the right thing, in the right way, for the right reasons - a balance of social, spiritual and economic values can be achieved. By smartly and steadily harvesting monetary returns on its lands, OHA will be able to realize those goals whose intrinsic values are immeasurable and immutable.

II. INTRODUCTION

PROPERTY ACQUISITION EVENT

On April 11, 2012, Governor Neil Abercrombie signed a bill into law, transferring 10 parcels of land (the Property) located in Kaka'ako Makai in Honolulu from the State of Hawai'i to the Office of Hawaiian Affairs (OHA) to settle the ceded land revenue claims that date back to 1978. OHA, a state agency and trust, expects that the land will become a source of revenue to grow its programs created to enhance opportunities for a better life and future for all Hawaiians.

ENGAGEMENT: STRATEGIC MANAGEMENT FRAMEWORK PLAN

On August 16, 2013, OHA engaged Rider Levett Bucknall, Ltd. (RLB) to prepare a Strategic Management Framework Plan (the Framework Plan) to guide OHA with its planning, management, disposition and development of the Property. RLB assembled a consulting team (Hui O Kukuluae'o) including Group 70 International, Inc. (Group 70) and Sanford Murata, Inc. (SMI) to join it in undertaking the engagement (the Engagement).

The Framework Plan is an early step in a continuing and evolving series of plans, studies, architectural and engineering drawings and reports and many other documents to be prepared to provide OHA with the information required to make sound decisions - short and long term - concerning the use and disposition of the Property. The Framework Plan is intended to establish a foundation upon which succeeding efforts can be developed and expanded. The fundamental structure of the Framework Plan is purposely designed to accommodate and be shaped further by more detailed information as it is obtained and by changing conditions and directions and new opportunities as they surface. The Framework Plan organizes the information and conclusions into a cohesive context to understand their inter-relationships.

The Framework Plan is a synthesis of the team's findings, analyses and conclusions into a recommended strategic action plan for the Property that balances OHA's goals with external forces, while being flexible and agile to respond to shifts in market and economic conditions and to changes in OHA's leadership direction over time.

EFFECTIVE DATE OF REPORT

The effective date of this report is October 23, 2013.

MARKET ASSESSMENT

This Market Assessment and Land Value Analysis is one of the Engagement tasks and deliverables. As some of the tasks are intended to be undertaken on an iterative basis, additional market and land value information will be contained in succeeding deliverables. For example, in the Baseline Development Strategy, a development strategy will be proposed resulting from a melding and assessment of market demand, land value and other influencing and limiting factors. The economic implications of several conceptual land use scenarios will be compared.

Therefore, this assessment and analysis provides an overview of relevant market conditions and land value implications. It is not intended to be a market and financial feasibility study, as there is no specific project upon which to conduct such a study at this time.

The purpose of this task is to assess the market for a range of candidate land uses that may be feasible to pursue, consistent with current and near-term (3-5 years) demand trends. The assessment is useful to gauge the potential viability of prospective land uses that may be proposed and considered for the Property. As market demand is a primary driver for property development, demand trends based on past experience provide a basis to forecast the probable success of a contemplated project.

Rather than undertaking and preparing separate market studies for probable uses, the planned approach was to use market data from existing documents such as market studies and due diligence and appraisal reports prepared by others for the Property. However, as the documents provided by OHA contain little market demand trend information and since the assignment does not include conducting primary market research, relevant information prepared by others was used for this overview of the market. Given the cursory information available at this early stage, only inferences and non-definitive conclusions can be drawn about the direction of the market. This report is presented in summary format, exhibits and details are located in our work files.

LAND VALUE ANALYSIS

An analysis of the Property's land values was prepared to evaluate the Property's revenue production capability for planning purposes. The estimated Market Value is used as a baseline and reference point. The residual land values were estimated for hypothetical commercial and residential projects for Parcels F and G, containing a total land area of about seven acres. The resulting values are used to evaluate the comparative results for those uses. A commentary about land valuation factors is included.

As the Engagement progresses, three distinctively different conceptual land use scenarios selected by OHA will be evaluated. The residual land values for each will be derived and evaluated.

THE PROPERTY

The Property consists of nine fee-simple parcels ranging in size from 0.9 to 7.2 acres, for a total area of 30.718 acres. Six of the parcels are waterfront parcels, five of which are zoned Waterfront Commercial and one which is zoned Mixed Use, and three parcels are non-waterfront, zoned Mixed Use Zone, one of which is zoned Mixed Use Industrial. Residential uses are not allowed. The maximum allowable building height ranges from 45 to 200 feet and the maximum Floor Area Ratio (FAR) ranges from 0.6 to 2.5.

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KAKA'AKO MAKAI

A: 1009 Ala Moana Blvd. (WC, 65')	5.082 acres
B: 113 & 123 Ahui St. (WC, 65')	3.150 acres
C: 59 Ahui St. (WC, 65')	2.043 acres
D: 45 & 53 Ahui St. (WC 65')	0.938 acres
E: 919 Ala Moana Boulevard (MUZ, 200')	2.200 acres
F/G: 160 Ahui St. (MUZ, 200')	7.159 acres
I: Ala Moana Boulevard (MUZ, 200')	3.336 acres
K: 40 Ahui St. (WC 65')	1.584 acres
L: Keawe St. (MUZ-I, 45')	5.226 acres
Total	30.718 acres

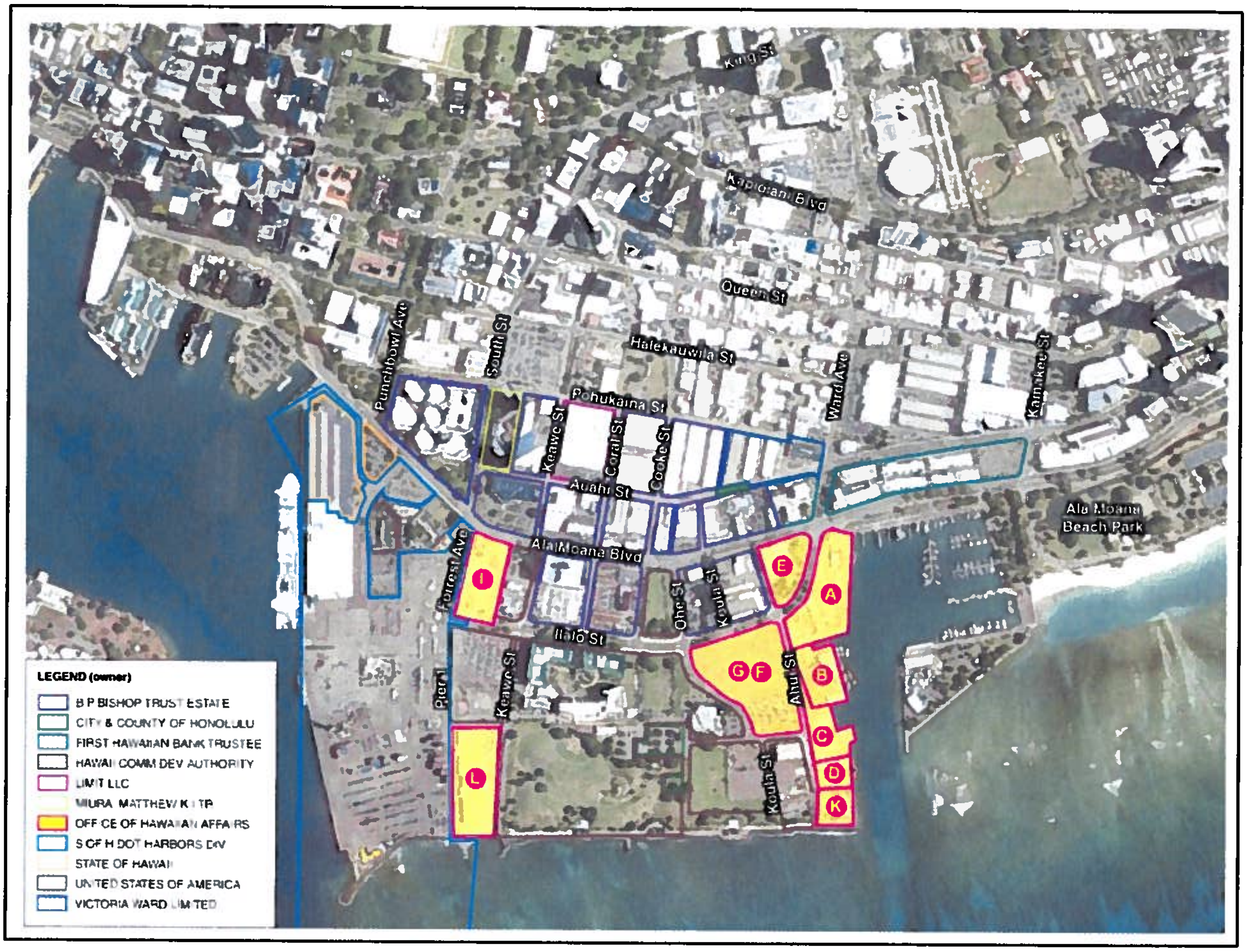

Figure 1 summarizes the individual parcels in the Property Summary. Note that there is no property no. 8 and the properties nos. 6 and 7, identified as F and G, are considered one parcel by OHA.

THE HAWAI'I COMMUNITY DEVELOPMENT AUTHORITY (HCDA)

The HCDA has played and will continue to play a vital role in the planning and development of Kaka'ako. Its long-range plans, rules and commitment to its vision and mission have guided a cohesive development of Kaka'ako. The state's more than $217 million investment in Kaka'ako's infrastructure has positioned the district for the development currently occurring.

According to the HCDA[1]:

> The Hawai'i Community Development Authority (HCDA) is a State agency that was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community development.

[1] Hawai'i Community Development Authority (HCDA) Website: http://dbedt.Hawai'i.gov/hcda/about-hcda/

FIGURE 1

PROPERTY SUMMARY
Kakaako Makai Properties
Kakaako, Honolulu, Oahu, Hawaii

Property No.	Identification (TMK)	Land Area acres	Land Area sq. ft.	Zoning (Ht/FAR)	Improvements	Land Highest & Best Use	Interest Analyzed [1]	Tenant/Occupant/Use	Comments
1 (A)	1009 Ala Moana Boulevard (2-1-58-95 & 125)	5.082	221,372	WC (65'/1.50)	7,441 sf Restaurant (vacant).	Commercial	FS	Kewalo Wharf LLC (Parcel 125)	Waterfront land at Kewalo Basin.
2 (B)	113 & 123 Ahui Street (2-1-58-02 & 35)	3.150	137,213	WC (65'/1.50)	Warehouse (9,870 sf)	Commercial	FS	Honolulu Marine, Inc.	Waterfront land and submerged land at Kewalo Basin.
3 (C)	59 Ahui Street (2-1-58-124 & 126)	2.043	88,996	WC (65'/1.50)	Vacant	Commercial	FS	Kewalo Keiki Fishing Conservancy (Parcel 124)	Irregularly shaped waterfront land parcel at Kewalo Basin.
4 (D)	45 & 53 Ahui Street (2-1-58-48)	0.083	3,600	WC (65'/1.50)	Radio transmitter tower & utility building	Commercial	FS	Salem Media of Hawaii, Inc.	Leased for radio tower use.
	(2-1-60-13)	0.855	37,241	WC (65'/1.50)	Vacant (under construction with a wedding chaple)	Commercial	FS	Ocean Investments, LLC	Waterfront land at Kewalo Basin. Leased for wedding chapel development.
	Total	0.938	40,841						
5 (E)	919 Ala Moana Boulevard (2-1-58-06)	2.200	95,832	MUZ (200'/2.50)	5 story masonry office building (103,336 sf GBA)	Commercial	FS	State of Hawaii	Non-waterfront property.
6 (F)	160 Ahui Street (2-1-60-05)	4.613	200,942	MUZ (200'/2.00)	Vacant (paved parking lot)	Commercial	FS	Parking	Non-waterfront land bisected by sewer easement.
7 (G)	160 Koula Street (2-1-60-06)	2.546	110,904	MUZ (200'/2.00)	Vacant (paved parking lot & portion of Ohe Street)	Commercial	FS	Parking/Roadway	Non-waterfront land.
9 (K)	40 Ahui Street (2-1-60-por. 01)	1.584	69,000	WC (65'/1.50)	3 story Office building	Commercial	FS	University of Hawaii	Waterfront property at Kewalo Basin.
10 (L)	Keawe Street (2-1-15-51)	5.226	227,645	MUZ (45'/0.60)	Warehouse (70,000± sf)	Commercial	FS	Re-use Hawaii	Waterfront property.
11 (I)	Ala Moana Boulevard (2-1-15-53)	3.336	145,316	MUZ (200'/3.5)	Vacant	Commercial	FS	Quality Assurance Engineering Inc. et al.	Non-waterfront land bisected by sewer easement.
TOTALS		30.718	1,338,061						

[1] Some of the properties may be encumbered by leases, licenses or other agreements which have not been provided to the appraisers. Based on instructions from the client, the properties have been valued as though vacant, unencumbered and available for development to their highest and best uses.

SOURCE: MEDUSKY & CO., INC. SUPPLEMENT TO SUMMARY APPRAISAL REPORT REGARDING TEN PROPERTIES, KAKAAKO, HONOLULU, HAWAII, TMK 2-1-58-95, ET AL., FIRST DIVISION; DATED DECEMBER 29, 2011 WITH AN EFFECTIVE DATE OF NOVEMBER 30, 2011, PAGE 6.

The 1976 State Legislature created the HCDA to plan for and to revitalize urban areas in the State which lawmakers find to be in need of timely redevelopment. These areas, designated as "Community Development Districts", were determined to be underused and deteriorating, but with the potential, once redeveloped, to address the needs of Hawai'i's people and to provide economic opportunities for the State. In creating the HCDA, the Legislature also designated the Kaka'ako area of Honolulu as the Authority's first Community Development District, recognizing its potential for increased growth and development and its inherent economic importance to Honolulu as well as to the State. Lawmakers found that Kaka'ako was significantly underdeveloped and underutilized relative to its central location in urban Honolulu. The Legislature foresaw that the redevelopment of Kaka'ako would offer tremendous opportunities to address the need for more housing, parks, and open areas, as well as new commercial and industrial space near downtown Honolulu.

The 600-acre Kaka'ako District is bounded by Pi'ikoi, King, Punchbowl Streets and Ala Moana Boulevard. The District also includes the waterfront area from Kewalo Basin to Forrest Avenue, and the Hawaiian Electric Company power plant site. As a public corporation, the HCDA is working to bring together private enterprise and government to make redevelopment happen and to establish Kaka'ako as an economically and socially viable community that can provide a range of public benefits.

The HCDA envisions itself to be the creator and leader to establish Kaka'ako **as the most desirable urban place in Hawai'i in which people can work, live, visit, learn and play.** Kaka'ako's residents will be able to live in a safe and attractive environment, one with first class facilities for shopping, entertainment, education, culture, and social activities. Housing opportunities are being increased in Kaka'ako, along with parks, open spaces and other recreational facilities. Through Kaka'ako's redevelopment, the State's economy is being enhanced with new business and job opportunities.

The HCDA mission is to ensure that the Kaka'ako District is invigorated and established as a dynamic urban neighborhood, one which will accommodate a mix of people with a wide spectrum of activities and commerce. In doing so, HCDA serves as an infrastructure developer, landowner, city planner, regulator, and property manager to expeditiously implement Kaka'ako's master plan. To foster a well-balanced and successful living and working environment in Kaka'ako, the HCDA is trying to ensure that its community planning efforts are responsive to the many interests involved. One of the agency's aims is to create an outstanding physical neighborhood which will be known for its environmental excellence, and its active, pedestrian-oriented public realm.

State-of-the art infrastructure and public facilities are being developed by the HCDA to spur new housing opportunities, community facilities, and increase business opportunities. To date the State has invested over $217 million on improvement district projects in Kaka'ako. This major investment demonstrates the State's long-term development commitment to Kaka'ako.

In carrying out its mission, HCDA is contributing to Hawai'i's economic development, education, and exposure to the culture and the arts; being sensitive to and supporting existing businesses and residents; and in the process, providing the most livable community and raising standards for new communities throughout the State of Hawai'i.

The Due Diligence report opines that whether the Conceptual Master Plan will be binding on OHA is "somewhat unclear" and contains the following:[2]

The HCDA guides and oversees the redevelopment of land in Kaka'ako. The Property is located in the Makai Area of Kaka'ako and is subject to the HCDA's Makai Area Rules which incorporate the Makai Area Plan. The Makai Area comprises the lands on the makai side of Ala Moana Boulevard from the Ewa end of Ala Moana Park to Forrest Avenue and includes the Hawai'ian Electric power plant site. The Mauka Area is the area mauka of Ala Moana Boulevard.

The Makai Area Plan contains general principles and objectives relating to land uses, transportation systems, urban design principles and elements, infrastructure facilities and systems, and financing mechanisms. The Makai Area Plan dated October 2005 provides the following:

- PARCELS A, B, C, D AND K are zoned Waterfront Commercial, or WC, which allows "residential and commercial uses as well as fishing and boating services along the edges of Kewalo Basin ... (T)he best use ... is a complex of shops, restaurants, and entertainment adjacent to existing fishing and maritime operations with residential uses at the upper levels."

- PARCELS E, F, G, I AND L are zoned Mixed Use Zone, or MUZ, which allows "for the development of commercial uses, such as offices and retail establishments, and housing. It is anticipated that both commercial and residential uses will coexist within the same development, and the purpose of this zone is to foster a wide range of development options."

An important exception is that a state law passed in 2006 prohibits residential uses in the Makai Area except for the Hawaiian Electric site.

In accordance with the 2006 legislative mandate prohibiting residential uses, the HCDA organized a community planning group, which resulted in the preparation of the Kaka'ako Makai Conceptual Master Plan. The Conceptual Master Plan suggests the following uses for the Property:

- PARCEL A – "significant public facilities including a 40,000 square foot facility celebrating Hawaiian music and dance and a marketplace with shops, restaurants, and open-air retail kiosks." "a renovated Fisherman's Wharf Restaurant ... pedestrian promenade and enhanced public access to the wharf of the Kewalo Basin Harbor." "(P)ark-like landscaped setting with ample rooms for passive enjoyment ... (O)pen space requirements ... that range from forty, to as much as seventy percent, of the gross lot acreage."

[2] Due Diligence document dated February 7, 2012, prepared by McCorriston Miller Mukai MacKinnon LLP for OHA

- PARCEL E – A 650-stall parking facility with commercial spaces along Ilalo Street, along with an adjacent, unspecified "civic" use.

- PARCELS F AND G – "public benefit uses" such as a performing arts center, museum community center, farmer's market and fish market; community gardens, a two-level parking structure; and park-like landscaped setting with open space between forty and seventy percent of the gross lot acreage.

- PARCEL I – "civic related uses".

- PARCEL K – passive recreational uses and park expansion.

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OHA's Mission:

"To mālama (protect) Hawai'i's people and environmental resources and OHA's assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle, and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and nation, recognized nationally and internationally."

OHA is striving to embrace this time-tested wisdom through its new Strategic Plan.

A NEW DIRECTION: Our Hawaiian ancestors understood that the well-being of our community rested upon the inter-relationship of how we conduct ourselves, steward the islands we call home, and fulfill the responsibility of caring for our families, all within the physical and spiritual realms. They also understood that successfully maintaining lōkahi meant careful observation, knowledge gathering, and informed decision making to achieve pono.

The plan defines a series of results that balances OHA's direction and strengthens its roles as advocates, knowledge leaders, and asset managers. The strategic results listed below guide OHA's actions to improve conditions for all Native Hawaiians:

- VALUE HISTORY & CULTURE – Increase the number of Hawai'i residents who appreciate and value Native Hawaiian history and culture.

- PARTICIPATE IN CULTURAL ACTIVITIES – Increase the number of Native Hawaiians living in the State of Hawai'i participating in cultural activities.

- UNDERSTAND NEED FOR VIABLE LAND BASE – Increase the percent of Hawai'i residents who understand and agree that a viable land base is necessary for the new Native Hawaiian governing entity.

- ACHIEVE PAE 'ĀINA SUSTAINABILITY – Increase the percent of Ka Pae 'Āina O Hawai'i managed to create economic value and preserve cultural and natural resources and historic properties.

- TRANSFER ASSETS TO ENTITY – Adoption by the Board of Trustees of a Transition Plan that includes the legal transfer of assets and other resources to the new Native Hawaiian governing entity.

- IMPROVE FAMILY LIFESTYLE CHOICES – Increase the percent of Native Hawaiian families actively improving lifestyle choices by engaging in health programs and supporting family development practices.

- INCREASE FAMILY INCOME – Native Hawaiian median family income will equal 100% or greater than the Statewide median family income.

III. MARKET ASSESSMENT

This Market Assessment provides an overview of the market situation for Kaka'ako. It includes a summary of macro-economic data, demographic and other trends that impact residential and commercial uses (the primary potential uses for the Property) and developments occurring and planned for Kaka'ako.

A comprehensive market feasibility study was not undertaken, as it is premature to do so. An in-depth market study can be prepared for a specific project at the appropriate time. For now, information that was previously gathered for the Property by others at the time the Property was being considered for acquisition was augmented by information that is publicly available to prepare this overview and assessment.

FINDINGS AND CONCLUSIONS

Macro-economic factors indicate that Hawai'i's economy is generally healthy and ahead of national averages. The demographic and real estate trends for residential and commercial uses for Kaka'ako indicate the continued and sustained growth of the demand for those uses for the foreseeable future. Kaka'ako is experiencing a real estate boom, fueled by the convergence of pent-up demand with the acceleration of the development plans of major landowners and developers, low mortgage loan interest rates and the blossoming of Kaka'ako as the heart of urban Honolulu. Condominium sales prices for projects in and around Kaka'ako are continuing to surge upward.

A primary driver of the success of most privately-developed real estate projects is the condition of the market at the time the project is offered for purchase or rent to the targeted consumer. The following are some of the influencing factors:

- MARKET CYCLE – As with the economy, the demand for real estate is cyclical. Upturns are followed by downturns and so forth. Cycles can also be impacted by a "Black Swan" event, which is a relatively recently coined term for an unexpected adverse event such as the subprime mortgage crash which led to the economic recession commencing in 2008.

- SUPPLY – Supply and demand go hand in hand. As demand increases so does supply to satisfy the demand, and when the oversupply point is reached, demand drops. About 10,000 new residential units are being built and/or planned for Kaka'ako. While it is assumed that the developers of those units are confident that there is sufficient demand for those units, the depth of the market is not certain.

- FINANCIAL MARKETS – While there is a robust market for condominium units in Kaka'ako, the increase in mortgage interest rates could have a dampening affect on the interest and ability of unit buyers.

- PUBLIC SUPPORT AND MOOD – Recently, Hawai'i has been experiencing a general anti-change, anti-development public sentiment such as "keep the country country" and opposing the Super Ferry. There are some who are voicing their opposition to further development of Kaka'ako, especially for high-priced, high-rise condominium projects. An interesting dynamic is surfacing, with some of the older, local generation opposed to the further development of Kaka'ako, while some of the younger population, which has experienced living in diverse urban centers, favors it.

- CRITICAL MASS OF SYNERGISTIC USES – Paradoxically, while some are opposed to further development of Kaka'ako, it is the critical mass of projects and the high-density direction supported by the HCDA that is creating the urban village with its amenities that many buyers and consumers are seeking. The increase in population fosters the continued development of real estate projects such as Ala Moana Center, which creates a magnet for others to follow.

MACRO-ECONOMIC FACTORS

THE GROSS DOMESTIC PRODUCT (GDP) – GDP is the value of goods and services produced. It is also viewed as the state's gross domestic product, based on national prices for the goods and services produced. Compared to the U.S. gross product, which registered a 12-year average annual increase of 3.9% from 2000 to 2011, Hawai'i's gross product increased at an average of 4.4% for the same period. It is forecasted to increase from 4.5% to 4.8% between 2013 and 2016. **Figure 2** shows the comparison of gross domestic product of Hawai'i to that of the nation, and the annual percent increases.

VISITORS – The total visitors to the state increased from 7.3 million in 2011 to 7.9 million in 2012, an increase of 9.6%, and the total number of visitors is expected to increase from a low of 8.3 million to a high of 8.9 million from 2013 to 2016, according to a recent economic and statistical report.[3] Visitor expenditures have increased 18.5% over the past two years, from $12.3 billion in 2011 to $14.5 billion in 2012. They are expected to increase 5.6%, to $15.3 billion, in 2013 and continue to increase steadily to $16.1 billion in 2014, $16.8 billion in 2015, and $17.5 billion in 2016.

CONSTRUCTION – Both government contracts awarded and the value of private building permits increased, according to DBEDT[4]. The report cited that in the first quarter of 2013, government contracts awarded totaled $157.3 million, while the permit value for private construction increased $72.4 million, compared to the same quarter in 2012, adding 2,500 jobs for this sector.

INFLATION – One way to gauge inflation is by tracking the consumer price index (CPI). CPI is defined, "Measure of the average change in prices over time for a fixed market basket of goods and services."[5] The recent annual percent changes started at 1% in 2000, adjusting to an increased annual percent change of 5.9% in 2006 and beginning to slow to 2.4% in 2012. The projections are for minimal annual percent changes ranging from 2.2% to 2.3% between 2013 and 2016, according to a recent economic and statistical report.[1]

FISCAL AND MONETARY POLICY – Through monetary policy, the Federal Reserve System can make more or less money available to banks to lend, and it can move to increase or decrease the demand for money by changing the interest rate on loans made to banks. The financial indexes track indicators of demand in commercial and residential real estate, which in turn affects other products and services related to this chain. According to the financial rates illustrated in **Figure 3**, the mortgage indexes have been in a downward trend since 2006.

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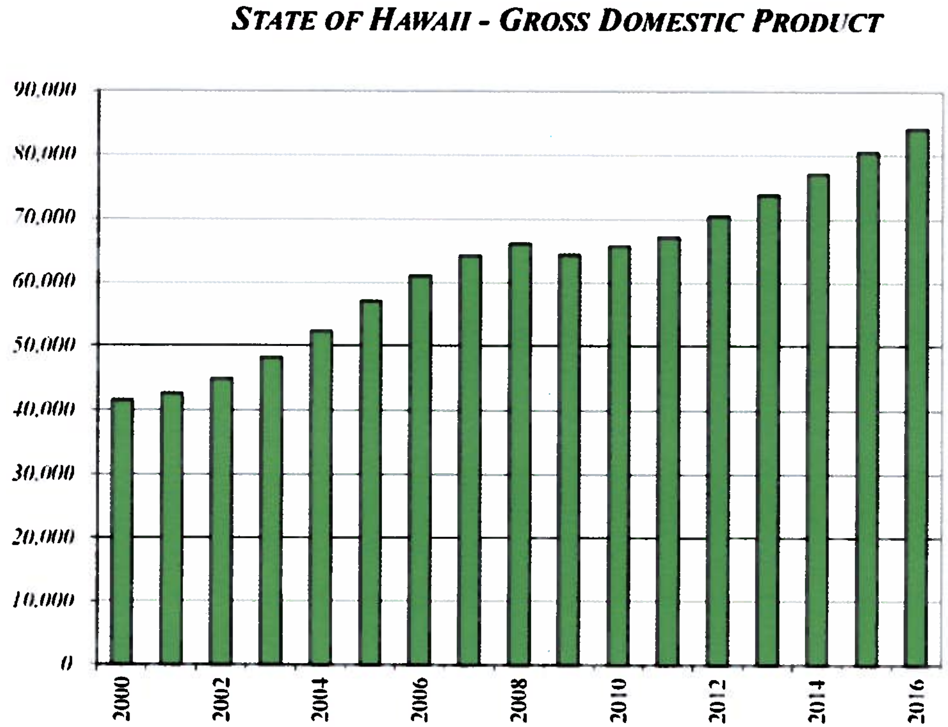
[3] The Department of Business, Economic Development & Tourism/State of Hawai'i Quarterly Statistical & Economic Report, 2nd Quarter 2013, Page 9

[4] The Department of Business, Economic Development & Tourism/State of Hawai'i Quarterly Statistical & Economic Report, 2nd Quarter 2013, Page 6

[5] The Department of Business, Economic Development & Tourism/State of Hawai'i Quarterly Statistical & Economic Report, 2nd Quarter 2013, Page 151

FIGURE 2

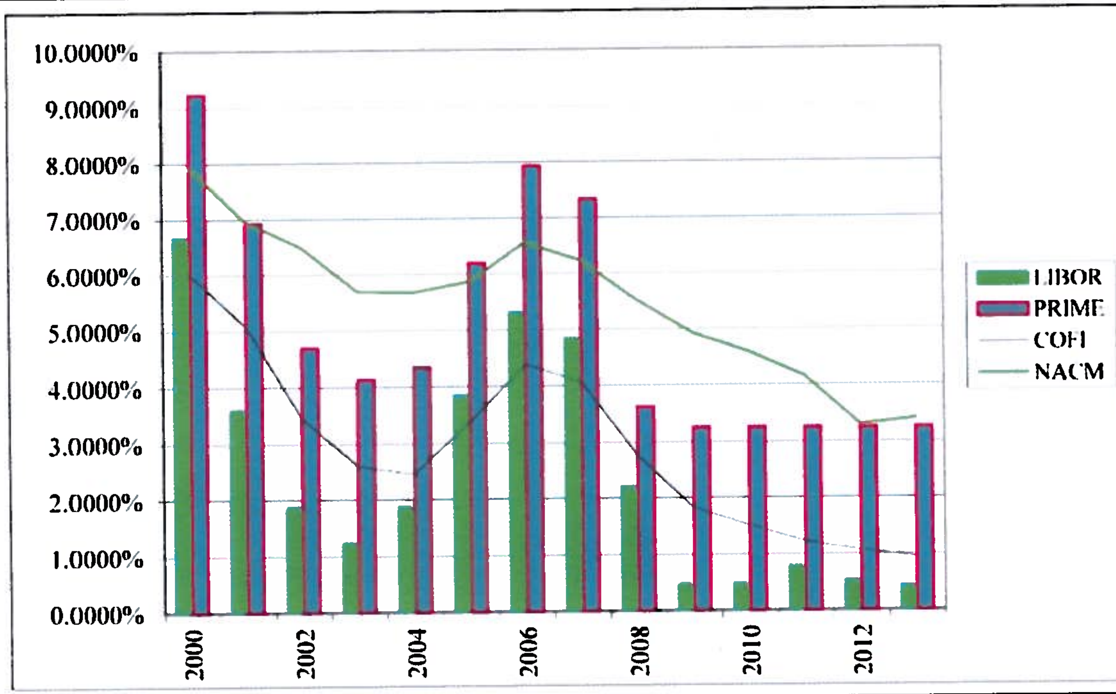
Year	USA	% Incr.	Hawaii	% Incr.
2000	9,884,171	6.4%	41,450	5.4%
2001	10,218,019	3.4%	42,529	2.6%
2002	10,572,388	3.5%	44,752	5.2%
2003	11,067,829	4.7%	48,095	7.5%
2004	11,774,410	6.4%	52,290	8.7%
2005	12,539,116	6.5%	56,901	8.8%
2006	13,289,235	6.0%	60,993	7.2%
2007	13,936,199	4.9%	64,070	5.0%
2008	14,193,120	1.8%	65,978	3.0%
2009	13,834,700	-2.5%	64,251	-2.6%
2010	14,416,601	1.6%	65,599	2.1%
2011	14,981,020	8.3%	66,991	2.1%
2012	--	--	70,315	5.0%
2013	--	--	73,659	4.8%
2014	--	--	76,970	4.5%
2015	--	--	80,433	4.5%
2016	--	--	84,045	4.5%
Percent Ave. Incr. (12 Yr)		***4.2%***	***(12Yr)***	***4.6%***



Sources: 1) 1980-2011: Hawaii State Data Book 2011 2) 2012-2016: DBEDT Quarterly Statistical & Economic Report, Outlook of the Economy, 2nd Quarter 2013.
Notes: A) Figures above are in current million dollars. B) As of 2nd Qtr. 2013, the actual amount for 2012 was reported and following suit are projections.

FIGURE 3

Year	Mo.	COFI	LIBOR	PRIME	NACM
2000		6.0000%	6.6600%	9.2300%	7.9300%
2001		5.0700%	3.5900%	6.9200%	6.9500%
2002		3.4400%	1.8700%	4.6800%	6.4800%
2003		2.5900%	1.2300%	4.1200%	5.6900%
2004		2.4600%	1.8600%	4.3400%	5.6700%
2005		3.3700%	3.8400%	6.1900%	5.8600%
2006		4.3800%	5.3000%	7.9300%	6.5500%
2007		4.0720%	4.8353%	7.3300%	6.2300%
2008		2.7570%	2.2003%	3.6100%	5.5100%
2009		1.8280%	0.4546%	3.2500%	4.9200%
2010		1.5080%	0.4587%	3.2500%	4.5800%
2011		1.2210%	0.7782%	3.2500%	4.1500%
2012		1.0710%	0.5152%	3.2500%	3.2900%
2013		0.9510%	0.4214%	3.2500%	3.4000%
2013	1	0.9620%	0.4902%	3.2500%	3.3500%
	2	0.9990%	0.4641%	3.2500%	3.4300%
	3	0.9670%	0.4483%	3.2500%	3.5400%
	4	0.9700%	0.4360%	3.2500%	3.5600%
	5	0.9510%	0.4214%	3.2500%	3.4000%



<u>PERSONAL INCOME</u> – Personal income was reported at $42.7 billion in 2011 and $43.3 billion in 2012, a 1.34% increase. According to a recent economic and statistical report,[3] personal income is projected to increase steadily to $64.4 billion in 2013, $67.7 billion in 2014, $71.0 billion in 2015, and $74.5 billion in 2016, representing a $10.1 billion increase over four years, or an average annual increase of 3.9%.

<u>UNEMPLOYMENT RATE</u> – The civilian unemployment rate was reported at 6.5% in 2011 and 5.8% in 2012. These rates are projected to range from 4.1% to 4.8% between calendar years 2013 and 2016, according to a recent economic and statistical report.[3] CBRE points out that with the increase in large international and domestic companies looking to expand in the Hawaiian Islands, job growth is exhibiting positive trends, resulting in low unemployment rates in the state compared to the rest of the nation. According to DBEDT, a total of 10,400 jobs were added in the first quarter of 2013.

ECONOMIC INDICATORS

The following article[6] and report cites that Hawai'i is moving onto a strong expansion path and that the islands are poised for several years of moderately rapid growth that will bring measurable improvements for many local families. This news article summarizes the University of Hawai'i Economic Research Organization quarterly economic forecast released on August 8, 2013:

University of Hawai'i economists dialed back their forecast for visitor arrivals this year as higher hotel room rates and a weaker yen have put a damper on growth in the state's No. 1 industry. The University of Hawai'i Economic Research Organization said in its quarterly economic forecast scheduled for release today that visitor arrivals will grow 5.5 percent this year, down from its May prediction of 6.6 percent.

"In the wake of last year's record setting performance, the tourism sector has downshifted to a more measured pace of expansion," the economists, led by Carl Bonham, wrote. The slower growth is partly due to hotels being almost full, especially on O'ahu. Hotel occupancy in the first quarter on O'ahu was 85 percent.

Because of the demand, hotels are able to charge more for rooms. The average room rate on O'ahu in the first quarter was up 18 percent compared with the first quarter of 2012 and 30 percent higher than the first quarter of 2011. "While the large rise in room rates is good for hoteliers, higher room bills are squeezing spending on other tourism activities, dining, shopping, and so forth," the report said.

Bonham said if politicians in Washington don't muck up things, the U.S. economy should continue to improve, which would make affording higher room rates easier for mainland visitors.

HAWAII ECONOMIC INDICATORS

UH economists said Hawaii is in the midst of a solid economic growth cycle which should continue for several more years

	2013	2014	2015
Visitor arrivals	5.5	2.3	1.7
U.S. visitor arrivals	4.7	1.9	1.7
Japan visitor arrivals	4.7	1.3	0.6
Other visitor arrivals	8.8	4.6	2.7
Payroll jobs	2.1	2.6	2.1
Unemployment rate (1%)	4.7	4.4	3.9
Inflation rate, Honolulu MSA (1%)	1.8	2.2	3.0
Real personal income	2.6	3.3	3.2
Real GDP	3.3	4.4	3.9

Source: UHERO — STAR ADVERTISER

"A healthy rebound in U.S. household income would help to alleviate this (room rate) squeeze," the report said.

[6] Star Advertiser, August 9, 2013, B1

For tourists from Japan, the higher room rates are compounded by the weaker yen. The yen has dropped nearly 30 percent against the dollar in the past year, meaning virtually everything in Hawai'i costs 30 percent more if you are converting from yen. That's why the economists are predicting Japanese arrivals will grow by only 1.3 percent next year and 0.6 percent in 2015. While the growth in tourism may appear weaker than it did three months ago, the industry is still chugging along nicely, as is the rest of the state's economy.

The UH economists are forecasting Hawai'i's economy will grow by 3.3 percent this year and 4.4 percent next year. "Hawai'i is moving onto a strong expansion path," the report said. "The islands are poised for several years of moderately rapid growth that will bring measurable improvements for many local families." Construction is one of the highlights. The economists estimated construction jobs will grow by at least 9 percent this year and more than 11 percent next year. By 2015 there should be 39,200 construction jobs in the state, or 10,000 more than in 2012. Incomes should also start increasing more rapidly. Inflation-adjusted personal income will rise by 2.6 percent this year and 3.3 percent next year, the report said.

DEMOGRAPHIC TRENDS

KAKA'AKO – The current population within a one-mile radius is 12,571, and this increases to 188,924 within a three-mile radius. The average annual growth rate in population has been minimal. Similarly, households followed suit, with 6,214 within a one-mile radius and 82,759 within a three-mile radius. The median household income was reported at $48,603 within a one-mile radius and $43,953 within a three-mile radius. Within a one-mile radius, 18.5% earn less than $15,000 a year, 17% earn between $50,000 and $74,999, 13.7% earn between $100,000 and $149,999.

ESRI indicated that within a one-mile radius, 29% of the population represents the retirement community, and nearly half of these households earn income from interest, dividends, and rental properties, and/or retirement income.

28% of the population consists of trendsetters, on the cutting edge of urban style; this lifestyle group is young, diverse, and mobile. More than half of this group share rent with a roommate. These residents are educated professionals who work in substantive jobs. Of the total group, 19% have a graduate degree, 30% earned a bachelor's degree, and 73% have attended college.

The next 25% of the population are the Laptops and Lattes, with no homeownership or child-rearing responsibilities. This segment is highly educated and affluent and is generally living alone or with a roommate. The median household income of this group is $97,408.

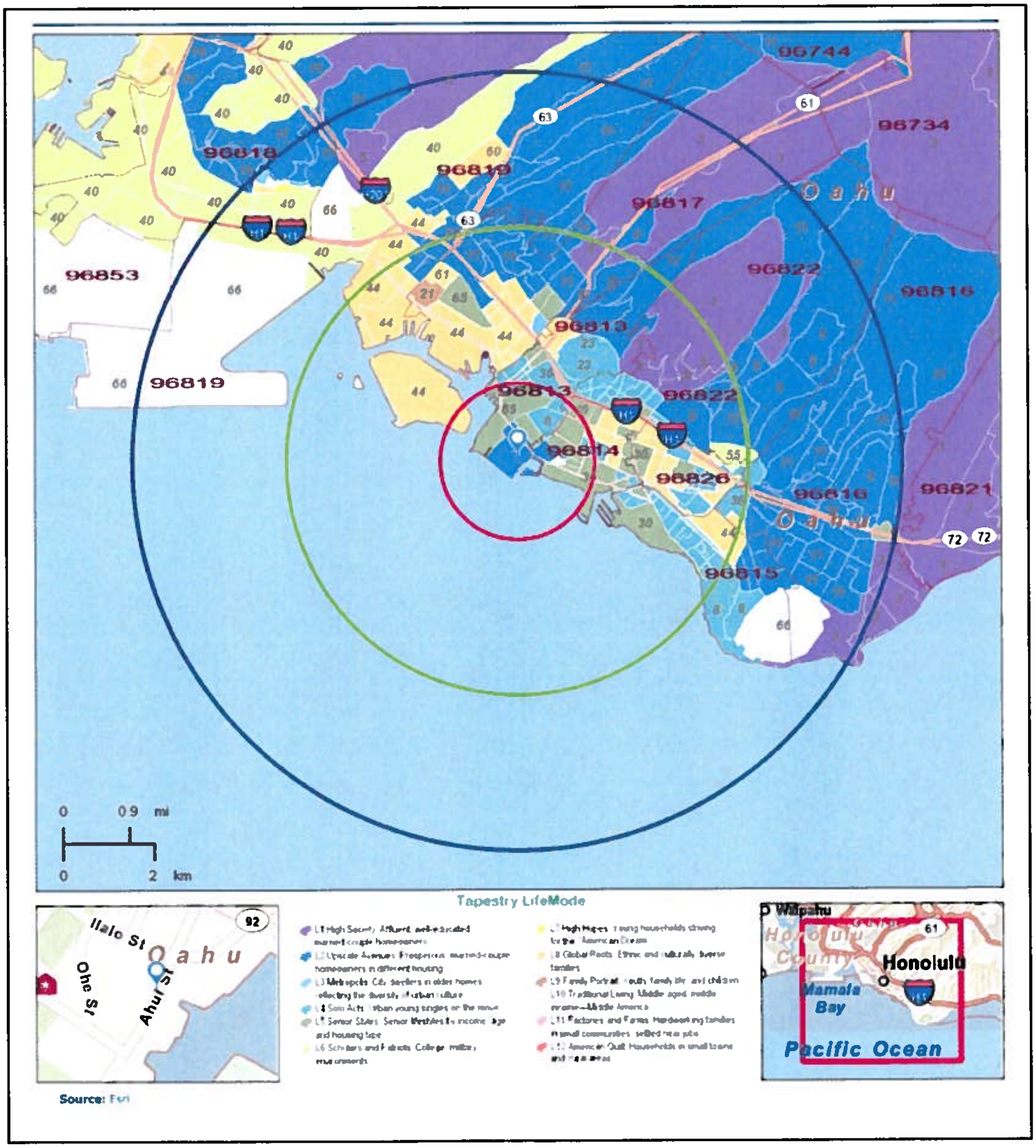
In 2012, ESRI reported 37.8% of the housing units as owner-occupied, 49.6% as renter-occupied, and 13% vacant and not occupied.

DEMOGRAPHIC SUMMARY

Mile Radius	1	3	5
Populaton			
2010	12,405	186,888	311,738
2012	**12,571**	**188,924**	**313,982**
2017	13,042	195,503	323,394
2010 - 2017 Annual Rate	0.74%	0.69%	0.59%
Households			
2010	6137	81753	121,707
2012	**6214**	**82759**	**122,750**
2017	6446	85761	126605
2010 - 2017 Annual Rate	0.59%	0.51%	0.44%
Median Household Income			
2012	**$48,603**	**$43,953**	**$52,246**
2017	$55,570	$51,513	$61,803
2010 - 2017 Annual Rate	11.30%	10.60%	9.20%
2012 Households by Income			
Household Income Base	6,214	82,759	122,747
< $15,000	**18.5%**	**17.0%**	**13.6%**
$15,000 - $24,999	10.3%	11.4%	9.9%
$25,000 - $34,999	**10.7%**	**11.4%**	**10.1%**
$35,000 - $49,999	11.3%	15.2%	14.3%
$50,000 - $74,999	**17.0%**	**15.5%**	**16.0%**
$75,000 - $99,999	9.1%	9.2%	10.4%
$100,000 - $149,999	13.7%	11.1%	13.9%
$150,000 - $199,999	3.6%	4.2%	6.1%
$200,000 +	5.7%	4.9%	5.7%
Average Household Income	$69,222	$65,962	$74,730

Source: ESRI

In the next 10 to 15 years, as developments are constructed and new residents move in, the demographics of the population will be changing dramatically to account for the addition of families in the planned 10,000+ residential units.



RESIDENTIAL MARKET TRENDS

Ward Villages Rendering

690 Pohukaina Rendering

SUPPLY – The residential community is forecast to expand exponentially in the Kaka'ako area due to large investments being made in the development of residential condominiums, apartments and commercial uses. With the Honolulu Rail Transit projected for completion in 2019, transit-oriented development is being included in the planning process, as the rail is expected to serve this area. The following projects, consisting of over 10,000 residential units, are currently under construction or proposed for Kaka'ako.

Under Construction	Address	Units
Symphony Honolulu Tower	888 Kapiolani Blvd.	388
Waihonua at Kewalo	1189 Waimanu St.	341
One Ala Moana	One Ala Moana	210
801 South Street	801 South Street	635
Subtotal		1,574
Proposed		
801 South Street Adjacent Tower	801 South Street	400
Forest City Enterprises (Rentals)	690 Pohukaina	600
Phase 1: Halekauwila Place	690 Pohukaina	204
Waihonua (Rentals -Senior)	1226 Waimanu St.	72
Ola Ka Ilima Artspace Lofts (Live/Work)	1025 Waimanu St.	80
Subtotal		1,356
Ward Village/Howard Hughes Corp. Ph. 1		
Ward Village Land Block 5, Project 1	404 Ward Ave.	424
Ward Village Land Block 2, Project 1	1127 & 1140 Ala Moana Blvd.	177
Ward Village Land Block 3, Project 1	1108 Auahi St.	318
Remaining Units Planned		681
Subtotal		1,600
Ward Village/Howard Hughes Corp. Ph. 2		1,500
Ward Village/Howard Hughes Corp. Future Phases		1,550
Subtotal		3,050
Kamehameha Schools		
A&B Properties: The Collection	604 Ala Moana	467
Kamehameha Schools: Keauhou Place (Rentals)	555 South St.	150
Stanford Carr Development: Keauhou Place	555 South St.	450
Remaining Units Planned		1,683
Subtotal		2,750
Grand Total Units Planned		10,330

SOURCES: HAWAI'I COMMUNITY DEVELOPMENT AUTHORITY WEBSITE, HTTP://DBEDT.HAWAI'I.GOV/HCDA/; HONOLULU STAR ADVERTISER ARTICLES JUNE 30, JULY 2, 12, 18 AND 27, 2013.

DEMAND – Demand has increased due to international buyers taking advantage of favorable exchange rates and being attracted to the United States, especially to Hawai'i properties. In addition, there is pent-up demand for affordable residential units near downtown and Waikīkī. This is evidenced by the long lines of condominium buyers and quick sell-out of condominium projects marketed this past year. As many of the existing rental apartment communities in Honolulu are for military families, the affordable and senior markets, or public housing, the non-government subsidized rental apartment investment market is small. A large number of condominium units are rented by their investor-owners and add to the rental apartment market. Nationwide, apartments have been the most desirable real estate investment as apartment rents are continually increasing, with a 4.6% increase expected this year, according to CCIM Quarterly Market Trends.[7]

SALES TRENDS – The Honolulu Board of Realtors[8] reported the current median sales price for single family homes has increased 2.0% from $635,000 in July 2012 to $647,500 in July 2013. Condominium median sales prices increased faster at 8.0% from $320,000 in July 2012 to $345,500 in July 2013. The Board also reported that the Days on Market indicator shows both houses and condominiums selling faster last month compared to a year ago. The median sales price reported for single-family homes is 1.1% below the 2007 market peak average price of $685,000.

According to Prudential Locations[9], the median sales price for Kaka'ako condominiums is currently $630,000, with a low of $259,000 for a studio at Honuakaha and a high of $4.5 million for a super luxury condominium at Hokua. Comparing this to the median sales price for a condominium in Honolulu at $330,000, Kaka'ako condominiums are 90% higher, indicating a surging demand for this location.

Low housing inventory, low mortgage interest rates, an improving local economy with job growth are motivating developers to proceed with their condominium development plans.

RETAIL MARKET TRENDS

SUPPLY – Retail space consists of approximately 13.6 million square feet. There is approximately 720,000 square feet of available space, representing a 5.2% vacancy rate. According to CBRE[10], value centers have a vacancy rate of 4%, or 77,447 square feet; regional malls have a vacancy rate of 5.9%, or 366,293 square feet; strip centers have a vacancy rate of 5.9%, or 57,767 square feet; and resort centers have the highest vacancy rate at 10.8%, or 204,192 square feet.

New construction is planned in the Property's immediate neighborhood. Recently, TJ Maxx was added with a parking structure in the Ward retail complex. Ala Moana Center is expanding the vacated Sears space for an additional 650,000 square feet, making way for Bloomingdale's and another anchor.

[7] CCIM Quarterly Market Trends, 2Q13, Commercial Real Estate Forecast Page 9

[8] Star Advertiser, O'ahu Home Sales, July sales produce record median price for condominiums, August 7, 2013, Page A1.

9 Prudential Locations, Living the Kaka'ako Condo Lifestyle, http://www.prudentiallocations.com/news/lifestyle/life-in-kakaako.aspx

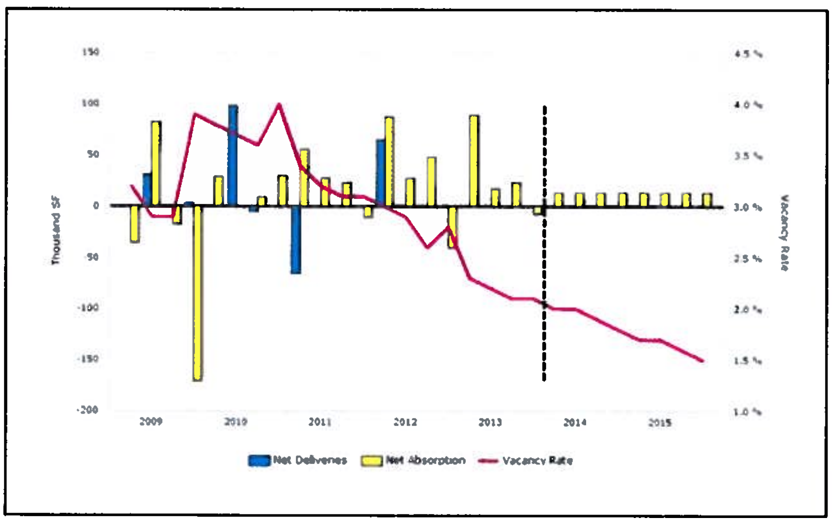
10 CBRE Hawai'i Retail MarketView Q2 2013, Increased Consumer Demand Has Inspired New Retail Developments, Pages 1 & 2

According to existing HCDA applications, among Forest City, Howard Hughes, and Kamehameha Schools, over one million square feet of commercial retail space is planned for the Kaka'ako area to accommodate the expanding community base in the next ten years. SALT, the conversion of old warehouse and commercial buildings into a retail complex by Kamehameha Schools, was recently approved by the HCDA. It is located on Ala Moana Boulevard near the Property.

Kamehameha Schools' SALT is a planned specialty retail center and village, catering to culture and commerce to provide an experience that fuses art, film and cuisine.

SOURCE: KAMEHAMEHA SCHOOLS' KALAULU O' KAKA'AKO MASTER PLAN/ WEBSITE

VACANCY & ABSORPTION TRENDS – Within a three-mile radius of the Property, negative absorption of the past reversed into positive absorption starting in late 2012, causing the vacancy rate to turn downward to a rate closer to 2%, as illustrated in this graph.



DEMAND – Increasing rental rates are indications of the increasing demand for retail space due to the relative lack of existing inventory of space available. Demand for retail is also based on consumers' disposable income.

RENTAL RATE TRENDS – Within the State of Hawai'i, average net rental rates for retail space increased 8.25%, from $4.36 to $4.72 per square foot per month, as reported by CBRE[2] quarterly comparisons.

- Resort centers are commanding the highest average net rents at $7.28 per square foot, with common area maintenance reimbursements of $2.11 per square foot per month.

- Regional malls are next, averaging a net rent of $4.22 per square foot, with common area reimbursements of $1.63 per square foot per month.

- Value centers, which typically include big box retailers, are averaging $4.21 net and common area maintenance reimbursements of $0.89 per square foot per month.

- Community neighborhood centers are averaging $3.42 net and common area reimbursements of $1.13 per square foot per month; while

- Strip Centers are averaging $2.57 net plus common area reimbursements of $0.84 per square foot per month.

CONSUMER SPENDING – Consumer spending varies among residents, military families and visitors. Annual consumer spending represented a total of $4.6 billion spent within a five-mile radius in 2012. This total is expected to increase 15% in the next few years to $5.3 billion by 2017.

- Apparel: $185.5 million in 2012, forecast to increase to $215.2 million by 2017
- Entertainment: $455.6 million in 2012, forecast to increase to $528.6 million by 2017
- Food at home: $450.5 million in 2012, forecast to increase to $522.6 million by 2017
- Food away from home: $405.1 million in 2012, forecast to increase to $469.9 million by 2017
- Alcohol beverages: $76.7 million in 2012, forecast to increase to $89.0 million by 2017
- Furniture & appliances: $394.0 million in 2012, forecast to increase to $457.1 million by 2017
- Transportation & maintenance: $938.8 million in 2012, forecast to increase to $1.1 billion by 2017
- Healthcare: $201.9 million in 2012, forecast to increase to $234.2 million by 2017
- Education & daycare: $472.6 million in 2012, forecast to increase to $548.3 million by 2017

As discussed earlier, visitor expenditures have increased 18.5% over the past two years, from $12.3 billion in 2011 to $14.5 billion in 2012. They are expected to increase 5.6%, to $15.3 billion, in 2013 and continue to increase steadily to $16.1 billion in 2014, $16.8 billion in 2015, and $17.5 billion in 2016.

RESIDUAL CAPITALIZATION RATES – Institutional investors expect and reported a range of rates from a low of 5% to a high of 12% for regional malls, power centers, and strip centers, with averages nearing 7.5%. Local transactions in Honolulu since January 2012 have reported rates ranging from 6.5% to 7.5%.

OFFICE MARKET TRENDS

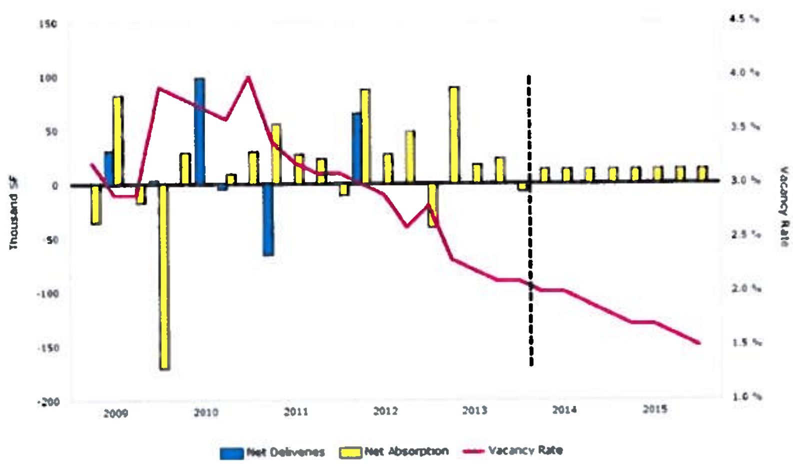
SUPPLY – Office space consists of approximately 11.0 million square feet on the island of O'ahu, with 5.0 million in the Central Business District or downtown submarket and 2.8 million square feet in the Kapi'olani submarket. In the downtown submarket, 731,884 square feet of space is available (a 14.6% vacancy rate) and in the Kapi'olani submarket, 92,354 square feet of space is available (a 14.0% vacancy rate).

According to CBRE[11], the 2008 market crash impacted the office market, forcing employers to downsize and resulting in an increased supply of office space. Since then, the market has improved and is currently experiencing positive absorption trends in downtown. The University of Hawai'i Cancer Center was recently added to Kaka'ako Makai, and 250,000 square feet of office space is planned in Kaka'ako by Forest City.

February 2013 marked the grand opening of the Cancer Center located in Kaka'ako Makai.

SOURCE: UNIVERSITY OF HAWAI'I CANCER CENTER WEBSITE: WWW.UHCANCERCENTER.ORG

VACANCY & ABSORPTION TRENDS – Within a three-mile radius of the Property, negative absorption of the past was upgraded in late 2010 to positive absorption. The supply has decreased, as evidenced by the declining vacancy rates.



DEMAND – Increasing rental rates are indications of the increasing demand for office space and are expected in the near term. Another source of demand is the job employment market; as jobs increase and employers need more space to accommodate more employees, more office space is absorbed, which is reflected in a declining vacancy rate. Jobs in industries such as banks, finance, insurance, real estate, services, medical, and healthcare all contribute to the demand for office space.

11 CBRE Honolulu Office MarketView Q2 2013, Downtown Allure Draws Tenants Back to CBD, Pages 1 & 2

<u>RENTAL RATES TRENDS</u> – The office market gross rental rates have increased 2% over the past year, from \$2.86 in 3rd quarter 2012 to \$2.97 per square foot per month in 2nd quarter 2013. CBRE[3] reports gross rents in the downtown area ranging from a low of \$2.80 to a high of \$3.07, with operating expenses at \$1.41 per square foot per month. The Kapi'olani submarket's gross rents are higher, ranging from a low of \$3.05 to a high of \$3.27, with operating expenses at \$1.59 per square foot per month.

<u>RESIDUAL CAPITALIZATION RATES</u> – Institutional investors expect and reported a range of rates from a low of 5% to a high of 11% for Central Business District and suburban office space, with averages nearing 8.0%. Local transactions in Honolulu since January 2012 have reported rates ranging from 7.5% to 8.0%.

DEVELOPMENT PROJECTS UNDERWAY

Kaka'ako is the current hotbed for condominium and commercial property development, and that trend is expected to continue for the foreseeable future. In the last 20 years, according to Hawai'i Business, HCDA reported that over \$2.2 billion in private investment was spent in Kaka'ako, \$225 million was spent on public investment in the infrastructure, and \$528.9 million was spent for public sector developments. Laying down the infrastructure in the last 20 years made possible today's large-scale community development. **Figure 4**, Projects Underway or Planned, is an aerial photo of the projects planned for or underway in Kaka'ako.

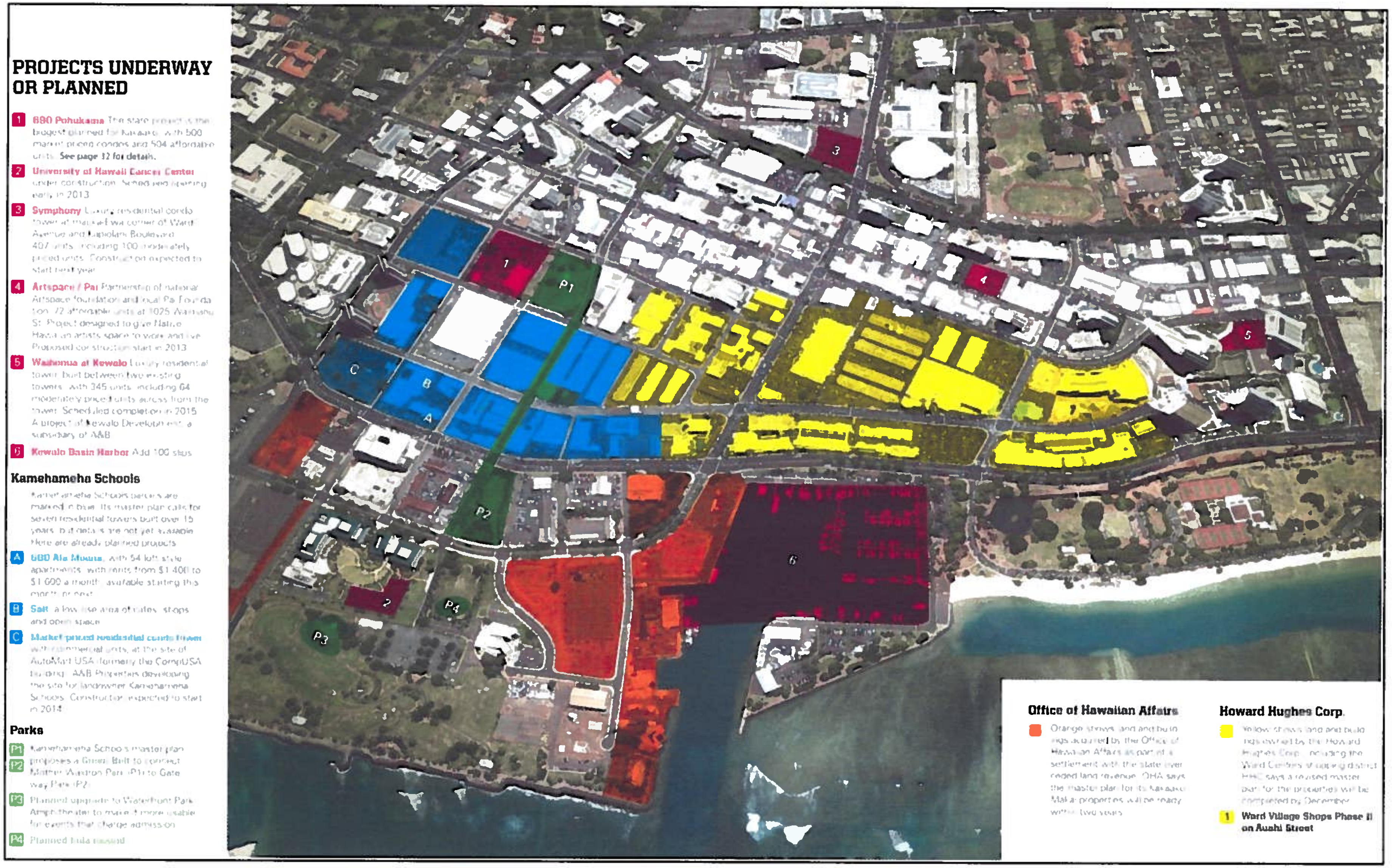
THE EMERGENCE OF KAKA'AKO

Kaka'ako was once a prototypical overlooked and underdeveloped section of a major city, somewhat akin to San Francisco's South of Market district. Early on it consisted of salt and fish ponds, coconut groves and a fishing village. Its name, Kaka'ako, described in the early 1800's a marshy area with bulrushes used to make thatch. Much of the current area makai of Ala Moana Boulevard was under water and was later filled during the land reclamation period, as illustrated on **Figure 5**, Map dated 1880.

Many early immigrants, mainly from China and Japan, made Kaka'ako their home as they left the sugar and pineapple plantations for city life. Along with the Native Hawaiians and others already residing there, they formed a diverse and close-knit neighborhood of modest homes and small stores. As Honolulu expanded outward to accommodate its growing population, many residents left Kaka'ako for newer residential areas. Kaka'ako subsequently evolved into a mixture of light industrial and small business uses, a back-of-the house to the Central Business District. Its humble and raw character was punctuated by the sprawling city dump and incinerator and various other government facilities such as an animal quarantine station that occupied a large part of the waterfront of Kaka'ako Makai. While downtown Honolulu to its west and Waikīkī to its east developed into major anchors of the city, Kaka'ako remained largely underdeveloped, overlooked and bypassed.

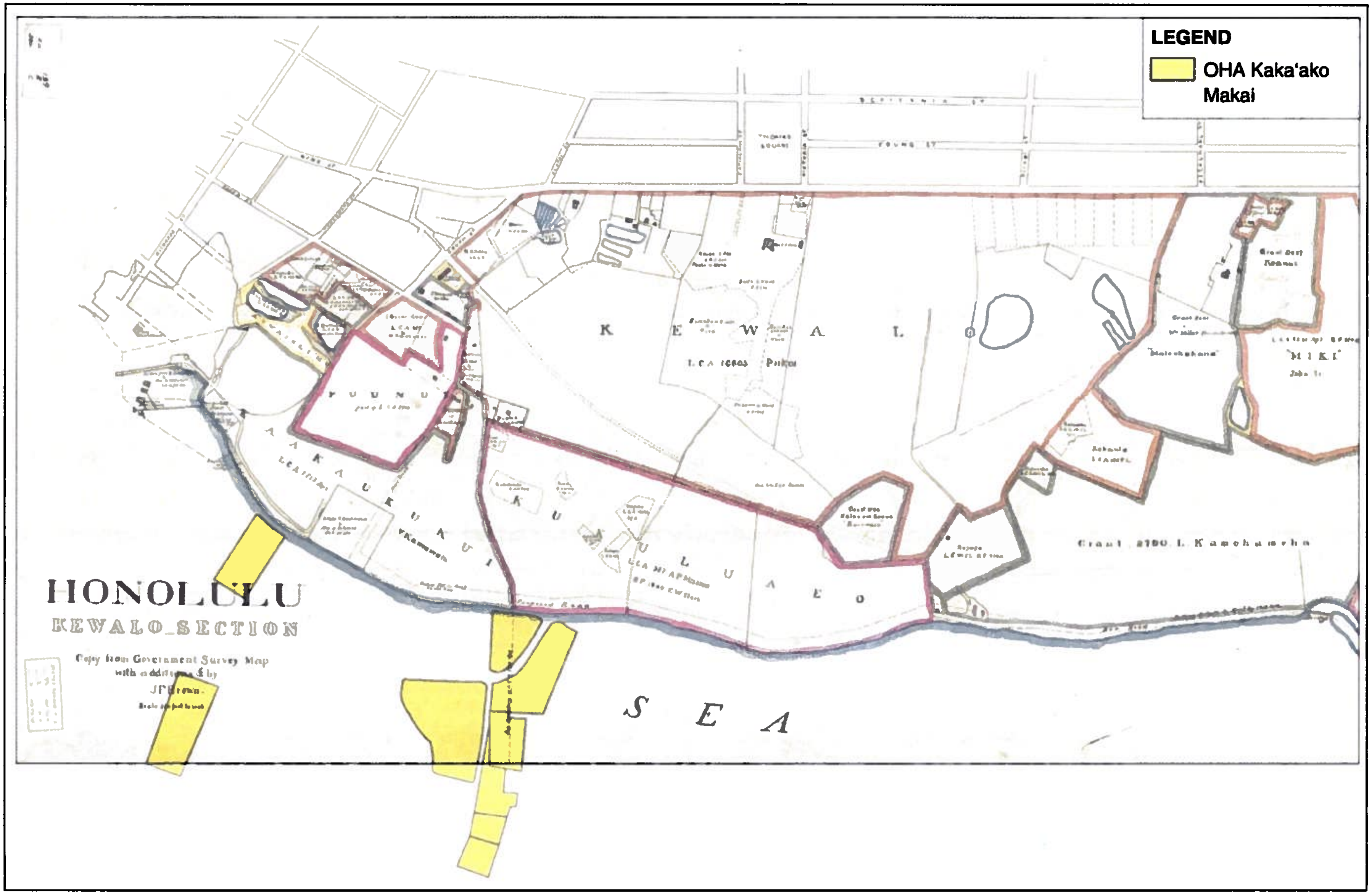
Much of Kaka'ako's improvements have, until recently, consisted of low-rise structures such as warehouses and small industrial and commercial buildings, some intentionally built to be eventually replaced by higher and better uses. The recent Kaka'ako development boom has been spurred by the following factors.

FIGURE 4



SOURCE: HAWAII BUSINESS, KAKA'AKO'S BUILDING BOOM, SEPTEMBER 2012

FIGURE 5



SOURCE: OHA MAP DATED 1880, HIGHLIGHTING THE OHA LAND PARCELS IN THE HONOLULU SEA (UNDER WATER).

- STRATEGIC LOCATION – Kaka'ako is centrally located between downtown, the civic and financial center of the city and the state, and Waikīkī, the heart of Hawai'i's visitor industry. The HCDA's vision and the master plans by Kaka'ako's major land owners point to making Kaka'ako the heart of Honolulu's urban core.

- CHANGING DEMOGRAPHICS & LIFESTYLES – As with other major cities across the country, Honolulu residents are moving back into the city core into multi-family, mainly high-rise, condominium and rental apartment properties. The growing trend is for mixed-use projects with retail, commercial and entertainment uses included in the complexes. Many buyers are empty-nesters who no longer need or want a single-family home and now prefer to be closer to their jobs and amenities such as medical facilities and entertainment venues without the commute from outlying suburban areas. Others are younger singles and couples who prefer being in the city center with easy access to urban life. A large segment is non-residents who visit Hawai'i often and want to have their own place to stay when they visit. Lastly, some are buyers who believe that owning a condominium in the growth area is a smart investment.

- MAJOR PROJECTS UNDERWAY – Two of the largest private landowners in Kaka'ako - Howard Hughes Corp. with its 60-acre Ward Village and Kamehameha Schools with its 29-acre Our Kaka'ako projects - are proceeding with implementing their multi-billion dollar master plans approved by the HCDA. In addition, construction of Hughes's One Ala Moana condominum at Ala Moana Center and A & B Properties' Waihonua condominium are well underway. A & B is also developing the Collection, a mixed-use project on the site owned by Kamehameha Schools which was formerly occupied by CompUSA, and Forest City has secured a ground lease from the HCDA to develop a high-rise rental apartment community on Pohukaina Street. These major landowners and capable developers are leading the way for others to follow.

- TRANSIT-ORIENTED DEVELOPMENT – The city's rail project has identified areas in and around Kaka'ako designated for transit-oriented development zones around the stations. The zoning ordinance is still being prepared by the city, and city officials expect that the rail project will be completed in 2019.

- STATE-OF-THE-ART MEDICAL EDUCATION CAMPUS – Located adjacent to OHA's properties are the University of Hawai'i John A. Burns School of Medicine and the recently completed Cancer Center. They are expected to anchor a biomedical and bioscience education and research campus in Kaka'ako Makai.

- NEAR THE MOST PROFITABLE & LARGEST OPEN-AIR SHOPPING CENTER IN THE UNITED STATES – Ala Moana Center anchors the major retail/commercial/entertainment section of Honolulu. With the conversion of the three-story space formerly occupied by a Sears department store into a multi-tenanted space and the construction of the sold-out One Ala Moana luxury condominium project over the Nordstrom parking structure, Ala Moana Center will continue to grow and attract more shoppers and visitors.

- PUBLIC RECREATION – Ala Moana Park, which lies adjacent to and just east of Kaka'ako, is the major beachfront park serving urban Honolulu. It attracts thousands of users every day and tens of thousands for special events.

- PUBLIC ENTERTAINMENT & SPORTS VENUE WITH REDEVELOPMENT POTENTIAL – Located within the district is the city's Blaisdell Center with its performing arts theater, sports and entertainment arena, exhibition hall and meeting rooms. The HCDA visualizes its redevelopment into a multi-use project with the addition of a 700-foot residential condominium tower by way of a public-private partnership.

- PUBLIC SCHOOL WITH REDEVELOPMENT POTENTIAL – Next to the Blaisdell Center is McKinley High School. School officials and the HCDA have proposed the redevelopment of its athletic field with multiple sports venues and space for related entities such as a YMCA facility.

- HIGH TRAFFIC COUNTS – The major east-west thoroughfares of Ala Moana and Kapi'olani Boulevards and King and Beretania Streets are active commercial and residential corridors through and around Kaka'ako.

San Francisco revitalized its South of Market district that had fallen into blight and urban decay caused by the movement to the suburbs, and other cities followed suit, renewing dilapidated sections of their cities. Kaka'ako is primed for steady redevelopment, as envisioned in 1976 when the HCDA was created. Today, after over a generation of planning and significant infrastructure investment, meaningful transformation of Kaka'ako is finally being realized.

IV. LAND VALUE ANALYSIS

In this section, the Property's land value and income were analyzed to provide a basis for considering proposed future uses for the Property.

FINDINGS AND CONCLUSIONS

DEFINITION OF VALUE – The simplistic real estate truism, "land is only worth what it can earn," speaks to economic or monetary value. Just as important to OHA is the value of the Property which cannot be measured by economic or monetary measures. It can be described as social value or benefits that flow from the land, which may be more meaningful than earnings power.

A holistic view of land use planning and value creation would consider all 30 acres of the Property together and not as separate parcels. The use of each parcel should support the use and benefits of the others and provide synergistic value to the whole. For example, that part of the Property that is designated for open and public spaces, from which no revenue is received, should be off-set by the revenue that is received from other parts of the Property. As with the tenant mix for a shopping center, a mixture of uses should be considered and tested to find the right balance between economic and social value.

UNIQUE LOCATION AND ADJACENT USES – Kaka'ako Makai was created by fill commencing in the 1840's. Except for the lands owned by Kamehameha Schools, all of the real estate in Kaka'ako Makai is owned by State of Hawai'i entities. With its unique Kewalo Basin and Ala Moana Boulevard frontages, it could be the most valuable land in Kaka'ako.

Waterfront land in Hawai'i, as with nearly everywhere else in the world, has a premium value. For many years, Kewalo Basin and the Kewalo Basin parcels were home to the local tuna fishing and maritime industries, with little improvement to the area since the tenants vacated those parcels.

As with the rest of Kaka'ako, Kaka'ako Makai is ripe for substantial transformation and could become the ocean gateway to Kaka'ako. The University of Hawai'i's John A. Burns School of Medicine and Cancer Center anchor a medical education and research campus. While Kamehameha Schools has tabled its plans to build a biotechnology facility adjacent to the campus, it may still be a natural addition some day as an adjunct to the University of Hawai'i's research activities. A President Obama Library is proposed for the state property adjacent to Kaka'ako Waterfront Park that would add distinction and prestige to the area. Working with these neighbors and potential community partners, OHA could create a place modeled after Native Hawaiian cultural practices with an iconic presence symbolizing Hawai'i's welcome to all.

MARKET VALUE – The two appraisal reports prepared at the time of the acquisition concluded with a total estimated market value of nearly $200 million, with a range of about $145 to $149 per square foot. The higher value assumed a height limit of 400 feet versus the 200 feet that is allowed, which indicates a residential use.

The appraisal reports assumed that the Property is vacant, unencumbered and available for development to its highest and best use (commercial). As shown in the section on existing ground leases, seven of the nine parcels are encumbered by ground leases, four long term, and produce a total rent of slightly more than $1 million. Market rates of return on land range from about 7% to 8%. At a capitalization rate of 7.5%, the indicated capitalized value is about $13 per square foot, or about 9% of the appraised value. The ground lease rents are substantially less than market rents and the uses may not be able to produce rents to support the estimated value of the Property. Moreover, limitations and restrictions imposed on the Property such as uses, height and Floor Area Ratio should be studied for their impact on value.

A financial plan for the Property should first determine the amount of net revenue that the Property is expected to generate. A net present value projection of the net annual cash flow (revenue less costs and expenses) that any proposed use to the Property will produce over a specific time period can be used to evaluate the economic results of the proposed use.

GROUND LEASES - Seven of the nine parcels are encumbered by ground leases which produce an annual base rent of about $1 million, which is substantially less than the potential ground lease rent of about $15 million, assuming an average return of 7.5% on a land value of $200 million.

RESIDUAL LAND VALUES – As a comparative measure, the residual land values for hypothetical, single-use projects were estimated to be as follows:

- Residential condominium – $219 per square foot
- Rental apartment – $20 per square foot
- Retail – $72 per square foot
- Office – negative $245 per square foot

ESTIMATED MARKET VALUE

The Summary Appraisal prepared by Medusky & Co. presented market value of the Property's interest appraised in fee simple with an effective date as of November 30, 2011. This appraisal did not estimate the market value of the Property's interest in leased fee, although the Property is encumbered by ground leases. On the contrary, it assumed that the Property is vacant, unencumbered and available for development to its highest and best use (commercial). The report includes a comparison of its market value conclusions with that of the appraisal firm of The Hallstrom Group, Inc., which was retained by the State of Hawai'i.

In an updated Summary of Conclusions with an effective date of November 30, 2011, Hallstrom's value conclusion for the Property is $199,130,000 (an average of $149 per square foot) and Medusky's is $194,200,000 (an average of $145 per square foot) for the 30.718 acres of land. Hallstrom's value conclusion for Parcel E is based on an assumed height limit of 400 feet. The presumption can be made that the anticipated use is for housing, since no other market use would reasonably support 30 acres of land development at that height. **Figure 6**, the Summary of Conclusions, lists value conclusions for the Property by the two appraisal firms.

The Summary Appraisal states that: "The Kaka'ako District has experienced redevelopment in recent years and is planned for continued redevelopment over the next few decades." Most of the redevelopment is for high-rise residential condominium projects. **Figure 7** illustrates the HCDA Development Projects in Kaka'ako.

FIGURE 6

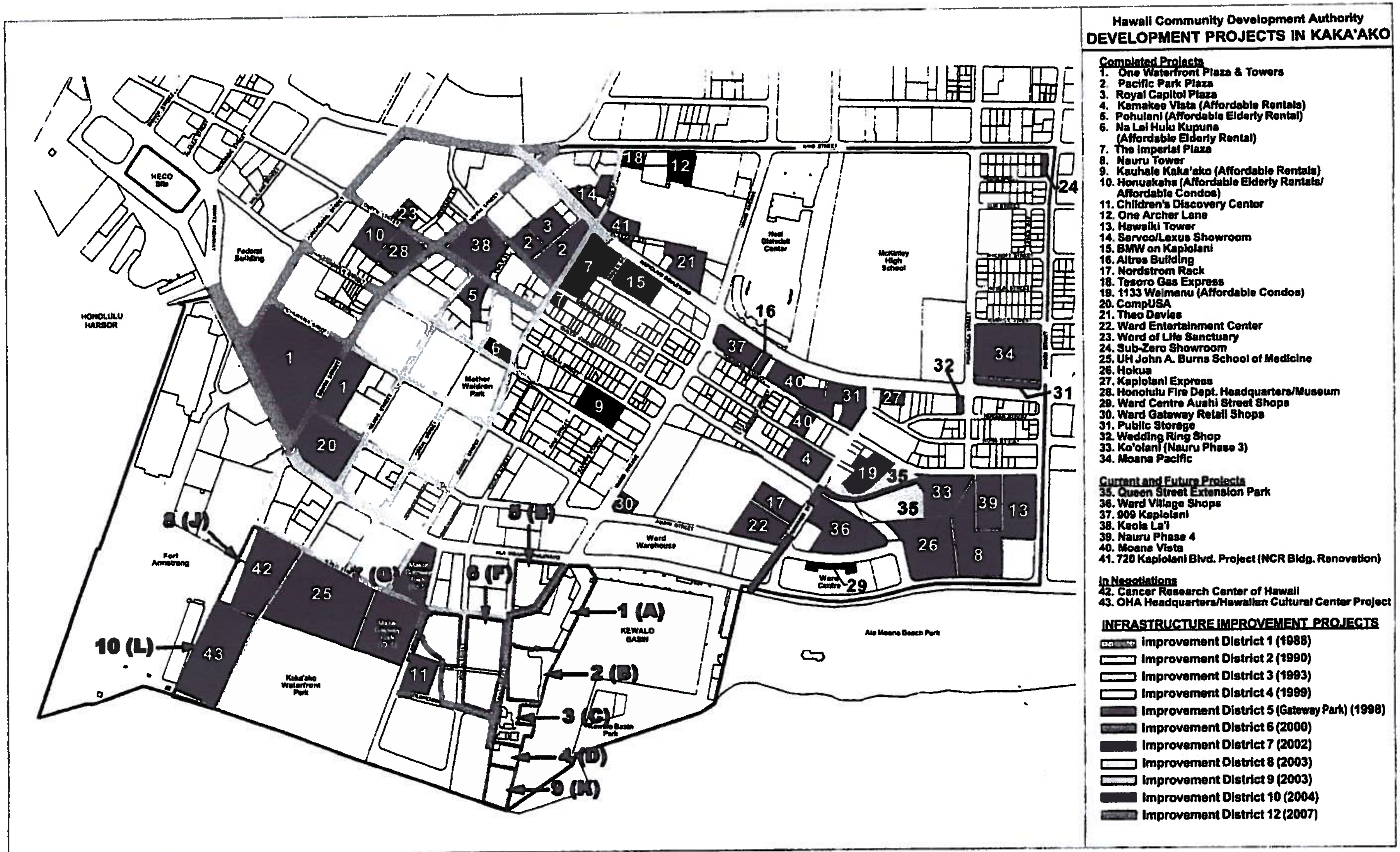
SUMMARY OF CONCLUSIONS
Kakaako Makai Properties
Kakaako, Honolulu, Oahu, Hawaii

Property No.	Identification (TMK)	Land Area acres	Land Area sq. ft.	Zoning (Ht/FAR)	Land Highest & Best Use	Rights Appraised	Hallstrom Conclusions $	Hallstrom Conclusions $/sq. ft.	Appraisers' Conclusions $	Appraisers' Conclusions $/sq. ft.	Exposure/ Marketing Time (mos)
1 (A)	1009 Ala Moana Boulevard (2-1-58-95 & 125)	5.082	221,372	WC (65'/1.50)	Commercial	FS	$34,980,000	$158	$36,000,000	$163	12
2 (B)	113 & 123 Ahui Street (2-1-58-02 & 35)	3.150	137,213	WC (65'/1.50)	Commercial	FS	$17,750,000	$129	$18,500,000	$135	12
3 (C)	59 Ahui Street (2-1-58-124 & 126)	2.043	88,996	WC (65'/1.50)	Commercial	FS	$13,820,000	$155	$13,600,000	$153	12
4 (D)	45 & 53 Ahui Street (2-1-58-48 & 2-1-60-13)	0.938	40,841	WC (65'/1.50)	Commercial	FS	$7,400,000	$181	$7,300,000	$179	12
5 (E)	919 Ala Moana Boulevard (2-1-58-06)	2.200	95,832	MUZ (200'/2.50)	Commercial	FS	$17,160,000 [1]	$179	$16,100,000	$168	12
6 (F)	160 Ahui Street (2-1-60-05)	4.613	200,942	MUZ (200'/2.00)	Commercial	FS	$30,660,000	$153	$27,200,000	$135	12
7 (G)	160 Koula Street (2-1-60-06)	2.546	110,904	MUZ (200'/2.00)	Commercial	FS	$18,470,000	$167	$16,300,000	$147	12
9 (K)	40 Ahui Street (2-1-60-por. 01)	1.584	69,000	WC (65'/1.50)	Commercial	FS	$11,420,000	$166	$12,400,000	$180	12
10 (L)	Keawe Street (2-1-15-51)	5.226	227,645	MUZ (45'/0.60)	Commercial	FS	$21,930,000	$96	$22,900,000	$101	12
11 (I)	Ala Moana Boulevard (2-1-15-53)	3.336	145,316	MUZ (200'/3.5)	Commercial	FS	$25,540,000 [1]	$176	$23,900,000	$164	12
TOTALS		30.718	1,338,061				$199,130,000		$194,200,000		

[1] Hallstrom value conclusion based on assumed height limit of 400 ft.

SOURCE: MEDUSKY & CO., INC. SUPPLEMENT TO SUMMARY APPRAISAL REPORT REGARDING TEN PROPERTIES, KAKAAKO, HONOLULU, HAWAII, TMK 2-1-58-95, ET AL., FIRST DIVISION; DATED DECEMBER 29, 2011 WITH AN EFFECTIVE DATE OF NOVEMBER 30, 2011, PAGE 8.

FIGURE 7



Map Prepared: April 2007

SOURCE: MEDUSKY & CO., INC. SUMMARY APPRAISAL REPORT REGARDING TEN PROPERTIES, KAKAAKO, HONOLULU, HAWAII, TMK 2-1-58-95, ET AL. PREPARED FOR WILLIAM MEHEULA, ESQ., FIRST DIVISION; DATED NOVEMBER 30, 2011 WITH AN EFFECTIVE DATE OF NOVEMBER 30, 2011, PAGE 12.

GROUND LEASE ANALYSIS

EXISTING GROUND LEASES – The Property is encumbered by certain ground leases, which are summarized in the following schedule. The ground lease summary indicates that OHA is achieving a weighted average annual lease income of $0.98 per square foot of land. Capitalizing the annual income of 7.5% results in an average land value of $13 per square foot, representing about 9% of the appraised value of nearly $150 per square foot. The ground rents do not reflect the estimated market land value of the Property.

			Land Area		Base Rent			
Parcel/Lessee	Zoning	Expires	Acres	Sq. Ft.	Annual	Monthly	$/SF/Yr	% Rent
A: Goodfellow Bros. & Eye Productions	MUZ	2012	5.020	218,671	160,950	13,413	0.74	
B: Honolulu Marine	WC	2021	3.150	137,214	205,760	17,147	1.50	
C: Kewalo Keiki Fishing Conservancy	WC	2074	2.043	88,993	1	0	0.00	
D: Ocean Investments LLC	WC	2035/42	0.938	40,859	430,616	35,885	10.54	
E: HCDA/State of Hawaii	MUZ	2018	2.200	95,832	100,000	8,333	1.04	
F/G: Cutter Chrysler, etal	MUZ	2012	7.159	311,846	54,000	4,500	0.17	80%
I: HCDA/Hawaii Irrigation Supply Co., etal	MUZ	mtm	3.336	145,316	65,856	5,488	0.45	
K: Office tenant leases	WC	--	1.584	69,000	--	--	--	
L: Warhouse tenant leases	MUZ-I	--	5.226	227,465	--	--	--	
			23.846	1,038,732	1,017,183	84,765	0.98	

According to the HCDA records, a ground lease is being negotiated between Forest City and the State of Hawai'i. The proposed $500 million transit-oriented development will incorporate various uses, including affordable rentals and condominiums, mixed with commercial space for business incubation, office, retail, civic space, and a hotel. While the lease terms were not disclosed, including the base and percentage rent, more than $30 million of incentives are proposed to be paid to the state, which includes a $14 million lease premium, $50,000 for entitlements, $1.5 million for the EIS, and $6.25 million for the provision of a 35,000 square foot civic space provided rent-free to the state. The total paid at commencement of construction would be $9.3 million.

RESIDUAL LAND VALUE ANALYSIS

<u>PURPOSE</u> – In addition to assessing the market situation, it is useful to gauge the relative value of the probable uses for the Property. In this residual land value analysis, a consistent methodology was applied to compare financial results of certain land uses. Essentially, it provides OHA with a common basis for measurement.

The parcels that comprise the Property are zoned either Waterfront Commercial or Mixed Use Zone, which permit a wide range of commercial, residential, maritime, community service and accessory uses. Although it is a permissible use, state law prohibits the HCDA from approving any plan or proposal for residential development on the Property.

As amply demonstrated in many mixed-use projects, the residential component is a vital part of thriving and successful mixed-use communities. Retail stores often struggle in downtown areas where there are no residences to patronize those stores when offices are not open. A classic case in point is the failure of Aloha Tower Marketplace. The developers of the marketplace intended to add residential, office and hotel uses around the marketplace to create a critical mass of activities to attract customers to the marketplace stores and restaurants. As those additions never materialized, the marketplace has failed. Moreover, Ala Moana Boulevard/Nimitz Highway separates the marketplace from the downtown area, which discourages the downtown population from going to the marketplace. Ala Moana Boulevard similarly separates the Property from the developments on the mauka side of the boulevard. This is an important and potentially significant impediment to keep in mind.

Referred to as festival marketplaces, stand-alone specialty retail venues on the waterfront have eventually faltered and many have failed. Projects that have a mix of residential, commercial, retail, entertainment and other synergistic uses have a greater chance of success. Many such developments can be found in cities on the mainland and throughout the world. Closer to the Property are the large-scale Ward Village and Our Kaka'ako mixed-use projects across Ala Moana Boulevard from Kaka'ako Makai and the hugely successful Ala Moana Center retail and condominium complex nearby. They all contain both residential and commercial uses.

A common development approach, especially for waterfront projects with large open areas for public use, is to maximize the value and income-generation from residential uses to support those other uses which generate little or no income.

<u>METHODOLOGY</u> – Because of its large size of over seven acres, maximum allowable height limit of 200 feet, mixed-use zoning and it's central location, the combined parcels F and G were selected for this residual land value analysis. On that site, the consulting team estimated the building sizes, construction costs and net income for purely hypothetical projects for the following single-use projects:

High-rise residential condominium (market prices)	624 units
Mid-rise rental apartment (mid-range rents)	960 units
Single-level multi-tenant retail (neighborhood & specialty)	237,500 SF Gross Leasable Area
High-rise multi-tenant office (market rents)	593,950 SF Net Rentable Area

As with the appraisal reports, it is assumed that the property is vacant, unencumbered and available for development. From the parameters and assumptions used, an abbreviated financial pro forma model was prepared to derive the residual land value for each project. The analyses assume the complete development of the site, with the units or spaces sold or rented within a reasonable amount of time. All amounts are in 2013 dollars. No development time schedule was estimated, hence, the amounts were not adjusted for time.

For the condominium project, the estimated value is the net sales proceeds. For the rental apartment, retail and office projects, the net operating income is capitalized with an appropriate cap rate to determine the estimated value of the property. The selected rate chosen accounts for a recapture of the investment by the investor and should reflect all factors that influence the value of the property, such as tenant quality, property condition, neighborhood change, market trends, interest rates and inflation, in addition to other essential characteristics. This analysis uses a single year's stabilized net operating income as a basis for a value indication by dividing the income by a capitalization rate.

From the estimated value, the development cost of the newly constructed building and developer's profit were deducted to derive the resulting residual land value.

PRO FORMA MODEL – The following are the projections used to estimate the gross order-of-magnitude residual land values for the project types. The parameters and assumptions used in the pro forma model were a collaboration of market information and estimates prepared by the consultant team. As this analysis is an economic exercise based on hypothetical developments for the uses considered, it is not intended to be conclusive but merely to provide an early metric to guide further planning.

STABILIZED OPERATING PRO FORMA AND RESIDUAL LAND VALUE
RESIDENTIAL CONDOMINIUM

		Amount
Sales Proceeds		
Condominium Units		$561,600,000
Parking Stalls	+	4,700,000
Total		**566,300,000**
Less: Sales Costs	-	22,652,000
Net Sales Proceeds		**543,648,000**
Less: Development Costs		
Direct Costs - Condominium		217,526,000
Direct Costs - Parking	+	39,621,000
Direct Costs - Other	+	25,715,000
Subtotal		282,862,000
Indirect Costs	+	113,145,000
Total Direct & Indirect Costs		396,007,000
Developer's Profit	+	79,201,000
Total Development Costs	-	**475,208,000**
Residual Land Value		**$68,440,000**
Per Unit		**$109,700**
Per SF of Land Area		**$219**

Site Area	311,846 SF (7.159 acres)
Gross Building Area	623,692 SF
Salable Area	561,323 SF (90%)
Total Units	624 (1/1,000 SF = 87/Acre)
Average Size Per Unit	900 SF
Total Parking Area	337,200 SF (300 SF/Stall)
Total Parking Spaces	1,124
Parking Stalls for Units	936 (1.5/Unit)
Parking Stalls for Visitors	94 (10%)
Parking Stalls for Sale	94 (10%)
Average Sales Price Per Unit	$900,000 ($1,000/SF)
Average Sales Price Per Stall	$50,000
Sales Cost	4% of Gross Sales Proceeds
Direct Costs	$282,862,000
Indirect Cost	40% of Direct Cost
Developer's Profit	20% of Direct & Indirect Costs

STABILIZED OPERATING PRO FORMA AND RESIDUAL LAND VALUE
RENTAL APARTMENT

		Amount
Potential Gross Income		
Apartment Units		$20,736,000
Parking Stalls	+	615,000
Total		21,351,000
Less: Vacancy	-	427,000
Effective Gross Income		20,924,000
Operating Expenses	-	4,740,000
Net Operating Income		16,184,000
Gross Capitalized Value		323,680,000
Less: Transaction Costs	-	3,237,000
Net Capitalized Value		320,443,000
Less: Development Costs		
Direct Costs - Apartment		140,716,000
Direct Costs - Parking	+	39,975,000
Direct Costs - Other	+	9,035,000
Subtotal		189,726,000
Indirect Costs	+	35,179,000
Total Direct & Indirect Costs		224,905,000
Developer's Profit	+	89,298,000
Total Development Costs	-	314,203,000
Residual Land Value		$6,240,000
Per Unit		$6,500
Per SF of Land Area		$20

Site Area	311,846 SF (7.159 acres)
Gross Building Area	623,692 SF
Net Rentable Area	592,692 SF (95%)
Total Units	960 (1/650 SF)
Average Size Per Unit	617 SF
Total Parking Spaces	1,300
Parking Stalls for Units	960 (1/Unit)
Parking Stalls for Visitors	96 (10%)
Parking Stalls for Rent	244
Average Rent Per Unit Per Month	$1,800 ($2.92 PSF)
Average Rent Per Stall Per Month	$210
Vacancy Rate	2% of Potential Gross Income
Operating Expenses ($/Unit/Yr)	$4,936 Per Year ($8 PSF)
Overall Capitalization Rate	5%
Transaction Costs	1.0% of Gross Capitalized Value
Direct Costs	$189,726,000
Indirect Cost	25% of Direct Cost
Developer's Profit	15% of Direct & Indirect Costs

STABILIZED OPERATING PRO FORMA AND RESIDUAL LAND VALUE
RETAIL

		Amount
Potential Gross Income		
Retail Space		$12,723,000
Parking Stalls	+	302,000
Total		13,025,000
Less: Vacancy	-	1,303,000
Effective Gross Income		11,722,000
Operating Expenses	-	0
Net Operating Income		11,722,000
Gross Capitalized Value		195,367,000
Less Transaction Costs	-	1,954,000
Net Capitalized Value		193,413,000
Less: Development Costs		
Direct Costs - Retail		66,527,000
Direct Costs - Parking	+	40,129,000
Direct Costs - Other	+	5,333,000
Subtotal		111,989,000
Indirect Costs	+	19,958,000
Total Direct & Indirect Costs		131,947,000
Developer's Profit	+	38,881,000
Total Development Costs	-	$170,828,000
Residual Land Value		$22,585,000
Per SF of Land Area		$72

Site Area	311,846 SF (7.159 acres)
Gross Building Area	294,477 SF
Gross Leaseable Area	237,003 SF (95%)
Total Parking Spaces	1,305 (5.5/1,000 SF)
Parking Stalls for Customers	1,185
Parking Stalls for Rent	120
Average Rent Retail SF Per Year	$51.00 ($4.25 SF/Mo.)
Average Rent Per Stall Per Month	$210
Vacancy Rate	10% of Potential Gross Income
Operating Expenses ($/SF/Yr)	Direct Pass-Thru
Overall Capitalization Rate	6%
Transaction Costs	1% of Gross Capitalized Value
Direct Cost	$111,989,000
Indirect Cost	30% of Direct Cost
Developer's Profit	15% of Direct & Indirect Costs

STABILIZED OPERATING PRO FORMA AND RESIDUAL LAND VALUE
OFFICE

		Amount
Potential Gross Income		
Office Space		$24,324,000
Parking Stalls	+	801,000
Total		25,125,000
Less: Vacancy Rate	-	3,015,000
Effective Gross Income		22,110,000
Operating Expenses	-	10,179,000
Net Operating Income		11,931,000
Gross Capitalized Value		159,080,000
Less: Transaction Costs	-	1,591,000
Net Capitalized Value		157,489,000
Less: Development Costs		
Direct Costs - Office		167,177,000
Direct Costs - Parking	+	50,430,000
Direct Costs - Other	+	10,880,000
Subtotal		228,487,000
Indirect Costs	+	3,264,000
Total Direct & Indirect Costs		231,751,000
Developer's Profit	+	2,122,000
Total Development Costs	-	233,873,000
Residual Land Value		($76,384,000)
Per SF of Land Area		($245)

Site Area	311,846 SF (7.159 acres)
Gross Building Area	623,692 SF
Net Rentable Area	530,138 SF (85%)
Total Parking Spaces	1,640
Average Rent OfficeSF Per Year	$39.00 ($3.25/SF/Mo.)
Average Rent Per Parking Stall	$250
Vacancy Rate	12% of Potential Gross Income
Operating Expenses ($/SF/Yr)	$19.20/SF/Yr. ($1.60/SF/Mo.)
Overall Capitalization Rate	7.5%
Transaction Cost	1% of Capitalized Value
Direct Cost	$228,487,000
Indirect Cost	30% of Direct Cost
Developer's Profit	15% of Direct & Indirect Costs

SUMMARY - The following is a summary of the estimated residual land values of the four project types that were considered. The results should be considered as gross order-of-magnitude estimates, as broad parameters and assumptions were used.

Land Use Type	*$/SF*
Residential Condominium	$219
Rental Apartment	$20
Retail	$72
Office	($245)