



Colliers Monroe Friedlander Investment Market Report Honolulu 2005 – 2006

2005 – 2006

Honolulu 2005 – 2006 Investment Market

HAWAII TOTAL 2005 \$1M+ COMMERCIAL INVESTMENT TRANSACTIONS:

431

TOTAL 2005 \$1M+ COMMERCIAL INVESTMENT SALES VOLUME:

\$4.28 Billion

Contents

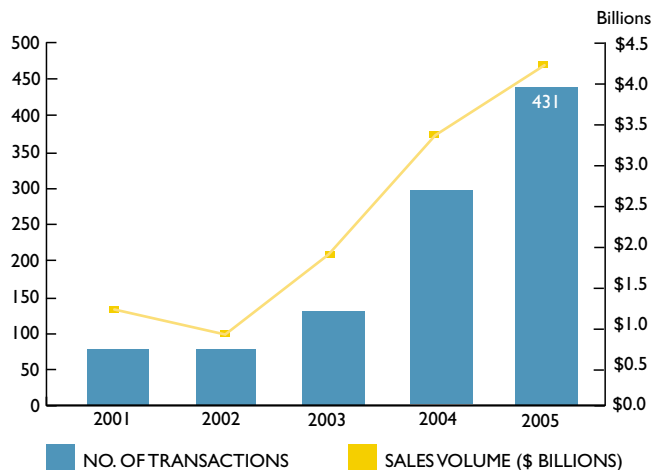
- 1 Hawaii Commercial Real Estate Investments Set New Record
- 3 Hawaii Investment Forecast
- 3 Too Much of a Good Thing
- 4 Real Estate Cycle Theory
- 5 Market Highlights and Forecast
- 7 Hotel Investment Market Overview
- 8. Select Colliers Monroe Friedlander, Inc. Properties for Sale/Lease
- 8. Select Colliers Monroe Friedlander, Inc. Notable 2005 Sales/Lease Transactions

Hawaii Commercial Real Estate Investments Set New Record

Strong economic factors, healthy market dynamics, continued fervent demand and a favorable investment environment helped boost the number of commercial real estate transactions and sales volume to another record. For 2005, Colliers Monroe Friedlander Consulting (“CMFC”) tracked 431 commercial real estate transactions that sold in excess of \$1 million, more than a 50% rise in activity from 2004. Additionally, transaction sales volume rose to nearly \$4.3 billion, a jump of 20% over the previous year.

This dramatic rise in real estate transactions is reflective of the tremendous amount of capital that is flowing into real estate throughout the nation. Hawaii benefited from the shortage of available investment grade properties for sale in 24/7 cities such as Los Angeles, San Francisco, New York and Washington DC. Many investors expanded their geographic territories and lowered their investment thresholds in order to place increased capital allocations. As a result, secondary and tertiary markets such as Hawaii hit many institutional investor radar screens.

SALES TRANSACTIONS vs. SALES VOLUME



© 2006 Colliers Monroe Friedlander. All rights reserved.

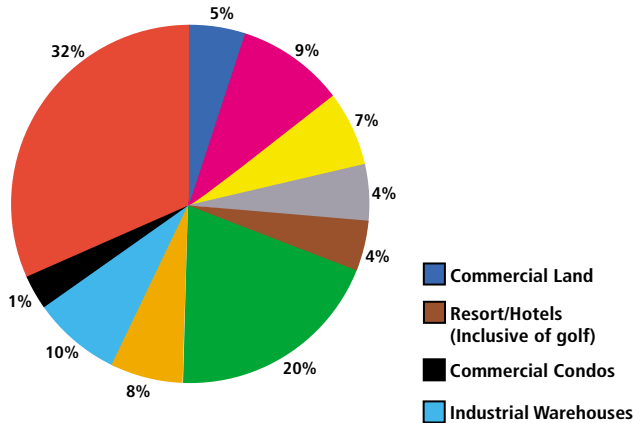


1800 Central Pacific Plaza
220 South King Street
Honolulu, HI 96813
Phone 808.524.2666
Fax 808.521.0977
www.colliershawaii.com

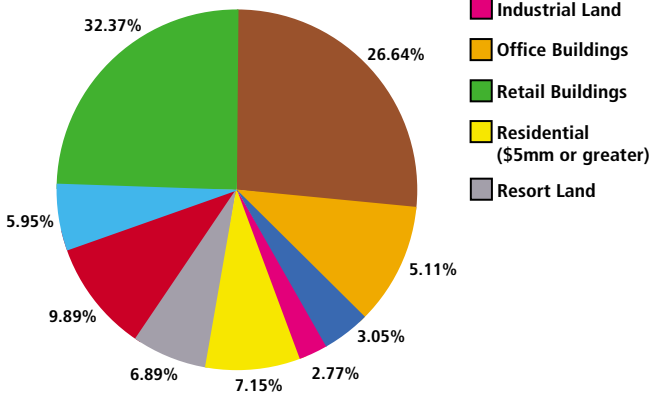


Colliers Monroe Friedlander Investment Market Report Honolulu 2005 – 2006

PERCENT OF TOTAL SALES TRANSACTIONS

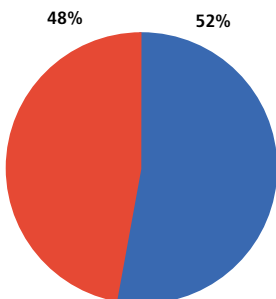


PERCENT OF SALES VOLUME

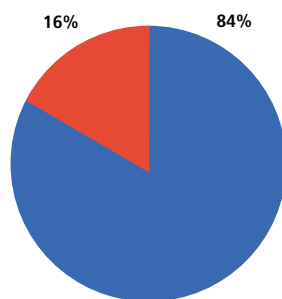


© 2006 Colliers Monroe Friedlander. All rights reserved.

PERCENT OF SALES VOLUME



PERCENT OF SALES TRANSACTIONS



Local Mainland/International

© 2006 Colliers Monroe Friedlander. All rights reserved.

Institutional and international investment firms spent more than \$2.0 billion on commercial real estate in Hawaii over the past year. These transactions constituted more than 48% of the total sales volume. Despite this large amount of investment, the activity among institutional investors had actually declined from the previous year's volume of \$2.8 billion. Roughly 16% of the 431 transactions for the year were sales to mainland entities. This translates into an average transaction price of more than \$29 million for mainland or international buyers versus an average of \$6.2 million by local entities.

Property sellers faced an extremely lucrative market with capitalization rates falling by as much as 75 to 150 basis points over the past year. Cap rate compression resulted in sales prices for properties hitting levels not seen since the Japanese bubble period of the early 1990s. Property values have escalated so rapidly that sales prices exceeded property tax assessments by an average of over 85%, while the median difference between actual sales prices and assessed values was 53%, making the reliance on tax assessment values unreliable at best.

Among the most notable trends, retail shopping centers captured the lion's share of the recent investment activity accounting for nearly \$1.4 billion or roughly 32% of the total sales volume. In addition to tremendous activity among retail shopping centers, hotels and resorts posted \$1.1 billion in transaction volume, equating to 27% of the total sales volume.

Over the past year, 142 apartment buildings were sold. This is a 71% jump over the 83 apartment transactions that occurred during 2004. Real estate proved to be a very popular investment vehicle resulting in a number of small investors jumping into the marketplace. In fact, the median purchase price for a Hawaii apartment was \$1.5 million, a very attractive entry investment level with significant demand.

Demand among baby-boomers, second home and vacation home buyers, and retirees who were all seeking their "piece of paradise," drove resort home prices skyward. Developers realizing the potential to increase margins, have gobbled up resort and residential zoned parcels with plans to develop luxury resort neighborhoods. For 2005, CMFC tracked nearly \$295 million in resort land sales and more than \$305 million in residential land transactions (greater than \$5 million).



Thus, 2005 proved to be another tremendous year for commercial real estate. Record sales volume and number of transactions disproved the beginning of the year concerns over claims of a potential “bubble” or decline for 2005. Capital continued to be abundant as investors continued to seek the relative stability of real estate returns despite compressing capitalization rates and rising sales prices. In fact, the National Association of Real Estate Investment Trusts (NAREIT) compared real estate returns to other alternative investments and found that for six consecutive years, REITs outperformed the stock indices. The average return on REITs was 8%, whereas the S&P 500, Dow Jones Industrial Average and the Nasdaq Composite Index yielded 3.0%, -0.6% and 1.4% returns, respectively.

Hawaii Investment Forecast

In 2005, it was commonplace to get hundreds of inquiries from mainland investors interested in prime commercial Hawaii properties. Colliers Monroe Friedlander agents brought several notable properties to the market and were inundated with interest by prospective investors throughout the country. From premier shopping centers to undeveloped resort land, institutional investors have targeted Hawaii properties to boost their portfolio’s real estate holdings.

Throughout the country, record levels of commercial real estate investment activity has been recorded and demand continued to be significant. Interestingly, once an investor identifies Hawaii as a potential investment market, Hawaii’s attractive market dynamics keep investors enamored. The healthy economy, strong job growth and supply constraints provide the backdrop for rising rents, declining vacancy rates and limited new development, resulting in an increase to property values for the near and mid-term future.

Too Much of a Good Thing

Despite this rosy optimism, Hawaii may suffer from its own success. Solid job growth resulted in an enviable 2.8% statewide unemployment rate, but shortfalls in skilled labor resulted in wage inflation. Volatile energy prices impacted shipping costs and with more than 98% of Hawaii’s goods requiring importation, most retailers passed price increases onto consumers.

Home prices escalated to a median price of \$610,000 in December 2005, compared to \$350,000 in December 2002, a 74% increase over the past three years. The affordability index for Hawaii homes is likely to reach a new high as the Honolulu City & County Tax Assessment office valued more than 15,000 homes in excess of \$1 million in value.

	Multi Family	Resorts/ Hotels	Industrial Buildings	Office Buildings	Retail/Mixed Use Buildings	Residential Land	Commercial Land	Industrial Land
NUMBER OF TRANSACTIONS	142	17	42	35	85	29	21	37
TOTAL SALES VOLUME	\$423,097,599	\$1,139,951,468	\$254,439,577	\$218,726,45	\$1,384,958,736	\$305,743,299	\$130,487,062	\$118,312,035
PRICE PER UNIT OR SQUARE FOOT	\$160,771.79	\$234,100.83	\$141.77	\$176.14	\$468.92	\$123.32	\$83.67	\$30.27
ESTIMATED NATIONAL CAP RATE- KORPACZ	4.5%-8%	N/A	5.5%-9.0%	4.5%-9.5%	5.5%-9.5%	N/A	N/A	N/A
REAL CAPITAL ANALYTICS—WEST REGION	4.6%-6.9%	N/A	5.8%-9.1%	6.8%-8.7%	4.5%-7.5%	N/A	N/A	N/A
PRICEWATERHOUSECOOPERS	6%-7%	8%-9%	7%-7.5%	6.5%-8%	6%-7.5%	N/A	N/A	N/A
ESTIMATED HAWAII CAP RATE	4.5%-5.5%	N/A	5.8%-7.0%	5.6%-7.8%	5.0%-7.5%	N/A	N/A	N/A

As the principal economic drivers for the state, hospitality and tourism sectors hit record levels. Hotel occupancies, air passenger arrival counts, tourism expenditures and average daily room rates rose skyward in 2005. Unfortunately, Japanese and other high spending visitors may have faced difficulties booking hotel rooms due to the record volume of visitors to the islands. Should this phenomenon frequently occur, potential visitors may be turned off and book alternative vacation destinations.

For 2006, CMFC envisions tightened market conditions among apartment, hotel, retail, office and industrial properties that will support rising property valuation and further pushing sales prices upward for commercial real estate. Rising construction costs and land prices with shortages of developable land will also enhance current property valuations. Hawaii will remain supply-constrained in virtually every commercial real estate sector. We anticipate that inflation may slow economic growth, but shortages of prime investment property and strong demand will continue to compress cap rates. CMFC anticipates a 20% decrease in sales volume to roughly \$3.0 billion for 2006 as this market slows from its heated conditions.

Real Estate Cycle Theory

Many institutional investors and real estate theorists utilize the Real Estate Cycle theory to explain stages of real estate development and their investment selection criteria. CMFC created a model that places the various commercial real estate sectors into various stages in the Real Estate Cycle.

Supply, demand and economic variables are instrumental in selecting where a sector is placed on the continuum. The positive economy, solid job growth, and tightening market conditions resulted in many of Hawaii's commercial real estate sectors being placed in the absorption and growth quartiles.

Recovery – falling vacancy rates, moderate job growth, little new construction, low/negative rental rate growth

Expansion – falling vacancy rates, moderate to high employment growth, increased construction activity, moderate to high rental rate growth

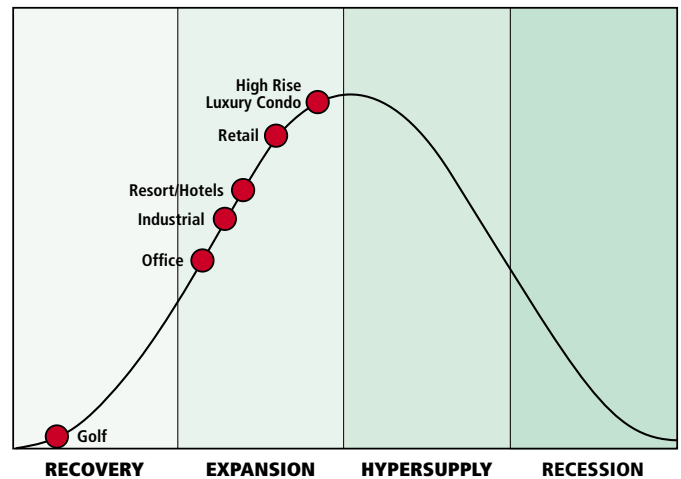
Hypersupply – increased vacancy rates, high level of construction, negative absorption, low to moderate job growth, low rental rate growth

COLLIERS MONROE FRIEDLANDER RISK VS RETURN



© 2006 Colliers Monroe Friedlander. All rights reserved.

HAWAII REAL ESTATE CYCLE



© 2006 Colliers Monroe Friedlander. All rights reserved.

Recession – increasing vacancy rates, moderate construction, low absorption, low to negative employment growth, low to negative rental rate growth



Colliers Monroe Friedlander Investment Market Report Honolulu 2005 – 2006

Market Highlights & Forecast

Retail Investment Market Overview

The redevelopment of the vacant former JC Penney anchor locations at Ala Moana Center and Pearlridge Center into smaller bay sizes proved to be a boon to these shopping centers by increasing the pool of potential tenants. Absorption jumped among regional malls, increasing by 124,104 square feet, helping to push vacancy rates downward to a 10-year low of 3.38%.

Tenants continue to find it increasingly difficult to secure prime retail locations among the island's popular shopping centers. The increased competition resulted in island-wide average asking rents rising to \$3.23 psf/mo, a 27.7% increase in one year.

The healthy rental rate growth appears to coincide with the dramatic increase in retail investment activity. Nearly \$1.4 billion in retail shopping centers traded hands over the past year. Topping the list was the \$170 million General Growth purchase of Whalers Village, Metropole's \$156 million transaction for 2100 Kalakaua Avenue and TIAA CREF's purchase of Town Center of Mililani from Castle & Cooke for \$151 million.

Office Investment Market Overview

More than 650,000 square feet of absorption has been recorded since 2002 resulting in office vacancy rates falling to 8.64% at year-end 2005, the lowest level in more than a dozen years. Rents are anticipated to grow by double-digits with full service gross rents nearing \$3.00 per square foot by 2007. Despite this marked growth in rents, high-rise office development still does not appear to be financially feasible.

Land prices, construction costs, and the lack of developable sites will curtail any new office supply to this severely supply constrained market. The tremendous residential boom sparked a number of high-rise condominium projects in urban Honolulu. These residential projects were built on BMX-3 (business mixed use) zoned sites, removing these potential office development locations out of the future office inventory.

During 2005, roughly \$215 million of office properties traded hands. The largest transaction was The Shidler Group's purchase of First Insurance Center for \$45 million, further adding to its extensive Honolulu office portfolio. Another notable transaction was WDCI, Inc.'s purchase of Haseko Center and Oceanview Center from A&B Properties for \$25 million.

OFFICE SALES DATE	Buyer	Seller	Property Name/Address	Sales Price	Price Per Sq. Ft./Unit
OCT-05	WDCI Inc.	Mililani Street Properties LLC	Haseko Building (LH)	\$10,750,000	\$127.82
OCT-05	WDCI Inc.	OVC Properties LLC	Oceanview Center (LH)	\$14,250,000	\$143.65
OCT-05	3D Investments	Waikiki Trade Center Corp	Waikiki Trade Center (LH)	\$20,000,000	\$55.72
DEC-05	Pacific Office Properties Trust	Continental Insurance	First Insurance Building	\$45,000,000	\$117.91
RETAIL					
JUN-05	PPF RTL Pearl Highlands LLC	I&G Pearl Highlands LLC	Pearl Highlands Center	\$109,912,114	\$267.48
OCT-05	TIAA CREF	Castle & Cooke Commercial Properties LLC	Town Center of Mililani	\$151,084,000	\$272.25
FEB-05	Metropole Realty Advisors	Lehman Brothers	2100 Kalakaua	\$156,000,000	\$1,405.41
JAN-05	General Growth	Estate of James Campbell	Whalers Village	\$170,000,000	\$1,521.46
INDUSTRIAL					
APR-05	LV Kapolei 54 LLC	KBP Partners LLC	Kapolei Business Park Phase II (Land)	\$22,250,000	\$9.51
MAR-05	LOWES HIW Inc.	Conoco Phillips	411 Pacific	\$35,083,300	\$77.00
JUN-05	HRPT	Estate of James Campbell	James Campbell Industrial Park	\$116,000,000	\$15.00
RESORT					
APR-05	Gaylord Entertainment Co.	Leucadia National Corp	Aston Waikiki Beach	\$107,000,000	\$149,232.91
MAR-05	Princeville Associates LLC	Princeville Corp	Princeville Resort	\$161,000,000	\$638,888.89
NOV-05	Trinity Investments	Kahala Hotel Associates LLC	Kahala Mandarin	\$176,000,000	\$483,516.48
DEC-05	Westbrook Partners	Fairmont Hotels and Resorts	Fairmont Orchid	\$250,000,000	\$444,444.44
NOV-05	Whitehall Street Global Real Estate Limited Partnership	CNL Hotels & Resorts	Waikiki Beach Marriott	\$275,000,000	\$209,923.66
MULTIFAMILY					
JAN-05	DEG Residential LLC	MHA Partners LLC	1229 Ala Kapuna	\$108,500,000	\$158,625.73
AUG-05	Ala Wai Gateway Limited Partnership	Outrigger Hotels LLC	228 Beachwalk Ave	\$39,739,999	REDEVELOPMENT



Industrial Investment Market Overview

Honolulu's 1.8% industrial vacancy rate at year-end 2005 is the tightest market in the country. Despite the severe shortage situation, more than 425,000 square feet of absorption was generated over the past year. In fact, more than 350,000 square feet is the result of occupancy of newly built owner-user facilities.

In Hawaii, the opportunity to acquire moderately priced industrial land for speculative development occurs in a very narrow time window. Currently land prices have outpaced rental rate growth and as a result, speculative developers are considering more than 600,000 square feet of industrial condominium developments. The shortage of available fee simple industrial

properties with the smaller sizes of Hawaii's industrial tenants will support the price ranges for industrial condos in the \$225 to \$285 per square foot level.

The most notable sale to occur was the \$116 million purchase of James Campbell Industrial Park by Massachusetts-based REIT, HRPT. This secured HRPT's position as the largest industrial landowner on the island. Other transactions included the \$22.25 million sale of Kapolei Business Park to LV Kapolei 54 LLC, and the Lowes HIW Inc. purchase of their Iwilei site from Conoco Phillips for \$35 million.



Joseph Toy
President & CEO
Hospitality Advisors LLC

2006 Hotel Room Revenue Poised to Surpass Record \$3 Billion Set in 2005

By Joseph Toy, President & CEO
Hospitality Advisors LLC

Hawaii's visitor industry advanced at a blistering pace in 2005, setting new records in visitor arrivals of 7.3 million and hotel room revenue in excess of \$3 billion. In addition, Hawaii was second only to New York City in achieving the nation's highest occupancy (81.2 percent), average daily rate ("ADR" of \$166.86) and revenue per available room ("RevPAR" of \$135.50).

The robust travel market was driven by strong growth in key high-yield market segments including honeymooners, corporate travel and independent leisure visitors. When combined with inventory reductions due to conversions and property renovations, hotels have been able to significantly improve room rates and RevPAR in 2005.

Hawaii's highly active hotel transactions market ended 2005 with eight major hotel acquisitions with a combined transaction value of over \$1.06 billion. Since the start of this cycle in 2003, 25 hotels have traded with a combined transaction value of well over \$3.15 billion. The extraordinary high demand for hotel product in Hawaii continues unabated as we enter into 2006, with eight hotels already in various stages of trading at the end of February, representing a combined value of \$740 million.

While the pace of tourism growth is expected to moderate in 2006 assuming no major economic or political calamities, it is likely that we will see new records in room revenue, visitor arrivals and hotel property transactions in 2006. The outlook for corporate and leisure travel remains optimistic based on preliminary booking pace reports from Hawaii's hotel industry. Despite the already high occupancy rates, there continues to be some capacity in the market, most notably the Island of Hawaii, which traditionally lags the market during prior expansion cycles. The Island of Maui will also likely see increased demand with the introduction of the Pride of Hawaii by Norwegian Cruise Lines, which plans to offer land and cruise packages originating from Maui.

Hotel conversions are expected to continue in 2006, but at a slower pace as newly built condo resort product comes on the market and inventory previously converted is absorbed. Still, with barriers to entry into Hawaii's lucrative market remaining high and only modest new resort product in the development pipeline, we will likely see another exceptional year for Hawaii's hotel industry.



Colliers Monroe Friedlander
Investment Market Report
 Honolulu 2005 – 2006

TOP 25 HOTEL MARKETS – YEAR END 2005

TOP FIVE OCCUPANCY

1. NEW YORK, NY	82.9%
2. HAWAII	81.2%
3. LOS ANGELES	74.6%
4. ANAHEIM, CA	74.3%
5. MIAMI, FL	72.6%

Source: Smith Travel Research ©Copyright 2006 Hospitality Advisors LLC

TOP FIVE AVERAGE DAILY RATE

1. NEW YORK, NY	\$211.62
2. HAWAII	\$166.86
3. WASHINGTON, D.C.	\$131.36
4. BOSTON, MA.....	\$129.56
5. MIAMI, FL	\$128.35

Source: Smith Travel Research ©Copyright 2006 Hospitality Advisors LLC

ANNUAL STATEWIDE HOTEL TRANSACTIONS

	NO. OF PROPERTIES	TOTAL TRANSACTION VALUE	SALES PRICE PER ROOM	NO. OF ROOMS
1998	7	\$749,380,000	\$204,973	3,656
1999	8	\$964,500,000	\$224,355	4,299
2000	7	\$351,820,000	\$118,658	2,965
2001	12	\$539,500,000	\$129,563	4,164
2002	8	\$451,400,000	\$137,874	3,274
2003	4	\$416,000,000	\$337,662	1,232
2004	13	\$1,645,000,000	\$332,122	4,953
2005	8	\$1,044,000,000	\$242,734	4,301
TOTAL *	55			21,734

*Total inventory does not include properties undergone more than one transaction during the 1998-2005 period.

Source: Smith Travel Research ©Copyright 2006 Hospitality Advisors LLC

NOTABLE 2005 HOTEL TRANSACTIONS

HOTEL NAME	SALES PRICE	ROOM COUNT	PRICE/UNIT
MARRIOTT WAIKIKI BEACH	\$275,000,000	1,310	\$209,923.66
FAIRMONT ORCHID	\$240,000,000	540	\$444,444.44
KAHALA MANDARIN	\$176,000,000	364	\$483,516.48
PRINCEVILLE RESORT	\$161,000,000	252	\$638,888.89
ASTON WAIKIKI BEACH	\$107,000,000	717	\$149,232.91
WAIKIKI BEACHCOMBER	\$52,000,000	500	\$104,000.00
OHANA WAIKIKI SURF & WAIKIKI SURF	\$38,000,000	303	\$125,412.54
MARC WAIKIKI ROYAL SUITES	\$12,250,000	47	\$260,638.30



Colliers Monroe Friedlander Investment Market Report Honolulu 2005 – 2006



SELECT COLLIERS MONROE FRIEDLANDER, INC. AVAILABLE PROPERTIES FOR SALE/LEASE



Office Building for Sale
Castle & Cooke Mililani Building
100 Kahelu Ave., Mililani HI
Building Area: 29,663 sq. ft.
Land Area: 4.0 acres
Occupancy: 92.35%
Sean G. Tadaki (S) CCIM
Direct: 808-523-9745
Mark D. Bratton ®, CCIM
Direct: 808-523-9708



Investment/Redevelopment Opportunity
Honolulu Superblock bordered by King St, Bethel St., Hotel St, and Fort St. Mall
Zoning: BMX-4
Building Area: 297,736 sq. ft.
Land Area: 1.82 acres
Andrew D. Friedlander (B) SIOR
808-523-9797
Jon-Eric Greene (B)808-523-9700



Investment/Development Opportunity
West Kalaeloa Industrial Park
Kapolei, HI
Zoning: I-2 (Industrial Intensive)
Land Area: Vacant 100.2 Acres
Scott L. Mitchell (B) SIOR
Direct: 808-523-9702
Guy V. Kidder (S) SIOR, CCIM
Direct: 808-523-9735

SELECT COLLIERS MONROE FRIEDLANDER, INC. NOTABLE 2005 SALES/LEASE TRANSACTIONS



Kukui Mall
Retail Shopping Center
1819 S. Kihei Road,
Kihei Maui
Building Area: 40,974 sq. ft.
Land Area: 4.455 acres
Sales Price: \$16 million
Scott L. Mitchell (B) SIOR
Mark D. Bratton ® CCIM



Kapolei Business Park Phase II
Industrial Development
Kalaeloa Boulevard, Kapolei, HI
Zoning: I-2 (Industrial Intensive)
Land Area: 53.7 acres
Sales Price: \$22.225 million
Scott L. Mitchell (B) SIOR
Guy V. Kidder (S) SIOR, CCIM



Whalers Village Resort Retail Shopping Center
Lahaina, Maui
Building Area: - 105,000 sf
Land Area - 8.5 acres
Sales Price: \$170 million
Occupancy: 96%
Andrew D. Friedlander (B) SIOR
808-523-9797
Marty Kenney (B)
Direct: 808-573.9204

Consulting & Research

Mike Y. Hamasu
Consulting & Research Director
Tel: 808-523-9792
E-mail: mike@colliershawaii.com

Commercial, Industrial, Investment, Property Management, Consulting & Research Services since 1973.

Colliers Monroe Friedlander is the largest commercial and industrial real estate firm in Hawaii. Since 1973, Colliers Monroe Friedlander has established itself as a diversified full service organization, providing leasing, sales, property management and consulting services throughout the Pacific.

All information contained herein comes from sources deemed reliable; however, no guarantees are made as to the accuracy or completeness of the data contained herein.

If you would like additional information, please contact research@colliershawaii.com or visit www.colliershawaii.com.

Investment Advisors

Andrew D. Friedlander (B) SIOR
Principal Broker
Tel: 808-523-9797
Andrew@colliershawaii.com

Scott L. Mitchell (B) SIOR
Executive Vice President
Tel: 808-523-9702
Scott@colliershawaii.com

Jon-Eric Greene (B)
Senior Vice President
Tel: 808-523-9700
JEG@colliershawaii.com

Mark D. Bratton ® CCIM
Vice President
Tel: 808-523-9708
Mark@colliershawaii.com

Guy V. Kidder (S) SIOR, CCIM
Vice President
Tel: 808-523-9735
Guy@colliershawaii.com

Kim F. Scoggins (B)
Vice President
Tel: 808-523-9762
Kim@colliershawaii.com

Sean G. Tadaki (S) CCIM
Vice President
Tel: 808-523-9745
Sean@colliershawaii.com

Marty Kenney (B)
Senior Manager-Maui
Tel: 808-573-9204
Martyk@colliershawaii.com

Acknowledgements:

Joseph Toy, President
Hospitality Advisors, LLC
Tel: 808-550-8955
E-mail: jtoy@lava.net