

## **Appendix A**

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**Market Assessment for Kaloko Makai  
Mikiko Corporation  
April 2012**



# MARKET ASSESSMENT FOR KALOKO MAKAI

North Kona, Island of Hawaii

Prepared for:  
SCD-TSA Kaloko Makai, LLC

**FINAL REPORT**

*April 2012*

## Market Assessment for Kaloko Makai

### Table of Contents

#### Report Text

Chapter 1 – Introduction and Executive Summary .....	2
Project Overview.....	2
Study Background.....	5
Study Objective and Report Conditions.....	5
Community Context and Need.....	6
Kaloko Makai Residential Market.....	7
Kaloko Makai Commercial Market.....	10
Kaloko Makai Light Industrial/Business Park Market.....	12
Kaloko Makai Lodge and Business Center Market.....	13
Chapter 2 – Economic and Demographic Trends.....	17
Geographic Areas of Analysis.....	17
Island and Statewide Trends and Outlook.....	19
Competitive Residential Market Area Trends and Outlook.....	23
Employment Trends.....	26
Chapter 3 – Residential Market Environment.....	27
Existing and Historical Conditions.....	27
Residential Market Trends.....	30
Housing Market Outlook.....	33
Chapter 4 – Residential Market Assessment.....	37
Future Housing Market Setting.....	37
Kaloko Makai’s Proposal.....	38
Comparison Project Characteristics.....	40
Assessment for Kaloko Makai.....	42
Chapter 5 – Commercial Market Environment and Assessment.....	45
Background.....	45
Commercial Supply.....	47
Commercial Supply and Demand Relationships.....	50
Supportable Commercial Development in the Primary Trade Area.....	52
Assessment for Kaloko Makai.....	54

Chapter 6 – Light Industrial/Business Park Market Environment and Assessment.....	56
Background.....	56
Industrial and Business Park Supply.....	57
Industrial and Business Park Demand.....	58
Assessment for Kaloko Makai.....	59
Chapter 7 – Lodge and Business Center Market Environment and Assessment.....	61
Background.....	61
Hotel Supply Market Conditions.....	62
Demand Assessment.....	65
Assessment for Kaloko Makai.....	68

**Exhibits**

Exhibit 1-1: Kaloko Makai – Site Location.....	71
Exhibit 1-2: Kaloko Makai – Conceptual Land Use Plan.....	72
Exhibit 2-1: Kaloko Makai Location and Hawaii Island Districts.....	73
Exhibit 2-2: Resident Population – Island of Hawaii.....	74
Exhibit 2-3: Projected Population by Age Group – State of Hawaii.....	75
Exhibit 2-4: Resident Population – Competitive Residential Market Area and Island of Hawaii.....	76
Exhibit 2-5: Households by Age of Household Head – Competitive Residential Market Area and Island of Hawaii.....	77
Exhibit 2-6: Households – Competitive Residential Market Area and Island of Hawaii.....	78
Exhibit 2-7: Households by Household Income – Competitive Residential Market Area and Island of Hawaii.....	79
Exhibit 2-8: Labor Force Trends – Hawaii County.....	80
Exhibit 3-1: Residential Building Permits – County of Hawaii.....	81
Exhibit 3-2: Hawaii County Residential Resales Trends.....	82
Exhibit 3-3: Residential Sales in Kona Palisades and Kealakehe.....	83
Exhibit 3-4: Potential New Resident Housing Units - Competitive Residential Market Area.....	84
Exhibit 3-5: Projected Supply and Demand for Housing - Competitive Residential Market Area.....	85
Exhibit 4-1: Performance Indicators for Selected Comparison Residential Projects.....	86
Exhibit 4-2: Residential Market Assessment for Kaloko Makai.....	87
Exhibit 4-3: Kaloko Makai – Potential Residential Sales Absorption By Unit.....	88

Exhibit 5-1: Existing Retail Space and Market Indicators – Primary Trade Area.....	89
Exhibit 5-2: Existing Office Space and Market Indicators – Primary Trade Area.....	90
Exhibit 5-3: Potential Future Commercial Space – Primary Trade Area.....	91
Exhibit 5-4: Resident Profiles – Primary Trade Area and Benchmarks.....	92
Exhibit 5-5: Daytime Resident Population and Employment Residence Ratios By Census Designated Places within the Primary Trade Area.....	93
Exhibit 5-6: Existing Commercial Areas in Relation to User Populations.....	94
Exhibit 5-7: Projected Supportable Commercial Areas – Primary Trade Area.....	95
Exhibit 5-8: Commercial Market Assessment for Kaloko Makai.....	96
Exhibit 6-1: Existing Business Park/Industrial Supply and Market Indicators – Primary Trade Area.....	97
Exhibit 6-2: Potential Future Business Park/Industrial Lands in North Kona and South Kohala Districts.....	98
Exhibit 6-3: Projected Supportable Business Park/Industrial Land Areas.....	99
Exhibit 7-1: Hawaii Island Visitor Unit Inventory.....	100
Exhibit 7-2: Kona Area Visitor Units by Market Orientation.....	101
Exhibit 7-3: Kona Out-of-State Visitor Characteristics.....	102
Exhibit 7-4: Hotel Market Performance.....	103

**Appendices**

Appendix 1: Census Tract 215.01 – Portion of North Kona District Considered Within the Competitive Residential Market Area.....	105
Appendix 2: Census Tract 217.01 – Portion of South Kohala District Considered Within the Competitive Residential Market Area.....	106
Appendix 3: Planned Primary Residential Development Projects in CRMA - Census Tracts 215.01 and 217.01, Island of Hawaii.....	107
Appendix 4: Entitled and Planned Commercial Developments in the North Kona and South Kohala Districts, Island of Hawaii.....	109
Appendix 5: Entitled and Planned Industrial Developments in the North Kona and South Kohala Districts.....	110
Appendix 6: Report Conditions.....	111

# Market Assessment for Kaloko Makai

## Report Text

## 1 – Introduction and Executive Summary

### Project Overview

#### Kaloko Makai Site and Location Characteristics (Exhibit 1-1)

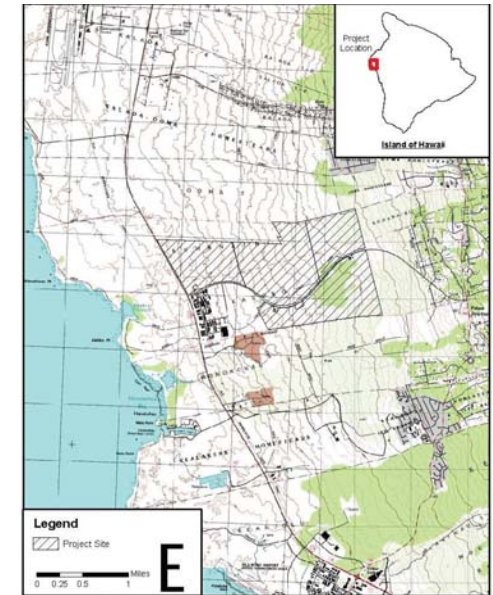
SCD-TSA Kaloko Makai, LLC (SCD-TSA) proposes to develop a 1,142-acre site in North Kona, Hawaii as a master-planned community called Kaloko Makai (the Project.) It is in a rapidly developing area, a few miles south of Kona International Airport at Keahole (Kona Airport) and adjacent to and north of the well-established commercial and light industrial-service centers of North Kona and Kailua-Kona.

The site ascends from Queen Ka'ahumanu Highway, to about two-thirds of the way *mauka* to Mamalahoa Highway. Its slope affords excellent ocean and regional views from most of the site.

Along Queen Ka'ahumanu Highway, Kaloko Makai extends from Huliko'a Drive to Hina Lani Street. At this *makai* edge, the site is bordered on the north by the Kohanaiki Industrial Park, and on the south by the Kaloko Industrial Park. Beyond that is the site of the planned West Hawaii Business Park. Also along its southern border on Hina Lani Street, the County is developing a 96-unit affordable project known as Kaloko Housing Project.

Across the highway are The Shores at Kohanaiki, a private golf and luxury second home project now under development, and the Kaloko-Honokohau National Historical Park.

Location and Vicinity of Kaloko Makai



Source: SCD-TSA Kaloko Makai, LLC, 2007.  
See Exhibit 1-1 for copy at a larger scale.

Alongside the *mauka* portions of the site, Kaloko Makai is bordered by residential uses including SCD-TSA's planned Kaloko Heights community, Kula Nei (single-family lots) and Kona View Estates.

**Meeting Community Desires (Exhibit 1-2)**

Kaloko Makai has been planned to respond to its community's desires regarding future growth, as expressed in the Kona Community Development Plan.<sup>1</sup> The Kona CDP directed growth to compact, higher density "villages" mostly located north of Kailua-Kona Town along the Ane Keohokalole Highway transit corridor. These growth centers were directed to 10 Transit-Oriented Development (TOD) Urban Villages, of which Kaloko Makai is identified as one.

Kaloko Makai's plan supports many of the Guiding Principles of the Kona CDP:

- ☒ **Directs future growth patterns towards compact centers** – Kaloko Makai is planned around a compact urban center.

**Kaloko Makai Land Use Plan**



Source: SCD-TSA Kaloko Makai, LLC, 2012. See Exhibit 1-2 for copy at a larger scale.

<sup>1</sup> Wilson Okamoto Corporation, for the County of Hawaii Planning Department, "Mapping Kona's Future: Kona Community Development Plan," September 2008.

- ☒ **Provides connectivity and transportation choices** – Kaloko Makai will be transit-ready and is located along key alignments for regional transportation. Developer SCD-TSA would also contribute to the development of Ane Keohokalole Highway. The Project itself is planned to offer walking and biking trails in addition to vehicular roads.
- ☒ **Provides housing choices** – Kaloko Makai would offer a broad range of housing types including affordable as well as "market-priced" housing units. Offerings would range from traditional single-family homes to mid- and higher-density multifamily homes, and may include live-work and mixed use developments.
- ☒ **Provides recreation opportunities** – Kaloko Makai features a 150-acre dryland forest preserve, as well as numerous community parks and trails.
- ☒ **Provides infrastructure and essential facilities concurrent with growth** – In addition to the recreational and transportation contributions noted above, Kaloko Makai is planned to include a hospital and medical complex, two elementary schools, a middle school and a small lodge to accommodate visitors attracted by the other uses.

Kaloko Makai has also been planned to conform to calibrated standards recommended by the Kona CDP Action Committee, a citizens' group formed by the County of Hawaii,<sup>2</sup> with its compact residential settings in a transit-ready, mixed-use community. As noted, the urban core of this community would be centered on the new "mid-level" Ane Keohokalole Highway, and residential densities and other specific development characteristics have been developed in conformance to the various "transect zones" define in the Design Guidelines.

**Kaloko Makai Development Elements (Exhibit 1-2)**

In addition to the schools, parks and trails, the Project's key development elements are:

- ☒ **Residential** – up to 5,000 residential units;
- ☒ **Commercial** – up to 600,000 square feet of retail and office developments, including space within medical office buildings;
- ☒ **Light industrial/ business park** - 75 acres, of which about 25 have been identified by the State Department of Transportation (DOT) as an area to be reserved for their

<sup>2</sup> Based on PlaceMakers, LLC, "Kona Village Design Guidelines" (calibrated for the County of Hawaii.) Final Draft, October 10, 2010.

proposed highway interchange at the main Project entrance on Queen Ka'ahumanu Highway<sup>3</sup>; and

☒ **Lodge and Business Center** – up to 120-rooms at a kama'aina- and business-traveler oriented lodge with business support facilities and services.

☒ **Medical complex** – A public hospital and a separate outpatient or urgent care center is proposed.

Together, these developments would support a substantial civic and employment center, generating opportunities in professional, business, service and retail fields.

### **Study Background**

SCD-TSA is working with Wilson Okamoto Corporation (Wilson Okamoto) to seek State of Hawaii (State) and County of Hawaii (County) entitlements for the Project, including a State Land Use District Boundary Amendment (SLUDBA), and County zoning. In this respect, SCD-TSA asked Mikiko Corporation (Mikiko) to prepare market, economic and fiscal impact assessments for the Project.

This report covers Mikiko's market assessment for the residential, commercial and light industrial/business park uses noted above. A specialized medical facilities expert, Cattaneo & Stroud, Ltd. has prepared the market assessment for the hospital/medical center. Their report is presented separately.

Mikiko's economic and fiscal impact assessment for the Project is also in a separate report.

### **Study Objective and Report Conditions** (Appendix 6)

Mikiko's objective was to describe the market support for the residential, commercial, light industrial/business park and Lodge/Business Center uses proposed at Kaloko Makai, in terms of:

- a) Evidence of the demand and competitive supply for each development element;
- b) Assessment of market shares and/or supportable market absorption;
- c) For residential units, assessment of supportable unit pricing; and
- d) For the Lodge and Business Center, assessment of average daily room rates and occupancy.

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<sup>3</sup> Therefore, long-term, there would be some 50 gross acres of light industrial/business park lands.

Our evaluations are based in part on information and planning parameters provided by Wilson Okamoto and SCD-TSA.

The remaining sections of this chapter summarize the market conclusions. The rationale behind these conclusions, as well as documentation of the study methodology and supportive data, may be found in the subsequent chapters and appendices.

At the end of this report, Appendix 6 presents a statement of important report conditions.

### **Community Context and Need**

#### **Area Character**

The North Kona area is appropriately seeing urban infill development and proposals, consistent with the 2008 Kona CDP and the 2010 draft Kona Village Design Guidelines noted above. To date, this development has concentrated along the major regional traffic corridor Queen Ka'ahumanu Highway, between the town of Kailua-Kona and the Kona Airport.

This rapidly developing area comprises the northwestern portion of the North Kona District, and is contained within Census Tract 215.01 (also referred to herein as "North Kona-North".)<sup>4</sup> It already is the commercial and industrial heart of West Hawaii, serving the Kona Airport and the needs of the visitor, agriculture, ranching, technology and other industries of the western half of the Island. The area also has a long-standing and growing residential base. This area will continue to be the focus of such development as the Island's population grows, given its proximity to the Kona Airport and other existing infrastructure.

#### **Need for Residential Realignment and Development**

Together with the coastal portion of the adjacent South Kohala District (CT 217.01, also referred to herein as "South Kohala-Waikoloa")<sup>5</sup>, North Kona-North was estimated to provide 23% of the Island's employment in 2009.<sup>6</sup> However, as of 2010, this center of employment supported residences for only about 12% of the Island's population. This imbalance of jobs and housing leads to crowding among area households, and a tremendous amount of commuting into the region by persons who live in distant areas.

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<sup>4</sup> See Appendix 1 for a map of this census tract.

<sup>5</sup> See Appendix 2 for a map of this census tract.

<sup>6</sup> Based on the estimated number of employees at establishments located in CTs 215.01 and 217.01 compared to total employees at all Island establishments, as of 2009, according to Claritas, Inc. Note that "employees" on the Island exceed the "civilian labor force," since labor force members may hold more than one job. The area's dominance of Island employment appears to be increasing: in 2006, this figure was 21% of Island employees.

A relative lack of resident-oriented shopping, entertainment, and other services in the South Kohala-Waikoloa area also adds to traffic headed into the Kailua-Kona area from the north.

Kaloko Makai is one of a relatively small group of area properties that could offer a substantial solution for this imbalance of primary resident-oriented housing, services, and the area's existing and anticipated jobs base.<sup>7</sup>

**Kaloko Makai Residential Market**

**Need for Housing in the Area**

The two census tracts 215.01 and 217.01 are considered Kaloko Makai's Competitive Regional Market Area (CRMA) for residential market conditions. It is considered possible and desirable that housing opportunities in the CRMA begin to approach the magnitude of employment opportunities. Thus, while current economic conditions have dampened actionable pent-up demand, the CRMA should be poised for a significant share of the Islands' anticipated future population growth, and this will lead to growing demand for homes in the region.

Mikiko's research concludes that even with aggressive and unprecedented levels of future development, the CRMA could still experience a shortfall of some 9,600 primary homes by 2045 if no more lands are entitled and planned for this market.

**Supply and Demand for New Resident Housing Units in the Competitive Regional Market Area, 2010 to 2045**

<b>Future Demand</b>	Pent-up demand, 2010	0*
	Future need, 2011-2045	17,800
	Total need	17,800
<b>Future Supply</b>	Planned and entitled (8,600 less 5% vacancy), rounded	8,200
<b>Shortage</b>	<b>As of 2040</b>	<b>9,600</b>

\* Assumed to be zero due to current economic environment. Source: Mikiko Corporation, 2012. See Exhibit 3-5 for further information.

<sup>7</sup> While there are numerous area properties that seek to develop in the future, many are already designated Urban by the State, and therefore are already accounted for as future supply. See discussion immediately ensuing.

**Residential Development Proposal**

Kaloko Makai's plan features a transit-ready Urban Center (Transect zone T5) on Ane Keohokalole Highway, with lower density General Urban (T4) and Sub-Urban (T3) areas outlying. Based on the Kona Village Design Guidelines, the T4 and T5 areas would be predominantly multifamily (or high density single family within T4), while the T3 areas would include single-family residences. A Special/Mixed Use district in the lower portion of the site may also include some multifamily housing.

A conceptual maximum development scenario for the Project is as follows:

**Conceptual Mix of Residential Units at Kaloko Makai**  
Maximum development at buildout

Predominant unit type	Transect zone	Total planned units	Example density (units per acre)
Multifamily ("affordable")	T4 and T5	700 to 1,000	8 to 16
Multi- or single-family ("market")	T4 and T5	3,014 to 3,314	8 to 16
Single-family ("market")	T3	986	3 to 6
<b>Total</b>		<b>5,000</b>	<b>3 to 16</b>

Sources: Place Makers, LLC, 2010; SCD-TSA Kaloko Makai, LLC, 2012; Wilson Okamoto Corporation, 2011.

While some of the housing could be developed as rentals, residential market support is evaluated herein in terms of units offered for sale.

**Residential Buyer Mix and Pricing**

Considering the location, characteristics and types of residential developments proposed, about 85% of Kaloko Makai homes are anticipated to be used as primary homes, most for established Island residents. The planned units would include senior housing, affordable housing as well as a wide variety of less specialized housing options.

Supportable pricing for the market-priced units is estimated as shown on the following table.

**Market Unit Price Conclusions for Kaloko Makai**  
2010 dollars

	Average sales price*	Approximate average density (units/gross acre)
T3 – single-family	\$475,000	3 to 6
T4 & T5 – multi- or single-family	\$370,000	8 to 16
<b>Overall, market homes</b>	<b>\$396,000</b>	<b>3 to 16</b>

\* For market-priced units only.  
Source: Mikiko Corporation, 2012. See Exhibit 4-2 for further information.

The production and pricing of affordable units at the Project would be set in accordance with County and/or State guidelines to be determined in consultation with government agencies. The units would be priced with specific shares catering to households earning less than 80%, 80 to 100% and 100 to 120% of the County median income.<sup>8</sup>

Also according to County guidelines in effect as of September 1, 2010, conforming affordable housing prices for such housing could range from \$202,500 to \$366,200 for two-to four person households. The price guidelines also show one- to two-bedroom rental units priced from \$1,037 to \$1,500 per month, including utilities, and offered to households earning 80% to 100% of the median income.<sup>9</sup>

**Projected Residential Sales Absorption**

The first residential product at Kaloko Makai is projected to be available for sale in 2015. Thereafter, it is anticipated that the 5,000 maximum proposed homes could be absorbed over 31 years at an average rate of about 160 units per year.

<sup>8</sup> See Hawaii County Code, Chapter 11. If additional affordable housing is required in conjunction with other nonresidential developments proposed at Kaloko Makai, the developer would comply with the County Code.

<sup>9</sup> County of Hawaii, Office of Housing and Community Development, "Affordable Housing Guidelines for the County of Hawaii," 2010.

**Illustrative Summary of Maximum Potential Residential Sales Absorption at Kaloko Makai, 2015 to 2045**

	Affordable homes	Market homes	Maximum total housing
Maximum inventory	700 to 1,000	4,000 to 4,300	5,000
Average annual sales*	22 to 32	130 to 140	160 (rounded)

\* Assumes several but not all products are marketed simultaneously in any given year.  
Source: Mikiko Corporation, 2012. See Exhibit 4-3 for further information.

Actual sales would vary from year to year depending on market and construction cycles, and the types of units available for sale at any given time. At maximum buildout, Kaloko Makai's 5,000 units could provide a solution for about 44% of the anticipated future unplanned and unentitled demand for primary resident housing units (RHUs) in the CRMA through 2045<sup>10</sup>.

**Kaloko Makai Commercial Market**

**Primary Trade Area** (see Exhibit 2-1)

The Primary Trade Area (PTA) for commercial uses at Kaloko Makai is considered to be the entire North Kona and South Kohala districts of the Island. This is a larger reference area than the CRMA considered in the residential market review, as explained in Chapter 5.

**Commercial Development Proposal**

SCD-TSA proposes up to 600,000 square feet of various commercial uses at Kaloko Makai, including retail and office. This would include spaces in shopping centers, restaurant and retail establishments, four proposed medical office buildings, other office complexes, and various mixed-use developments. As for residential development, the first finished commercial building products are assumed to be available for use in about 2015.

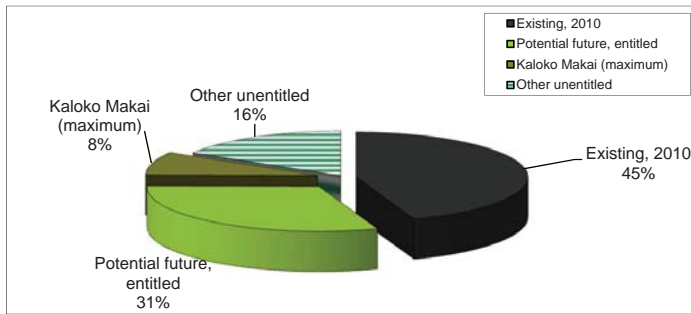
<sup>10</sup> Considering 85% of Kaloko Makai's units become used as primary residences, it could yield 4,250 RHUs, or 44% of the projected 9,600 Rhu shortfall in 2045, based on currently entitled and planned residential lands.



**Commercial Market Conclusions**

If developed to the full-proposed capacity of 600,000 square feet, Kaloko Makai’s commercial spaces could represent up to 8% of the PTA’s total 2045 inventory. It could also represent a venue for about one-third of the currently unplanned but future supportable commercial space in the PTA.

**Potential PTA Commercial Space Distribution and Fair Market Shares: 2045**



Source: Mikiko Corporation, 2012. See Chapter 5 and Exhibit 5-8 for further information.

Development and lease-up of the proposed commercial areas are anticipated to be supported by future market conditions in the PTA as follows:

**Projected Supportable Commercial Market Absorption and Kaloko Makai Share of the PTA**  
Cumulative gross leasable square feet

	2025	2035	2045
Kaloko Makai potential development phasing	430,000	560,000	600,000
Total supportable commercial areas in PTA	5,500,000	6,800,000	7,200,000
Kaloko Makai as share of future PTA	8%	8%	8%

Source: Mikiko Corporation, 2012. See Chapter 5 and Exhibits 5-7 and 5-8 for more information.

**Kaloko Makai Light Industrial/Business Park Market**

**Primary Trade Area and Analytical Approach**

Light industrial areas can support business parks, manufacturing, energy production, research & development, wholesale, office, retail and other uses. They often serve a super-regional or Island-wide market. This analysis profiles market trends within the North Kona and South Kohala Districts (the Primary Trade Area, or PTA.) However, the realized demand for such lands at Kaloko might be stronger than presented herein because it could derive from a larger market sphere.

This analysis does not consider industrial-uses or industrial-designated lands at military bases, harbors, universities or airports.

**Light Industrial/Business Park Development Proposal**

The Kaloko Makai plan designates 75 acres of light industrial or business park land uses in the Special District located at its makai end fronting Queen Ka’ahumanu Highway.

Approximately 25 acres of these lands have been identified by the State Department of Transportation (DOT) for an eventual highway interchange at the entrance to the Project. Thus, industrial/business activity in that area will be characterized by interim uses and the lands are expected to be marketed as leasehold. The other 50 gross acres are seen as long-term light industrial land uses and are expected to be marketed as fee-simple lands.

**Light Industrial/Business Park Market Concept**

The Special District is an appropriate area for the proposed uses because:

- ✘ Its location on the Island is clearly established as a light industrial zone that serves regional and even Island-wide needs and benefits from proximity to the Kona Airport, Honokohau Harbor and the well-developed visitor infrastructure of the region.
- ✘ Kaloko Makai, and in particular its Special District area, is surrounded by other existing and planned light industrial land uses, at both Kaloko Industrial Park to its north, and West Hawai’i Business Park to its south.
- ✘ Within Kaloko Makai, the Special District area is less attractive for residential and certain commercial uses because of its Waste Water Treatment Plant, its frontage along a very busy highway, and its relative lack of views due to its lower elevation.
- ✘ Light industrial uses could represent a relatively low-investment interim source of income from those lands that would ultimately be taken for public use as a highway interchange.

### Light Industrial/Business Park Market Conclusions

In conclusion, the Project's Special District is considered a very appropriate area for light industrial/business park uses. The lands set aside in the Kaloko Makai master plan are expected to be supported by businesses benefitting from the area's general economic growth, as follows:

**Projected Supportable Kaloko Makai  
Light Industrial/Business Park Land Absorption**  
Gross acres

	2016-2025	2026-2035	2036-2045	Total	Notes
<b>Net unentitled demand</b> at end of period (PTA)	100	120	50		As shown in Exhibit 6-3
<b>Kaloko Makai absorption,</b> in period:					
Leasehold areas	25	0	0	25	10- to 20-year terms
Fee-simple areas	0	25	25	50	
Total absorption in period	25	25	25	75	
Less DOT taking	0	-25	0	-25	Timing of taking is hypothetical
<b>Kaloko Makai areas in use:</b>					
Maximum during period	25	50	50		
Maximum at end of period	<b>25</b>	<b>25</b>	<b>50</b>		<b>Compare to net unentitled demand above</b>

Source: Mikiko Corporation, 2012.

### Kaloko Makai Lodge and Business Center Market

#### Development Concept and Target Markets

The Kaloko Makai Lodge and Business Center was proposed to cater to business and leisure demands generated by other uses in Kaloko Makai and its region, such as the community's medical complex, and its residences as well its proximity to Kona Airport.

The Lodge is envisioned to offer up to 120-rooms, a business center, and meeting and conference spaces.

Target markets would include value- and convenience oriented travelers who do not require resort-like amenities and would prefer a compact, conveniently located and easily accessible place of accommodation. For instance:

#### ☒ Primary targets:

- Persons visiting family and friends in Kaloko Makai or neighboring areas;
- Families and friends visiting or accompanying patients of the hospital;
- Visiting medical staff involved with the hospital or related medical facilities;
- Persons coming from off-island for proceedings at the planned new Kona Judiciary complex; and
- Airline crews and commuters needing accommodations near to Kona Airport.

#### ☒ Additional targets:

- Other budget- and convenience-oriented travelers wishing to avoid the congestion, unneeded amenities and higher price points of resort areas; and
- Athletic teams or other group travel seeking affordable and easily accessible accommodations away from resort the areas.

Substantial shares of the targeted markets are expected to be kama'aina.

#### Analytical Approach

The market assessment is framed by visitor and hotel market characteristics and trends for the Island as a whole and for Kona and particular. It is noted, however, that the visitor data available for such analysis does not consider inter-island kama'aina travel.

Because of the relatively small property size (which would represent a less than 1% addition to the Island's visitor inventory) and its nontraditional targeted markets, the analysis also considers selected comparison hotel properties in Kona that are known to serve portions of the visitor markets envisioned for Kaloko Makai.

**Conformance to Public Policy**

The current County General Plan was developed under the assumption that the “County will continue to pursue the development of a strong multi-market base for the visitor industry that includes integrated product development for local products that can generate a healthy small business economic base. The County’s visitor industry will continue to successfully grow and expand.”<sup>11</sup>

Likewise, the Kona CDP provides for hotels and other lodging facilities within T5 zones such as proposed for Kaloko Makai.

The Lodge and Business Center at Kaloko Makai is planned to be in alignment with these goals and standards.

**Lodge and Business Center Market Conclusions**

According to the Hawaii Tourism Authority (HTA), 14% of visitors to Kona in 2010 traveled there to conduct business (other than for meetings, conventions or incentive travel, or MCI), to visit friends and relatives, attend sporting events or for other miscellaneous purposes including those traveling on government, military or school business. This “non-pleasure” and “non-MCI” market could theoretically require some 1,000 accommodation units per day<sup>12</sup>, a good share of which is likely to be with friends and relatives or in other nontraditional or noncommercial accommodations. However, the remainder of this sizeable market patronizes area hotels and other commercial accommodations for their overnight stays, and is representative of the markets being targeted by the Subject. Inter-island kama’aina business and other travelers are not counted in the HTA data and represent a significant expansion of this potential market.

The target markets appear to be underserved by Kona’s current offerings. Review of Kona hotels outside of golf resorts and known to cater to and attract these local and alternative market segments yields only four aging properties (36 to 51 years old), all located in relatively congested Kailua-Kona town. Palamanui, a proposed development to the north of Kaloko Makai, could provide up to 70 such units if it is to be developed as initially planned. While conceived to serve the university to be associated with Palamanui, that new hotel facility could provide a limited offering for some of the markets targeted.

Based on the research conducted and assessment of current and potential future area market alternatives, the Kaloko Makai Lodge and Business Center is estimated to be supportable by 2025, and to achieve an average daily room rate of about \$120 to \$130 (in 2010 dollars), at stabilization. This considers that it would be a modern, purpose-built

<sup>11</sup> County of Hawaii, County of Hawaii General Plan, February 2005, pg.1-11.

<sup>12</sup> Total visitor days of 6,796,000 x 14% market share x 6/7 (conversion of days to nights) / 365 days / 2.1 persons per room.

and conveniently located facility, better suited to its targeted markets than existing options, and possibly competitive with a future lodge facility at Palamanui.

Given its small size and the potential size of the relatively underserved kama’aina and business market segments targeted, average annual occupancy at the Kaloko Makai Lodge and Business Center is projected at 65% at stabilization.

## 2 - Economic and Demographic Trends

### Geographic Areas of Analysis

#### Judicial Districts

The island of Hawaii (the Island) is divided into nine judicial districts. The Kaloko Makai property is in the North Kona District, which extends from Kealahou in the south, past Kiholo Bay in the north. It includes the Kona International Airport at Keahole (Kona Airport) as well as the resort communities of Keauhou, Kailua-Kona, Hualalai and Kukio.

Adjacent to and north of this district is the South Kohala District, which includes most of the rest of the Island's visitor and second home infrastructure in the resort areas of Waikoloa Beach, Mauna Lani, and Mauna Kea. Other major communities in South Kohala are Waikoloa Village and Waimea Town. These offer both primary and second homes.

#### West Hawaii

The island of Hawaii is often considered in just two parts, East Hawaii and West Hawaii. Although there is a great deal of commuting from East to West Hawaii, this is in large part a reflection of the lack of appropriate housing opportunities for local families in West Hawaii, rather than an integration of the two divisions' economies.

West Hawaii is commonly defined as the districts of North Kohala, South Kohala, North Kona and South Kona. Within West Hawaii, the North Kona and South Kohala Districts contain the primary drivers of the region's economy, which is currently anchored in the visitor, construction, and related service industries.

Island of Hawaii Districts



Source: Claritas, Inc., 2007. See Exhibit 2-1 for copy at a larger scale.

### Areas of Market Evaluation

- ✘ For purposes of **commercial and industrial market assessment**, Kaloko Makai's "Primary Trade Area" (PTA) is considered to encompass all of North Kona and South Kohala, the colored areas of the map on the prior page. While this broad area may be considered to generate the majority of demand for commercial and industrial development at Kaloko Makai, most of the supply that serves this demand is concentrated in the northern parts of the North Kona District.
- ✘ For purposes of **residential market assessment**, a tighter area is evaluated, reflecting the need for additional residential supply in the midst of the North Kona and South Kohala Districts, where the majority of West Hawaii's jobs are located. This smaller "Competitive Residential Market Area" (CRMA) for residential uses is defined herein to consist of Census Tracts 215.01 and 217.01:

Census Tract 215.01 – Portion of North Kona District



Source: Claritas, Inc., 2007. See Appendix 1 for copy at a larger scale.

Census Tract 217.01 – Portion of South Kohala District



Source: Claritas, Inc., 2007. See Appendix 2 for copy at a larger scale.

- ❑ “North Kona-North,” or Census Tract (CT) 215.01. This area extends from approximately Henry Street in the south to the northern border of the North Kona District. It includes the Kaloko Makai site but excludes Kailua-Kona Town and Keauhou Resort.
- ❑ “South Kohala-Waikoloa,” or CT 217.01. This area extends from the southern border of the South Kohala District up past Kawaihae in the north. Its major residential community is Waikoloa Village; it excludes Waimea Town.

### Island and Statewide Trends and Outlook

#### Projected Island of Hawaii Population (Exhibit 2-2)

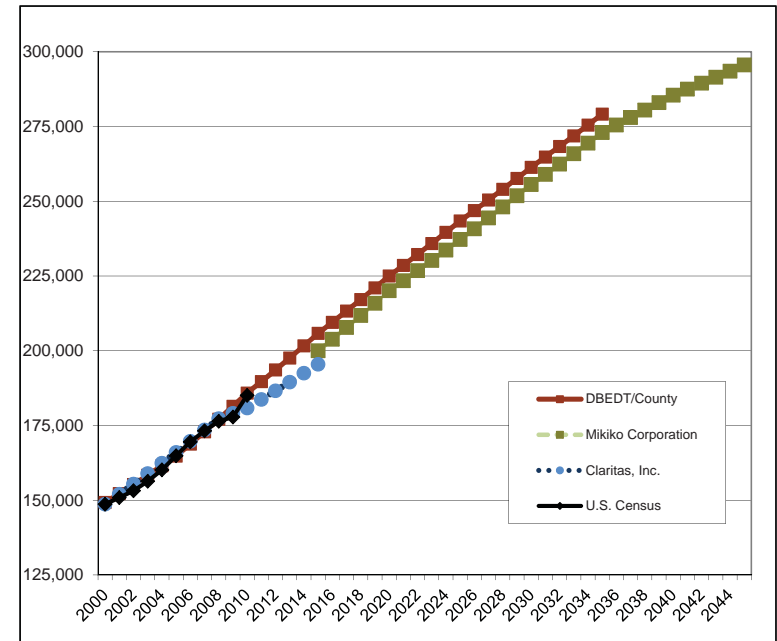
Hawaii Island had approximately 149,000 residents in 2000 and 185,000 in 2010, according to the U.S. Census. Four sources are considered in estimating how population has grown in the interim, and how it is likely to grow over the coming decades.

- ☒ **The U.S. Census** provides annual population estimates for counties as of July of each year. The Census counted the Island’s 2010 resident population at 185,079 persons, representing an annual average rate of increase of 2.2% since 2000.
  - ☒ **Claritas<sup>1</sup>** provided this study with 2010 population estimates and a 5-year projection to 2015. Claritas’ figures were prepared based on the Census’ 2009 estimate and represent a 2.0% rate of growth since 2000, and 1.6% from 2010 to 2015. This would result in an Island population of 195,460 in 2015.
  - ☒ **The State of Hawaii, Department of Business, Economic Development and Tourism (DBEDT)** issued its long-term population and economic projections for the state and counties of Hawaii, its “2035 series” in January 2008. The County of Hawaii has adopted this series for its planning purposes, and did not release estimates of population by district as it had with previous DBEDT projections.
- This latest DBEDT/County series anticipates 279,150 residents on the island of Hawaii by 2035, or 261,340 in 2030, as shown on the chart on the following page. This would represent a 1.6% average annual rate of growth from 2010 to 2035. DBEDT and the County assume that growth is faster in the short-term, at 1.9% per annum from 2010 to 2020, and slower in the longer term, at 1.3% per annum from 2030 to 2035.
- ☒ **Mikiko’s** projections are informed by 2010 and subsequent census estimates and extend to 2045, the planning horizon for Kaloko Makai. Mikiko’s projections were developed as a more conservative view of the long-term future after the 2035 series, with the Island’s population growth rate set at 0.9% per annum between 2035 and 2040 and 0.7% between 2040 and 2045. This would result in a 2045 resident population of 295,600 persons.

<sup>1</sup> Claritas derives its information from the U.S. Bureau of the Census, State and local governmental planning and forecasting entities, its proprietary Business-Facts® database and other sources.

This more conservative view is considered appropriate so as not to overstate demand for residential and commercial uses in the long-term.

#### Projected Resident Population – Island of Hawaii



See Exhibit 2-2 for sources and further information.

#### Aging of the Population (Exhibit 2-3)

The changing age-composition of Hawaii’s population will have an enormous impact on home-buying and other consumer spending patterns locally as elsewhere in the nation. While long-term projected age-cohort data is not available by county or sub-areas, the U.S. Census prepares decennial projections by state.

Viewed in an age pyramid, a most notable feature is the aging of the Baby Boomers, whose members ranged from about 45 to 64 years old in 2010, and will be mostly 55 to 74 by 2020, and 65 to 84 by 2030.

✘ **2000 to 2010** - As the dominant consumers in the overall marketplace, Baby Boomers fueled a move-up home-buying market consistent with their middle-aged, peak earnings status.

Age groups showing the most population gains in the 2000 to 2010 period in Hawaii were all over 45:

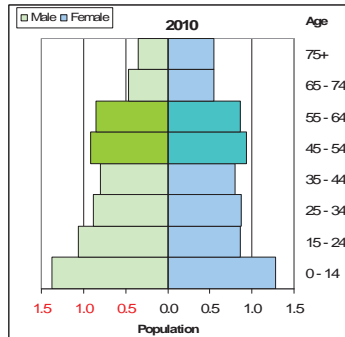
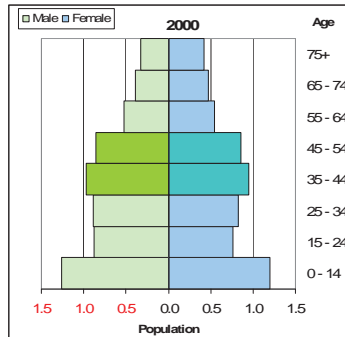
- 45 to 54: +14,000 persons
- 55 to 64: +64,000 persons
- 65 to 74: +16,000 persons
- 75+: +15,000 persons

✘ **2010 to 2020** - In the current decade, Baby Boomers will continue to exert strong influence in the housing market. This will be reflected in rapidly growing demand for downsized, retirement and/or other specialized housing types that support their empty nester and retiree stages of life. Also notable in this decade will be renewed growth in the entry and the early move-up housing markets, represented by persons aged 25 to 34.

Age groups projected to show the most gains in the 2010s include both early and older homebuyers:

- 25 to 34: +22,000 persons
- 65 to 74: +52,000 persons
- 75+: +21,000 persons

**Age Pyramids – State of Hawaii: 2000 and 2010**



Note: Each unit on horizontal axis represents 100,000 persons. Highlighted bars include the Baby Boomer cohort. See Exhibit 2-3 for sources and further information.

✘ **2020 to 2030** - The last decade for which age-forecast information is available will be characterized by rapid growth of the elderly population, necessitating specialized and age-catered housing solutions.

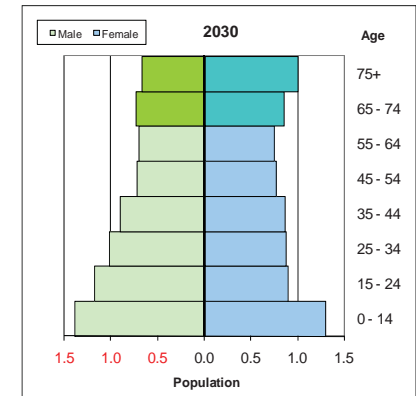
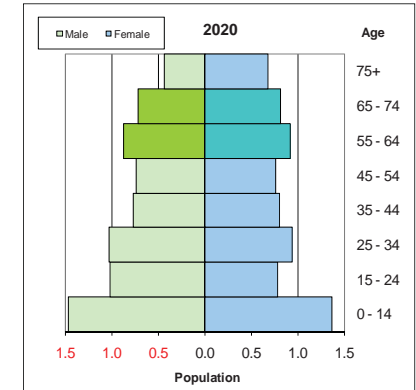
The second most rapidly growing potential housing market during this period will consist of those aged 15 to 24, an age that usually encompasses household formation, often in rental housing.

The third most rapidly growing group would be those aged 35 to 44, typically a home-buying or early trade-up housing market.

Cohorts expected to gain population in the 2020s include:

- 15 to 24: +27,000 persons
- 35 to 44: +19,000 persons
- 75+: +56,000 persons

**Age Pyramids – State of Hawaii: 2020 and 2030**



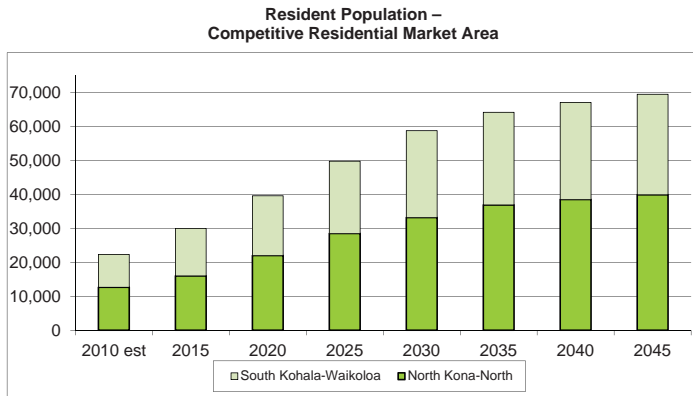
Note: Each unit on horizontal axis represents 100,000 persons. Highlighted bars include the Baby Boomer cohort. See Exhibit 2-3 for sources and further information.

**Competitive Residential Market Area Trends and Outlook**

**Resident Population (Exhibit 2-4)**

Mikiko prepared population projections for the CRMA based on its own relatively conservative population projections for the island. These projections assume it is possible and desirable from a policy standpoint that residential opportunity in the CRMA approach the level of employment opportunity in the CRMA.

As of 2010, the CRMA appeared to offer 23% of employment positions on the Island, while housing only about 12% of the Island population.<sup>2</sup> The area includes all seven of the largest nongovernment employers on the Island, including the Hilton Waikoloa Village, Wal-Mart (with locations in Kona and Hilo), KTA Super Stores (with locations throughout the island), the Four Seasons Resort Hualalai, the Fairmont Orchid, Mauna Lani Resort (Mauna Lani Bay Hotel & Bungalows, golf courses and resort operations), and the Hapuna Beach Prince Hotel.<sup>3</sup> Other employers headquartered in the CRMA that rank among the island’s largest include the Mauna Kea Beach Hotel, Roberts Hawaii, and Hawaiian Airlines.



See Exhibit 2-4 for sources and further information.

<sup>2</sup> This discrepancy appears to be widening: in 2006, Claritas, Inc. estimates suggest the CRMA offered 21% of island jobs, while still housing 12% of its population. This is based on estimates for employees of establishments located in CTs 215.01 and 217.01 in comparison to total employees island-wide. Note that “employees” exceed the “civilian labor force” discussed in a later section, since labor force members may hold more than one job.

<sup>3</sup> As of December 31, 2009, as published by Pacific Business News, “Book of Lists,” December 24, 2010: “Big Island Employers – Nongovernment,” originally published October 15, 2010.

Additionally, clusters of new development and employment are planned within the CRMA at:

- ☒ The University of Hawaii Center at West Hawaii (UHCWH) and its associated community, Palamanui;
- ☒ The Natural Energy Laboratory of Hawaii (NELHA);
- ☒ Already zoned commercial areas in Keahuolu and elsewhere; and
- ☒ Kaloko Makai itself.

Mikiko assumed that the CRMA population reaches its 2010 share of Island jobs within 20 years (achieving 23% of Island population in 2030) and that it tends to stabilize as a center of employment and population thereafter (achieving 23.5% of the Island population by 2035).

This would result in a 2025 population of some 49,800 persons in CTs 215.01 and 217.01, and a 2045 population of about 69,500. These would represent a doubling of the CRMA’s population by 2025 and a 3.3% rate of increase for the 2010 to 2045 period as a whole. These rapid growth rates would contrast with those for the island as a whole, at some 1.3% over the 35-year period.

**Number and Age Distribution of Households (Exhibit 2-5)**

In terms of households, the CRMA accounted for an estimated 11% of the island total in 2010, according to Claritas. Some 4,200 or 6% of the total were in North Kona-North, while some 3,600 or 5% of the island total were in South Kohala-Waikoloa.

CRMA households tend to be of workforce age, with 80% to 81% headed by a person aged 25 to 64, compared to 73% Island-wide that fell in these age groups.

Average household sizes in these areas of interest were estimated as follows:

- ☒ North Kona-North: 3.00
- ☒ South Kohala-Waikoloa: 2.67
- ☒ Hawaii County: 2.68

**Projected Households (Exhibit 2-6)**

More housing opportunities as well as jobs in the CRMA would enable the uncoupling of some currently doubled up households. Together with age profile changes over time, this will lead to declining household sizes in the CRMA as well as the Island as a whole.

Considering historical factors and the anticipated growth in workforce population in the CRMA, Mikiko projected future households in the area based on slowing rates of decline in household size. Overall, the projected changes in household size represent a 0.2% per annum decline in North Kona-North, a 0.1% per annum decline in South Kohala-Waikoloa and 0.1% per annum decline in the County as a whole.<sup>4</sup>

It is concluded that the CRMA could accommodate some 25,600 households by 2045, assuming its future housing opportunities are allowed to approach its future employment opportunities. This would represent a need to house some 17,800 more households over the next 35 years, considering 7,800 households in the region in 2010.

**Households by Income (Exhibit 2-7)**

North Kona-North and South Kohala-Waikoloa show a higher household income profile than the Island as a whole, with only 33% of households earning \$50,000 or less in 2010, compared to 45% for the County as a whole. Likewise, 30% of CRMA households are estimated to earn between \$100,000 and \$249,000, while only 24% are in this range for the County as a whole.

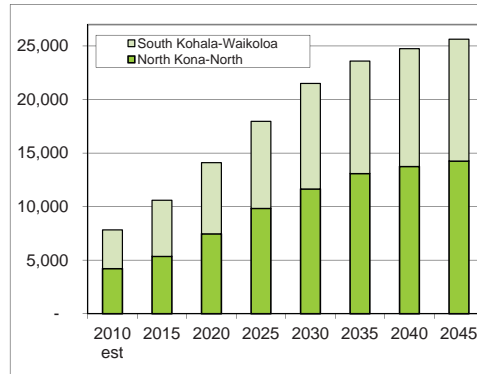
Claritas estimates the median 2010 household income is approximately \$70,000 in North Kona-North, \$69,000 in South Kohala-South, and \$67,000 for the Island of Hawaii.<sup>5</sup>

Per capita income in the CRMA was estimated at about \$32,000 in 2010.

<sup>4</sup> These factors are similar to those developed by SMS, Inc. in its 2006 housing policy study prepared for the State and Counties of Hawaii, with input from the various housing directors.

<sup>5</sup> These do not reflect the substantially higher incomes of the region's part-time residents.

**Projected Households –  
Competitive Residential Market Area**



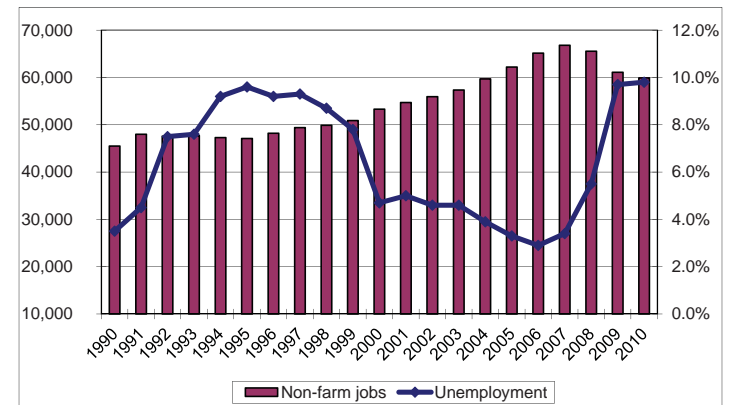
See Exhibit 2-6 for sources and further information.

**Employment Trends (Exhibit 2-8)**

Unemployment averaged 9.8% in 2010 for Hawaii County, minimally unchanged from 2009, according to the State of Hawaii, Department of Labor and Industrial Relations (DLIR). This compares to 5.5% in Honolulu County, 8.2% in Maui County and 8.8% on Kauai. Hawaii Island's December 2010 figure was 8.7%, the lowest monthly recording of the year.

However, the favorable unemployment trend has been achieved by a declining civilian labor force, since both employed persons and non-farm wage and salaried jobs have declined in recent years. Non-farm jobs have dipped back to approximately their 2004 level.

**Island of Hawaii Labor Force Trends**



See Exhibit 2-8 for sources and further information.



### 3 - Residential Market Environment

#### Existing and Historical Conditions

##### Hawaii County – 2009/2010 Inventory Estimates

✘ **Total units** - Hawaii County had some 80,600 housing units in July 2009, representing 16% of the State’s supply, according to the U.S. Census. This was a 7% increase from the 75,000 units reported in July 2006 (Census housing data prior to 2006 may not be comparable)<sup>1</sup>.

✘ **Occupancy and tenure** - The Census update does not provide housing characteristics by County, but recent survey data can be obtained from the Census’ American Community Survey (ACS.) The most recent ACS survey, taken in 2007-2009,<sup>2</sup> finds that some 81% of Hawaii County units were occupied and 19% vacant.<sup>3</sup>

Among occupied units, 66% were owner-occupied and 34% renter-occupied, a slightly lower ratio of owner-occupancy than evidenced a few years prior.

✘ **Primary resident vs. non-resident uses** – Most of the County’s vacancies are among non-resident units; they do not represent homes available to primary residents. In the ACS survey, 51% of vacant units were held for seasonal, recreational or occasional use, while only 32% were available for rent or for sale (or rented or sold but not yet occupied.)<sup>4</sup> Even this 32% includes some units being marketed to visitor or other off-island consumers.

Additionally, data from previous ACS surveys show that among occupied housing units, a minimum of 5% are occupied by persons whose usual place of residence was outside of the County<sup>5</sup>.

<sup>1</sup> U.S. Census Bureau, Population Division, release date June 2010, as published by County of Hawaii, Data Book at [http://www.co.hawaii.hi.us/databook\\_current/section16.htm](http://www.co.hawaii.hi.us/databook_current/section16.htm) . Since 2006, the Census housing estimates include units for group quarter populations, rather than household populations only.

<sup>2</sup> U.S. Census Bureau, American Fact Finder, at <http://www.factfinder.census.gov/>, as accessed February 25, 2011.

<sup>3</sup> This vacancy rate encompasses units held for occasional and seasonal use (see below) and therefore is much higher than the conservative 5% vacancy assumed to be desirable within the primary housing market later in this chapter.

<sup>4</sup> This finding is consistent with 2000 Census data, which showed 53% of the island’s housing vacancies attributable to units held for seasonal, recreational or occasional use, per U.S. Census Bureau, Census 2000, Table DP-1. The remaining 17% of units remained vacant for “other” reasons, according to ACS 2007-09.

<sup>5</sup> Updates of this information do not appear to be available since the 2006 ACS survey.

Applying the 19% vacancy and the 5% nonresident occupancy to the estimated 80,600 total units in 2009 suggests some 61,700 Big Island units occupied by primary residents.

✘ **RHU vacancy rates** - The 2007-09 ACS survey suggests homeowner and renter-occupied vacancy rates of 3% and 14%, respectively, both slightly up from their ranges two years ago. Weighting these by the mix of owner- and renter-occupied units and considering the minimum 5% of units believed to be occupied by persons who customarily live off-Island, we derive a maximum 6% vacancy rate applicable to primary resident housing units (RHUs) in the County in recent years.

This is considered a maximum vacancy because both the owner and the rental vacancy rates include units marketed to off-islanders. Also, the 5% share of units estimated to be occupied by persons who normally live off-Island is considered a minimum.

#### Estimated Vacancy Rate for Resident Housing Units – High Indicator

	Vacancy rate	Mix	Comments
Owner-use	3%	63%	Includes part-time resident owners
Renter-use	14%	32%	High vacancy attributed to part-time use; mix adjusted to exclude 5% as noted below
Occupied units (off-Island residents)	0%	5%	Minimum share of units occupied by off-Islanders
<b>Overall</b>	<b>6%</b>	<b>100%</b>	<b>High vacancy indicator for RHUs</b>

Source: Mikiko Corporation, 2011.

✘ **RHU inventory** – Finally, the 2009 inventory of **RHUs in the County is estimated at fewer than 65,600 units**. This is derived from the 6% vacancy on top of the 61,700 estimated occupied units available for long-term use by primary residents.

### North Kona-North and South Kohala-Waikoloa Inventories

While the ACS does not break out housing supply by area, according to data obtained from Claritas, about 10,300 or an estimated 13% of the Island's 2009 gross housing stock (including non-resident units) was located in the CRMA.<sup>6</sup> About 24% of these area units were vacant in 2010, according to Claritas.

The CRMA's very high vacancy rate reflects its many resort second home communities including Mauna Kea, Mauna Lani, Waikoloa Beach, Hualalai, Kukio and Kaupulehu. Because of its visitor orientation, the CRMA has a far greater share of units held for seasonal, recreational or occasional use than the County as a whole. While current Census or ACS data is not available on this point, it is well established by observation and the previous Census:

- ✘ An April 2009 survey by Mikiko identified more than 2,400 resort residential units at just the above-noted six golf resort communities. Many other units in off-ocean settings such as at Waikoloa Village and developments throughout the Kaloko area are also known to include disproportionate shares of units purchased as second or vacation homes.
- ✘ The 2000 Census identified 1,604 units held for seasonal, recreational or occasional use in CRMA areas; these represented 82% of all housing vacancies in these areas.

Considering these factors together, **RHUs in the CRMA were estimated at no more than 7,800 units as of 2010**, representing an estimated 76% of the area's total estimated housing stock.

This conclusion corroborates the 24% vacancy rate among the area's 10,300 gross housing units (including non-resident units) in 2010; the great majority of those vacancies are understood to be outside of the primary housing sector.

### Residential Building Permits (Exhibit 3- 1)

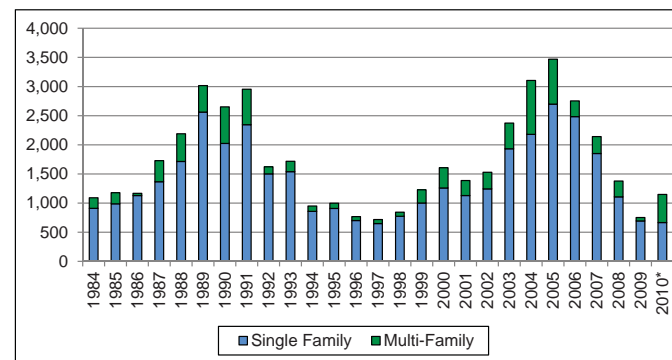
Hawaii County residential permitting is dramatically cyclical and evidenced a trough from 1994 to 1998. Within two years thereafter, permitting activity increased rapidly, culminating in a record 3,469 residential permits obtained in 2005. Activity has plunged since then, with fewer than 800 permits obtained in 2009, a level matching the prior trough of 1996-1997.

According to the County, moreover, the majority of the 2009 permitting activity was in Puna and South Hilo; only 17% of it was in the South Kohala or North Kona districts.

<sup>6</sup> Note Claritas data is estimated for 2010, while total island data is estimated for 2009.

The year 2010 may have marked an upturn to a new cycle, with total residential permits reaching 1,149<sup>7</sup>. The positive results in 2010 were driven principally by development activity in the multifamily market.

**Building Permits – Hawaii County**



\* Annualized based on data through November 2010. See Exhibit 3-1 for sources and further information.

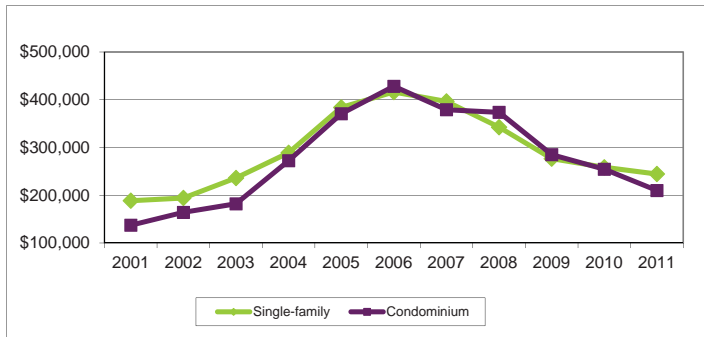
### Residential Market Trends

#### Island-wide Resales (Exhibit 3-2)

Rapidly rising County home prices through 2006 reflected a strong local economy and labor market, as well as favorable financing conditions. However, in subsequent years, prices fell for both single-family homes and condominiums.

<sup>7</sup> Based on 1,149 new housing units as of November 2010, annualized. County of Hawaii: Department of Research & Development - County of Hawaii Statistics; <http://www.hawaii-county.com/info/stats.html>

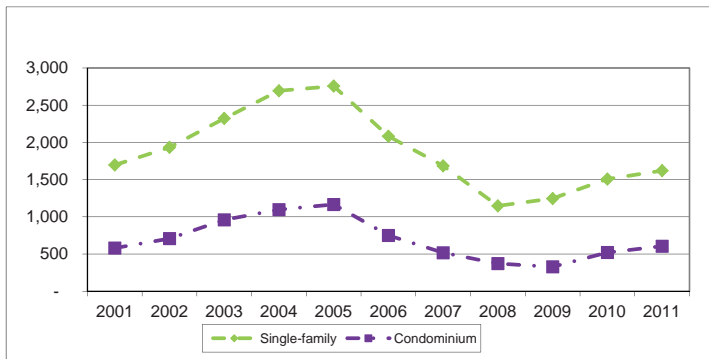
**Hawaii Island Resales – Median Prices**



See Exhibit 3-2 for sources and further information.

After 2009, conditions appeared to be stabilizing, with still declining prices but more sales recordations. The ongoing price impairment is attributed to lingering softness in the local economy, as well as distress sales that continue to suppress the overall market.

**Hawaii Island Resales – Number of Transactions**



See Exhibit 3-2 for sources and further information.

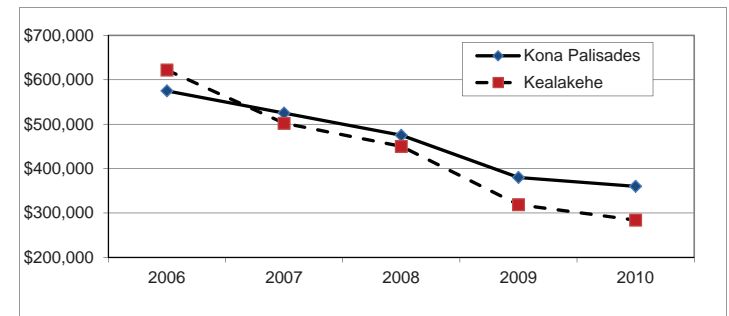
The short-term outlook is for solidifying sales activity, while prices may continue to decline in the near-term due to distress sales, local labor market weakness, ongoing real estate market softness in Hawaii's off-island source markets, and more stringent credit standards. However, longer-term, ongoing population growth, household formation and pent-up desires over the past few years will fuel demand for new housing throughout the County and especially in economically developing areas such as West Hawaii.

**Sales in Selected Areas, North Kona-North (Exhibit 3-3)**

Residential sales in the Kona Palisades and Kealakehe communities of North Kona-North are examined in further detail because of their locational similarities to Kaloko Makai. However, at the present time, both these areas are well-established primary residential communities with a predominance of single-family product; they offer fewer insights to new built product and to the potential market for multifamily primary homes.

Like the Island-wide trend, prices in the indicator neighborhoods have declined since 2006. As of October 2010, Kona Palisades showed median prices of \$360,000 for single-family sales and \$325,000 for condominium sales, although there were only 11 of the latter. In Kealakehe, the median single-family home sold for \$284,000, reflecting only 16 sales, most of which are believed to be DHHL sales. There were no condominium sales recordations in Kealakehe as of October 2010.

**Residential Sales in Kona Palisades and Kealakehe – Median Price, Single-Family Homes**



See Exhibit 3-3 for sources and further information.

The number of sales has also generally declined or held steady since 2006, with some rebound in 2007, especially in the multifamily market (Kona Palisades).

## Housing Market Outlook

### Potential New RHUs in the CRMA (Exhibit 3-4)

Mikiko conducted a survey of planned residential projects within the CRMA, or CTs 215.01 and 217.01. This survey targeted projects of 100 units or more for which State Land Use Commission (LUC) Urban designation was in place as of December 2010, and/or for which the landowner may be exempt from LUC governance.<sup>8</sup> The planned units reported are the maximum allowed by existing entitlements, and/or the maximum currently planned for development, whichever is lower. As such, these counts likely overstate future production, since most projects are not built to their ultimate entitled or planned capacity. Planned totals were also adjusted according to the share of development anticipated to be used in the primary residential market, as opposed to a second home or other non-resident market.

At the time of the survey, many projects were reported to be on hold, but even where previous development agreements may have expired or current borrowers may be in default, the underlying land entitlements would permit similar development plans once the market begins to recover.

The survey did not consider emergency shelters, dormitory beds, or other group living quarters.

✘ **North Kona-North** - Some 6,300 future RHUs on LUC-Urban lands were identified at 12 projects in CT 215.01, not including Kaloko Makai. The largest projects involve State lands and include significant restrictions by income and/or Native Hawaiian ancestry. The five largest projects in the district were:

- ❑ **Kamakana Villages** by Forest City on State HHFDC lands – 2,330 units, estimated at 2,210 RHUs;
- ❑ **Kaloko Heights** by SCD – 1,362 units, estimated up to 1,020 RHUs;
- ❑ **Villages of La'i 'Opua** by DHHL – 872 more units (in a community of over 1,000 at completion), or some 830 potential future RHUs;
- ❑ **Keahuolu**, adjacent to La'i 'Opua and also proposed by DHHL, but longer-term – 750 units or up to 710 RHUs; and
- ❑ **Palamanui** by Hunt Development Group and Charles Schwab – 1,116 units or some 890 potential future RHUs in association with a new University of Hawaii Center at West Hawaii (UHCWH) campus.

<sup>8</sup> The inventory excludes potential residential developments on Queen Lili'uokalani Trust lands in Keahuolu, where some Land Use Commission-Urban designations may already be in place, but could be stalled and/or designated for uses no longer contemplated. QLT is preparing a petition to the LUC for review of the uses of these lands.

Also in the immediate vicinity of Kaloko Makai is Kula Nei, a proposed 216 to 220 lot (plus affordable housing) development which is reportedly experiencing financing problems.

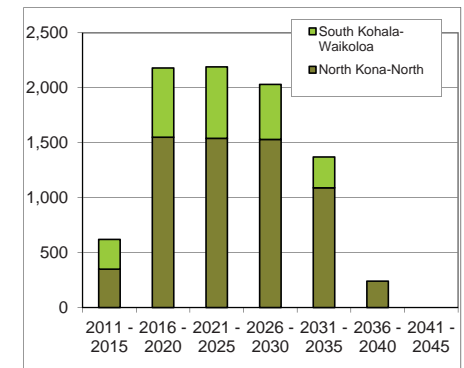
Nearby Kohanaiki, a luxury golf and second home development on the makai side of Queen Ka'ahumanu Highway, is notable but not included in the inventory of RHUs used in this assessment because of its market orientation. Even if Kohanaiki were to be replanned in the future, its ocean orientation and high-end golf and other infrastructure are likely to ensure that it remains a resort/second home- rather than a primary housing community.

- ✘ **South Kohala-Waikoloa** shows some 2,300 future units entitled and planned, at seven projects. The largest in terms of potential future RHUs are:
  - ❑ **Kamakoa Nui**, a workforce housing project initiated by the County of Hawaii in Waikoloa Village – up to 1,200 total units, estimated at 1,140 RHUs;
  - ❑ **Keolalani at Waikoloa** by Keolalani Investment Partners – potentially up to 2,000 units but only 500 or so considered likely to ever be developed as RHUs; and
  - ❑ **Wehilani**, Castle & Cooke's master-planned community in Waikoloa Village, where some 700 more units, or an estimated 490 more RHUs are planned.

While most units at these projects could be expected to be developed by 2035, development or conditions specific to certain sites or projects could delay some even further, and preclude others altogether.

As also noted, these potential inventories are likely generous since they consider current zoning or plan maximums and active development schedules. Often projects are developed at less than their permitted or planned densities, and/or experience delays that push inventory further into the future.

**Potential New Resident Housing Units – Competitive Residential Market Area**



See Exhibit 3-4 for sources and further information.

### Summary of Island Demand and Supply (Exhibit 3-5)

✘ **Current and future demand** – As presented previously in Exhibit 2-6, in order to begin to address the Island’s imbalance of jobs and primary resident housing, the number of households in the CRMA would have to nearly double from the estimated 7,800 in 2010, to more than 14,000 in 2020, and then continue to increase to some 25,600 by 2045. This suggests a need to provide housing for some 17,800 new households over the next 35 years.

While there is likely current pent-up desire for household formation within the region, this has not materialized as significant demonstrable market demand in recent years due to the currently soft economic conditions in the County. Therefore, current pent-up demand is assumed to be zero.

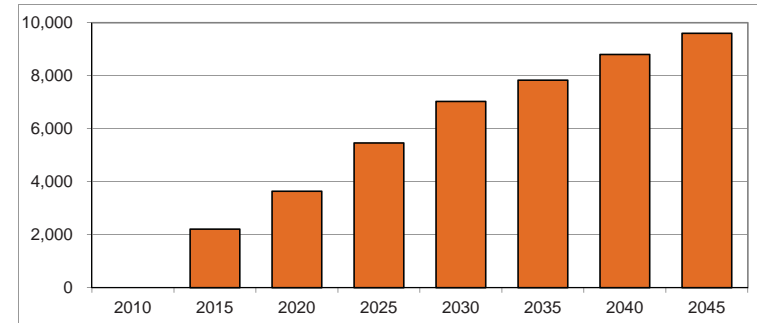
✘ **Current supply** – The current supply of RHUs in the CRMA is estimated at 7,800 units, as presented at the beginning of this chapter.

✘ **Future supply** – Future supply estimates are based on a hypothetical schedule of LUC-entitled maximum developments in the CRMA. The identified projects could potentially produce up to 8,600 new units by 2040, as shown previously in Exhibit 3-4. From this figure a 5% vacancy allowance is deducted, resulting in some 8,200 new units available for resident housing use.

Taken together, the outlooks for RHU demand and entitled potential supply indicate a growing shortfall in permitted housing opportunities. Even hypothesizing aggressive and sustained housing production efforts, without further State entitlement of additional housing developments in the CRMA, the unmet demand for housing could trend up to more than 9,600 homes by the year 2045.

This deficit could materialize as a steady increase in the amount of pent-up demand as current inventories of State-entitled residential properties expected to serve primary housing markets become developed and absorbed, while demand increases steadily. Without further entitlement, today’s imbalance between the locations of Island employment and housing opportunities will only be magnified, with likely social repercussions.

Resident Housing Unit Deficit in the CRMA  
After Development of All Currently State-Entitled Lands



Source: Mikiko Corporation, 2011. See Exhibit 3-5 for further information.

## 4 - Residential Market Assessment

### Future Housing Market Setting

#### Demand Generators (reference Exhibit 3-5)

SCD-TSA anticipates Kaloko Makai's first housing units could be available for occupancy in 2015. While today's economy is still in transition, the recent years of minimal household formation and housing development are expected to result in substantial pent-up demand for primary resident housing in the near future. Mikiko estimates that by 2015, RHU supply in the CRMA might be more than 2,200 units short of what could be desired by Island residents, even in the unlikely event that there is aggressive development in the interim.

Demand generated during subsequent years of the Project's marketing will originate from new household formation as well as from existing Island households wishing to move into the area. This new demand can be characterized as:

☒ **Downsizers** – The Baby Boom generation should be in its peak “downsizing mode” between 2010 and 2020; after 2020, a larger share will be entering their mid-60s than their mid-50s. Many members of this older generation can be expected to seek to live closer to town centers as their children move out from home, they enter retirement and/or as they no longer care to maintain a large home.

Also after 2020, the 55 to 64 age cohort could decline as Baby Boomers move into their 70s. This may also fuel downsizing (see “senior markets,” below.)

☒ **Entry level markets** – Hawaii's next most rapidly growing cohort between 2010 and 2020 is likely to be persons aged 25 to 34, the “Echo Boom” generation. Households are typically formed during one's mid-20s to early 30s, and one's first rental or home purchase is often made during this phase of life. Since affordability is key to this market and many do not yet have spouses or children, this market also tends to accept smaller units.

☒ **First move-ups** – A strong move-up market could emerge after 2020, as the Echo Boom cohort ages into its mid-30s and early 40s.

☒ **Retirement/senior markets** – The retiree/senior market will show significant gains between 2010 and 2030. Typically one or two persons per household, this market may be amenable to more dense housing, and often must move to meet specialized housing needs.

Several of these household types are expected to be willing to accept more dense living environments and to value accessibility to community amenities. Kaloko Makai's location could be attractive to these growing market segments because of its proximity to

existing and future anticipated Island jobs, future transit routes, the shoreline and regional parks, shopping and entertainment, the Kona Airport and the many planned investments in public and private infrastructure throughout the CRMA region.

#### Housing Demand and Supply (reference Exhibit 3-5)

Currently entitled projects are estimated to yield up to 8,200 of the potentially demanded 17,800 RHUs in the CRMA by 2045, if they are built out within this time frame and developed to the maximum levels of their respective current plans and entitlements.

Despite an assumed strong and sustained rate of new RHU home production throughout the study period, entitlements within the CRMA account for less than half the projected need. Therefore, without further land entitlement, the area could still face an approximately 9,600-unit shortage by 2045:

**Supply and Demand for New Resident Housing Units - Competitive Regional Market Area, 2010 to 2045**

<b>Future Demand</b>	Pent-up demand, 2010	0*
	Future need, 2011-2045	17,800
	Total need	17,800
<b>Future Supply</b>	Planned and entitled (8,600 less 5% vacancy), rounded	8,200
<b>Shortage</b>	<b>As of 2045</b>	<b>9,600</b>

\* Assumed to be zero due to current economic environment.  
Source: Mikiko Corporation, 2012. See Exhibit 3-5 for further information.

The anticipated area housing shortage appears to be particularly acute beginning in the late 2020s, when many of today's planned projects could have already delivered most of their entitled inventory.

### Kaloko Makai's Proposal

#### Meeting Community Desires

Kaloko Makai has been planned to respond to its community's desires regarding future growth, as expressed in the Kona Community Development Plan.<sup>1</sup> The Kona CDP directed growth to compact, higher density “villages” mostly located north of Kailua-Kona Town along the Ane Keohokalole Highway transit corridor. These growth centers were expressed as 10 Transit-Oriented Development (TOD) Urban Villages, of which Kaloko Makai is identified as one.

<sup>1</sup> Wilson Okamoto Corporation, for the County of Hawaii Planning Department, “Mapping Kona's Future: Kona Community Development Plan,” September 2008.

The County of Hawaii has subsequently established more concrete guidelines for these TOD areas in its Kona Village Design Guidelines.<sup>2</sup>

Kaloko Makai’s residential plan, like its community plan as a whole, begins with these community and public guidelines.

**Development Concept**

Kaloko Makai is planned to respond to the market and demographic trends as well as the community desires discussed above. It will serve a County population that is changing rapidly in terms of size, geographic dispersion, age profile and lifestyle. It will deliver needed homes in a diverse, planned community.

Thanks to the gradual slope of much of the site, Kaloko Makai will offer ocean and/or regional views from a substantial share of its residential, parks and other areas. From a housing standpoint, the plan concept features a transit-ready Urban Center (Transect zone T5) on Ane Keohokalole Highway, with lower density General Urban (T4) and Sub-Urban (T3) areas. Based on the Final Draft Kona Village Design Guidelines, the T4 and T5 areas would be mostly multifamily, while the T3 areas would be single-family or duplex residences. A Special/Mixed Use district in the lower portion of the site may also include some multifamily housing.

**Residential Product Mix**

Although exact outcomes will depend on the agreements to be reached with the County, some 700 to 1,000 units, or up to 20% of Kaloko Makai’s homes are assumed to be built as “affordable” housing, based on current County guidelines. The number of units to be provided will depend on the buyer income levels targeted, based on County guidelines. Affordable housing could be offered as for-sale or rental units, but has been addressed in this report as for-sale units.

The balance of homes at Kaloko Makai will be its 4,000 to 4,300 “market” homes, ranging from traditional single-family homes to mixed use, mid- and higher-density multifamily units. A conceptual maximum development scenario for the Project is as follows:

<sup>2</sup> Based on PlaceMakers, LLC, “Kona Village Design Guidelines” (calibrated for the County of Hawaii), Final Draft, October 10, 2010.

**Conceptual Mix of Residential Units at Kaloko Makai**  
Maximum development at buildout

Predominant unit type	Transect zone	Total planned units	Example density (units per acre)
Multifamily (“affordable”)	T4 and T5	700 to 1,000	8 to 16
Multi- or single-family (“market”)	T4 and T5	3,014 to 3,314	8 to 16
Single-family (“market”)	T3	986	3 to 6
<b>Total</b>		<b>5,000</b>	<b>3 to 16</b>

Sources: PlaceMakers, LLC, 2010; SCD-TSA Kaloko Makai, LLC, 2012; Wilson Okamoto Corporation, 2011.

The majority of homes at Kaloko Makai would be offered in compact or multifamily settings, in adherence with the Kona Design Guidelines noted previously. The conceptual plan shows the maximum proposed inventory of 5,000 units. The exact total number and mix of units by type will be determined upon finalizing agreements with government agencies and during the years of build-out, as market conditions and preferences materialize.

**Comparison Project Characteristics** (Exhibit 4-1)

In order to develop market conclusions regarding the proposed product types, several North Kona and South Kohala projects were identified and evaluated in terms of their development densities, pricing and absorption. Today’s market pricing is highly impacted by foreclosures and short sales, as well as tighter lending and the fact that many developers are simply trying to liquidate the standing inventory they were left with when market conditions deteriorated. Thus, price indicators gathered for the same projects in previous years are also considered.

The survey results are presented in Exhibit 4-1, and are tied to the proposed market products at Kaloko Makai as follows:

✘ **Suburban T3 Zone – Single-family and duplex** (proposed at 3 to 6 units per acre):

- ❑ South of Kailua-Kona, D.R. Horton-Schuler Division's Pualani Estates development offers single-family homes on lots of 5,000 to 8,000 square feet. Recently recorded prices range from \$315,000 to \$528,000, and averaging \$403,000. This is down from historical average indicators of \$489,000 (2008-09) to \$557,000 (2007).
- ❑ Castle & Cooke's Kikaha development in Waikoloa Village provides a recent example of single-family development at 3 units per acre, or an average of 10,000 square feet per lot. In 2010, Kikaha units sold for \$380,000 to \$568,000, averaging \$453,000; in 2009 they ranged from \$379,000 to \$450,000 with an average of \$424,000.

✘ **Urban T4 and T5 Zones – Multi- and single-family market units** (proposed at 8 to 16 units per acre):

- ❑ The CRMA has seen few if any primary housing products that straddle the multifamily and single-family development concepts. The Pines at Kailua-Kona, a condominiumized, zero-lot line single-family detached home project developed in 1989 and 1990 appears to be the best such comparable, at 6.8 units per acre. The few recorded sales in 2010 averaged \$277,000, but these units have recently shown average prices in the range of \$369,000 (2008-09) to \$425,000 (2006-07).
- ❑ Castle & Cooke's Makana Kai at Wehilani is the only market priced, mid-density, multifamily RHU property recently marketed in the CRMA. Five recorded sales in 2010 all appear to be bank foreclosures and subsequently discounted REO sales, and are thus considered less representative of a longer term trend in pricing. (Developer sales at the project were completed in 2009.) Recent historical prices at Makana Kai range from \$337,000 to \$400,000+ in 2006-07, or \$225,000 to \$295,000 in 2008-09.
- ❑ Two Kailua-Kona projects were also evaluated, Alii Cove and Alii Park Place. Both of these developments are in a visitor region and appear to allow short-term rentals. However, they are located mauka of Alii Drive, are relatively new, and at 11 units per gross acre, are some of the highest-density multifamily projects in West Hawaii that were not built as affordable housing but still include a substantial share of primary residents. In 2010, sales at Alii Cove and Alii Park Place averaged \$306,000 to \$331,000, respectively. In 2008-09, the same projects showed averages of \$415,000 to \$427,000.

## **Assessment for Kaloko Makai**

### **Anticipated Buyer Markets**

The proposed products respond to the market opportunities identified above as follows:

- ✘ **Entry-level markets** – Those units designated as affordable units, as well as many of the multifamily market units are conceived to appeal to entry-level markets, typified by the rapidly increasing 25- to 34-year-old Echo Boom cohort in the 2010 to 2020 period.
- ✘ **Move-up markets** – Kaloko Makai's single-family products could appeal to move-up markets and growing families.
  - ❑ The first level move-up market, typified by persons aged 35 to 44, is projected to grow particularly rapidly in the 2020 to 2030 period as the Echo Boomers mature.
  - ❑ A more affluent move-up market could also be attracted to the views, convenient location and lifestyle offerings at Kaloko Makai.
- ✘ **Downsizers** – Kaloko Makai's more compact single-family and some of its multifamily units are seen to appeal to the Baby Boomer cohort that is looking to simplify its lifestyle, lessen homeowner commitments and enhance access to town amenities. This market may overlap with the retiree segment described below.
- ✘ **Retirement/senior markets** – All of the multifamily units and some of the single-family product could appeal to retiree markets. The age 70+ population will be a rapidly increasing age classification especially towards the latter years of Kaloko Makai's marketing.

Based on the Project location, development concept and the comparison projects surveyed, some 85% of Kaloko Makai residents are anticipated to be primary Island residents. However, some product types could also appeal to second home buyers or investors that may come from off-Island.



**Projected Sales Prices** (Exhibit 4-2)

The pricing conclusions for Kaloko Makai are presented in Exhibit 4-2 and summarized as follows:

**Market Unit Price Conclusions for Kaloko Makai**  
2010 dollars

	Average sales price*	Approximate average density (units/gross acre)
T3 – single-family	\$475,000	3 to 6
T4 & T5 – multi- or single-family	\$370,000	8 to 16
<b>Overall, market homes</b>	<b>\$396,000</b>	<b>3 to 16</b>

\* For market-priced units only.  
Source: Mikiko Corporation, 2012. See Exhibit 4-2 for further information.

The preceding does not consider the affordable units that would also be developed on-site. Their pricing would be set in accordance with County or State guidelines to be determined. Likewise, rental rates, assuming some affordable housing units are developed as rentals, would also be based on County rules then in effect.

For illustrative purposes, according to County guidelines in effect as of September 1, 2010, conforming prices for such housing could range from \$202,500 to \$366,200 for two-to four person households with incomes ranging from less than 80% up to 120% of the County median. County price guidelines also show one- to two-bedroom rental units priced from \$1,037 to \$1,500 per month, including utilities, and offered to households earning 80% to 100% of the median income.<sup>3</sup>

**Projected Supportable Sales Absorption** (Exhibit 4-3)

It is concluded that Kaloko Makai’s 5,000 homes could be absorbed over about 31 years at an average long-term rate of 160 units per year. Actual sales from year to year would vary depending on market cycles and the types of units available for sale at any given time. The Project’s inventory could represent a significant solution for the anticipated future unmet demand for some 9,600 new housing units in the CRMA through 2045, based on currently LUC-entitled projects and their plan maximums.

<sup>3</sup> County of Hawaii, Office of Housing and Community Development, "Affordable Housing Guidelines for the County of Hawaii," 2010.

These conclusions consider:

- ☒ A variety of product types at varying prices (including affordable units) to be offered simultaneously at Kaloko Makai;
- ☒ The near-town location, good views, resident-oriented pricing and community amenities planned for Kaloko Makai;
- ☒ The experience of other product types at the selected comparison projects;
- ☒ The strong future demand for new housing in the CRMA, which is projected at an average of more than 500 units per year through 2045 (see Exhibit 3-5).

An illustrative mix of the overall Project absorption is as follows:

**Illustrative Summary of Maximum Potential Residential Sales Absorption at Kaloko Makai, 2015 to 2045**

	Affordable homes	Market homes	Maximum total housing
Maximum inventory	700 to 1,000	4,000 to 4,300	5,000
Average annual sales*	22 to 32	130 to 140	160 (rounded)

\*Assumes several products are marketed simultaneously in any given year.  
Source: Mikiko Corporation, 2012.

Alternatively, if the community develops at less than its maximum plan of 5,000 units, or if some of the units are developed as rental products, the residences could be absorbed more rapidly.

## 5 - Commercial Market Environment and Assessment

### Background

#### Analytical Approach

This chapter presents a review of area retail and office market conditions and a market assessment for commercial facilities proposed at Kaloko Makai. As proposed, Kaloko Makai would also include a new regional hospital and related facilities. While these elements are significant to the land planning and conceptualization of market opportunities, this commercial market assessment does not assume their development.

While the proposed hospital complex may create myriad employment and enterprise opportunities not already evident in the region, the commercial market assessment is based on a more conservative view of retail- and office-based factors as evidenced within a defined competitive area in 2010. To the extent that a new hospital attracts private commercial demand, that demand is considered a portion of the overall commercial demand that is assessed.

Additionally, although many retail shopping centers include substantial office space, and office buildings often include retail, comparison properties are classified as one or the other based on the predominant use or representation of type by property managers.

☒ **Retail** - The market assessment for retail space compares retail supply to area daytime populations. Daytime population consists of residents of an area, less those who may be away during the daytime for work or other purposes, plus those who may live elsewhere but are in the area during the daytime, such as those employed in the area. The Census estimates daytime population for primary residents of the area; to this Mikiko adds average daily visitors. Daytime population is a better indicator of commercial demand in West Hawaii than resident population because of the strong influences of visitor spending and commuting workers on area commercial markets.<sup>1</sup>

☒ **Office** – Demand for office space is related to civilian employment among residents of the region. Government office buildings are not considered, since their development and placement is often a matter of policy and budget processes rather than market characteristics.

Therefore, this assessment would not include doctors' and other offices that may be located within the hospital structure.<sup>2</sup>

<sup>1</sup> Part-time residents of the region are another potentially very significant market segment, but this source is not evaluated quantitatively here.

<sup>2</sup> The hospital and related medical facilities are assessed separately, in a market study being prepared by Cattaneo & Stroud.

### Primary Trade Area

The Primary Trade Area (PTA) for commercial uses at Kaloko Makai is considered to be the entire North Kona and South Kohala districts of the Island. This is a larger reference area than the CRMA considered in the residential market review. This larger area of interest for commercial purposes is appropriate because:

☒ Commercial establishments in North Kona, and particularly its northern half, CT 215.01, serve broad regional markets on the Island that extend far beyond this CT. Obvious examples of this are Costco and The Pottery Terrace, the latter being the largest office building on the Island.

☒ There is evidence of significant commuting within North Kona and South Kohala, meaning that residents travel within the area for work, children's schooling or other activities. Hence, they may shop or patronize businesses within a broad area.

☒ There is a large daily visitor population in the PTA, mostly accommodated along the coastline. A significant share of this population is likewise considered quite mobile within the region, since they are at leisure.

North Kona and South Kohala also serve commercial markets that originate outside their borders. These sources of market demand are not addressed quantitatively in this analysis, and hence the conclusions expressed could be considered conservative.

### Primary Trade Area



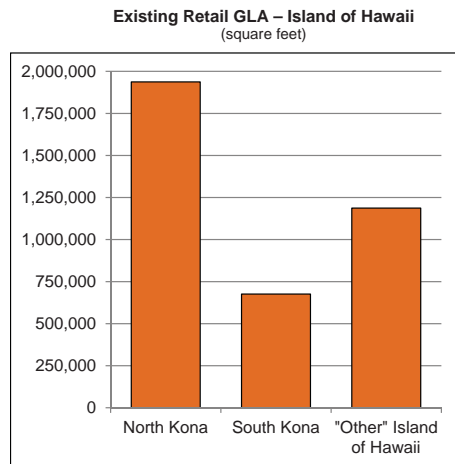
See Exhibit 2-1 for sources and further information.

**Commercial Supply**

**Existing Retail Supply in the PTA (Exhibit 5-1)**

The PTA had over 2.6 million square feet of retail space in place as of December 2010. About 74% or 1.9 million square feet of this was located in the North Kona District. The PTA accounts for about 68% of the Island’s entire retail-based commercial gross leasable area (GLA), which was estimated at 3.8 million square feet.

In late 2010, Hawaii Island’s retail market showed an 8% average vacancy. The PTA exhibited softer conditions, with an average vacancy of about 10% as of November 2010<sup>3</sup>. Within the PTA, vacancies are slightly higher in South Kohala, where the Queen’s Marketplace and additional space at the Villages at Mauna Lani recently opened.

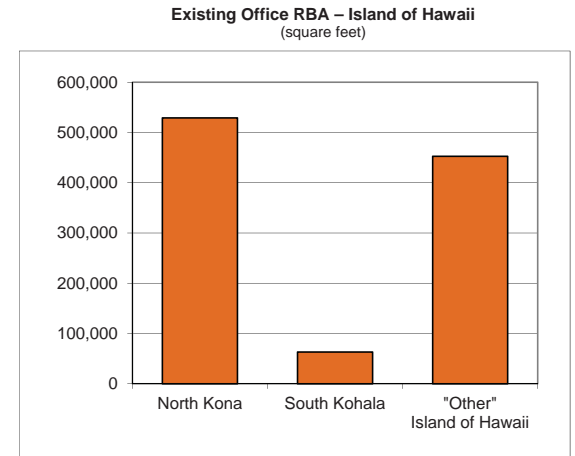


See Exhibit 5-1 for sources and further information.

<sup>3</sup> Colliers Hawaii Consulting, A Division of Colliers Monroe Friedlander, Inc., custom report, December 2010.

**Existing Office Supply in the PTA (Exhibit 5-2)**

Office supply and demand are evaluated in terms of rentable building area (RBA), also expressed in square feet. As for retail, North Kona dominates the office-based supply in the PTA, with an estimated 529,000 square feet of RBA, compared to only 63,000 in South Kohala and some 450,000 elsewhere on the Island. The PTA as a whole is estimated to support about 57% of the County’s office-based RBA.



See Exhibit 5-2 for sources and further information.

Office vacancies were about 18% in North Kona, 21% in South Kohala, and 13% for the Island as whole, as of late 2010.<sup>4</sup>

**Planned and Future Space in the PTA (Exhibit 5-3)**

A total of 2.2 million square feet of planned commercial inventory was identified in North Kona and South Kohala, not including Kaloko Makai.

<sup>4</sup> Colliers Hawaii Consulting, A Division of Colliers Monroe Friedlander, Inc., custom report, December 2010.

Within the PTA, North Kona is the focus of commercial development interest, with an estimated 1.8 million square feet of potential retail- and/or office-based commercial spaces proposed on lands that are entitled and planned for commercial development, as of December 2010<sup>5</sup>.

✘ The largest potential site identified is on lands being marketed by the State of Hawaii, **Department of Hawaiian Home Lands**, across from the Kona Airport. Net of likely light industrial uses, these lands are anticipated to support some 400,000 square feet of future commercial spaces. Another 245,000 square feet of commercial lands could materialize on other DHHL lands in the area, within the Villages of La'i 'Opua.

✘ Also notable is buildout of the **Kona Commons**, where some 305,000 square feet could be added to the approximately 295,000 square feet that opened in 2008 and 2009. This "lifestyle" center sits on lands leased from Queen Lili'uokalani Trust Estate in the Keahuolu area.

South Kohala has some 400,000 square feet of commercial area proposed at two locations: the proposed Kohala Place at Waikoloa, and in Waimea Town, where prior plans are under review.

Specific projects from which these estimates were derived are presented in Appendix 4.

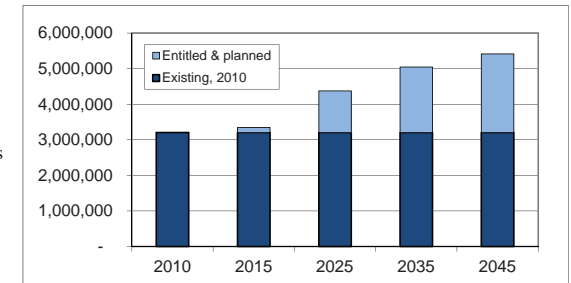
<sup>5</sup> As for residential developments, this analysis considers only those proposals on lands designated Urban by the LUC as of December 2010, and/or those that are exempt from LUC governance. Among the potential developments thus considered are 286,000 square feet on Queen Lili'uokalani Trust (QLT) lands that are currently LUC-Urban but that QLT is understood to be preparing to petition the LUC for review of these land uses. It is not known at this time how that petition might change commercial plans for these lands, nor whether it will be successful. QLT also owns the lands underlying the Kona Commons development, on which a further 305,000 square feet of development is reportedly possible; that potential future inventory is also accounted for.

Additionally, commercial developments within projects designated for industrial use are not considered. These would include the West Hawaii Business Park and Kaloko Industrial Park.

### Future Trade Area Inventory (Exhibit 5-3)

If all of the planned and entitled projects identified were developed to their full capacity, and no existing retail- or office-based centers were demolished, the PTA's commercial inventory would increase by some 40% by 2045, to 5.4 million square feet.

Potential Future Commercial Space - PTA (cumulative square feet)



See Exhibit 5-3 for sources and further information.

### Commercial Supply and Demand Relationships

#### Area Resident Profiles (Exhibit 5-4)

The PTA was home to some 55,300 persons, representing an estimated 31% of the island's population in 2010. Claritas estimated that the PTA population grew 2.9% per year after 2000, compared to 2.0% for the Island as a whole.

North Kona's median age in 2010 was about 39, somewhat older than South Kohala, where the median age is estimated at 36. North Kona's median age is similar to that of Hawaii County, which was estimated at 38.

#### Daytime Population Ratios (Exhibit 5-5)

Daytime populations within the Trade Area and benchmark market are estimated based on 2000 ratios prepared by the US Census within Census Designated Places (CDPs)<sup>6</sup>. The PTA is evaluated by means of four CDPs: Kailua (Kailua-Kona area) and Kalaoa in North Kona, and Waikoloa Village and Waimea in South Kohala. The ratios derived from this source are considered baseline figures for the current analysis, as explained below.

On average, the PTA CDPs showed a daytime to resident ratio of 1.03 persons in 2000, suggesting some in-commuting during the day, especially to the Kailua-Kona area, whose two representative areas averaged 1.14. These figures do not consider the impact of non-Island residents such as visitors staying at area resorts.

<sup>6</sup>US Census Bureau, Census 2000, PHC-T-40, "Estimated Daytime Population and Employment-Residence Ratios: 2000" Journey to Work and Migration Statistics Branch, 2005.

These CDP derived figures are considered baseline indicators of daytime resident population in the PTA.

#### **Commercial Supply in Relation to Population in 2010** (Exhibit 5-6)

Existing retail and office facilities in the PTA are compared to their relevant user populations in Exhibit 5-6.

☒ **Retail GLA** is compared to daytime population. The latter is estimated based on the above ratios for residents, adjusted as follows:

☐ **Daytime residents** – Census data from 2000 shows the number of residents present during the daytime for every resident, within four finite CDPs situated in the PTA. In order to derive estimates of the daytime population within the PTA, the aggregate CDP ratio is increased by 20%, reflecting the larger population and larger number of employment sites located within the PTA as compared to the four CDPs. Hawaii Island residents present within the PTA during the daytime are thus estimated at 1.26 persons for every 1.00 persons who resided in the PTA in 2010, or 69,800 persons.

☐ **Visitors** – An allowance for average daily visitors housed within each region is also added as a proxy for the number that might remain there during the daytime. This is based on Hawaii Tourism Authority data on numbers of visitor units, average occupancies and average party sizes. The PTA is thus estimated to have had some 18,600 visitors present on an average day in 2010.

Utilizing these estimates, the PTA is seen to have offered about 30 square feet of retail area per daytime resident in 2010.

☒ **Office RBA** is compared to civilian employees residing in the PTA. The PTA's civilian labor force currently accounts for about 59% of its resident population, with insignificant variation between North Kona and South Kohala. The PTA housed a civilian labor force of some 32,400 persons in 2010, and therefore the area's 592,000 square feet of private office spaces represented 18 square feet per resident civilian employee<sup>7</sup>. The supply is relatively greater in North Kona than in South Kohala.

With the job and career opportunities of the PTA, the area is likely to continue to attract a substantial workforce population, but its age profile will also "gray" as will the rest of the State's.

<sup>7</sup> This may be compared to 35 square feet per employee for Oahu as a whole in 2008.

#### **Supportable Commercial Development in the Primary Trade Area** (Exhibit 5-7)

##### **Overview**

Additional future retail-and office-based market needs are related to growth in the daytime population of the PTA for retail space, and in the PTA's labor force for office space. The potentially rapidly increasing resident population of the PTA itself would anchor demand in the area. Additionally, the populations of rest of West Hawaii could also contribute significant retail expenditures to the PTA, as it becomes further established as the regional hub for jobs, services, entertainment and shopping. This analysis of supportable commercial area considers only demand that originates within the PTA, and thus may again be considered conservative.

##### **Projected Demand**

Assessment of projected supportable commercial areas in the PTA begins with resident population projections as developed previously in Chapter 2 for the CRMA. These figures are adjusted upwards to estimate population in the PTA with an expectation that the CRMA will become the dominant population center of the region over time. Hence the multiplier to adjust CRMA to PTA population declines over the study period, as it in fact has over the 2000 to 2010 period for which historical data or estimates are available.

☒ **Retail-based demand** is evaluated as follows:

- ☐ This assessment assumes daytime to resident population ratio in the PTA rises from the 1.26 level that was derived for 2010 from year 2000 working patterns, to 1.30 by 2015 and 1.32 by 2025 and beyond. This is considered possibly conservative since the many proposed developments in North Kona reinforce its position as an employment and commercial hub of West Hawaii, and reflect its status as an urban development and infill area.
- ☐ Added to daytime resident population is an estimate of average daily visitors in the area. Visitor population is assumed to grow at 1.5% per annum in the future, including visitors staying in existing hotels and condominiums of the area, as well as those attracted to its increasing timeshare inventory. (See Exhibit 5-7 notes for more information.)
- ☐ These components identify a future PTA retail consumer population of up to 223,900 persons by 2045, reflecting a 2.7% per annum rate of increase from 2010.

In 2010, the PTA supplied 30 square feet per full-time equivalent (FTE) daytime person. However, after adjusting for the 10% retail vacancies observed in this year, the supportable GLA per person is estimated at 28 as of 2010. This assessment assumes a stagnant or gradually declining ratio of supportable area to population, recognizing ongoing changes in the nature of retailing.

In conclusion, the PTA is estimated to support up to 5.8 million square feet of retail-based GLA by 2045.

**Office-based demand** is evaluated as follows:

Future office-based demand is considered a function of growth in the civilian labor force in the PTA. This can be expected to follow from the establishment of a hospital at Kaloko Makai, relocation and expansion of UHCWH, additional job creation at NELHA and HOST, and from other plans for commercial, second home, and timeshare developments within the area.

Some of these developments represent expansion of non-service industries and would support more professional and technical opportunities than are available today, leading to more office-based employment. Accordingly, supportable RBA in the PTA could increase from the 16 square feet per civilian employed resident observed in 2010.<sup>8</sup>

Using these assumptions and considering just the PTA labor force as a demand generator, by 2045, the PTA could require up to 1.4 million square feet of office-based RBA.

<sup>8</sup> As in the retail market, the estimated supportable area for 2010 is reduced from the actual supply, in recognition of currently high vacancies.

**Total Commercial Demand**

In total, the retail- and office-market analyses indicate support for up to 5.5 million square feet of commercial area by 2025, or 7.2 million by 2045:

**Projected Supportable Commercial Areas in the PTA (square feet)**

	2025	2035	2045
Retail-based demand	4,500,000	5,500,000	5,800,000
Office-based demand	1,000,000	1,300,000	1,400,000
<b>Total</b>	<b>5,500,000</b>	<b>6,800,000</b>	<b>7,200,000</b>

Note: Represents total projected supportable areas, including existing and entitled/planned developments. See Exhibit 5-7 for further information.

**Assessment for Kaloko Makai** (Exhibit 5-8)

**Kaloko Makai Proposal**

SCD-TSA proposes to offer up to 600,000 square feet of various commercial uses at Kaloko Makai. This would include spaces in shopping centers, mixed-use developments, medical-related and other office complexes. The majority is anticipated in the Project's transit-ready Urban Center (T5 zone) along Ane Keohokalole Highway. This area also includes the proposed medical center, so a portion of the commercial areas would be expected to be medical-support related. These areas could be expected to serve regional or even Island-wide markets, although the analyses undertaken herein were based on the PTA only.

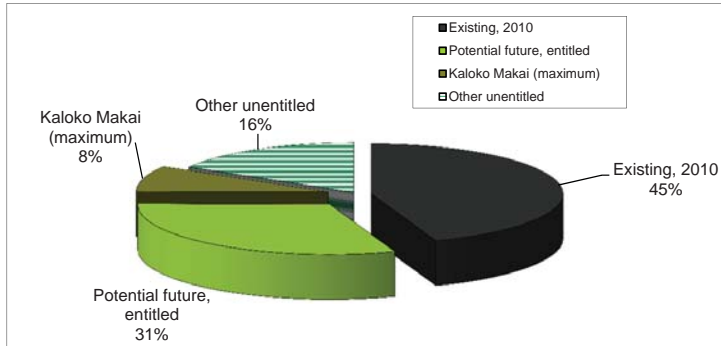
The remaining commercial areas could be within other General Urban areas of the Project (T4 zones). These supportive retail/shopping center areas would be expected to primarily serve community or neighborhood markets.

As for residential development, the first finished commercial building products at Kaloko Makai are assumed to be available for use in 2015.

**Projected Supportable Commercial Areas**

If developed to the full-proposed capacity of 600,000 square feet, Kaloko Makai's commercial spaces could represent some 8% of the PTA's total 2045 inventory. It could also represent a venue for about half of the currently unplanned but future supportable commercial space in the PTA.

Potential PTA Commercial Space Inventory: 2045



See Exhibit 5-8 for sources and further information.

## 6 – Light Industrial/Business Park Market Environment and Assessment

### Background

#### Primary Trade Area

Light industrial areas can support business parks, manufacturing, energy production, research & development, wholesale, office, retail and other uses. They often serve a super-regional or Island-wide market. This analysis profiles market trends within the North Kona and South Kohala Districts, the same area referred to as the Primary Trade Area, or PTA, in the commercial market assessment. This is considered a conservative view of the potential market support for light industrial or business park areas at Kaloko since its market support might derive from a larger sphere than just the PTA.

#### Analytical Approach

This analysis does not consider industrial-uses or industrial-designated lands at military bases, harbors, universities or airports. Often such public lands tend to support heavy industrial or specialized public-purpose uses, which are not envisioned at the Project. Although a government entity, some of DHHL's holdings are counted here, however, because they are planned as income properties which would be leased to the general public.<sup>1</sup>

As in the residential and commercial analyses, the **supply** of light industrial land is evaluated in terms of existing properties that may already be in use and/or are being actively marketed, and State-entitled lands that could be developed in the future. The assessment focuses on industrial land acreage rather than the development thereon, such as warehouse square feet, their occupancies and rents.

On the **demand** side, the long-term need for additional lands to be developed for light industrial or business purposes relates to trends in civilian job creation. Thus the analytical approach employed here is analogous to that employed in the office market assessment presented in the previous chapter.

<sup>1</sup> For instance, DHHL's proposed 152-acre property at Kalaoa is within the inventories used, with a share allocated to future commercial development and a share allocated to future light industrial inventories, based on representations made by DHHL. However, DHHL recently acquired another North Kona tract from the State and potential development on that property is not considered here, because the DHHL manager for this site indicated that there are no plans for these lands at the current time.

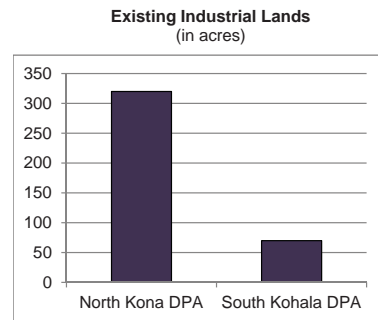
## Industrial and Business Park Supply

### Area Inventory (Exhibit 6-1)

The light industrial lands of the PTA are concentrated in the North Kona DPA, which showed some 400 gross acres of light industrial lands as of December 2010. This represented 82% of the total PTA supply of 490 acres. The majority of these lands are located along Queen Ka'ahumanu Highway and adjacent to the Subject property, at Kaloko Industrial Park to its south and at Kohanaiki Industrial Park to its north. The other major existing industrial area of North Kona is the mature Kona Industrial Subdivision, developed by QLT and located next to Kailua-Kona Town.

Twelve percent of these industrial lands remain unbuilt, according to County tax records. However a share of such "undeveloped" lands is known to be encumbered with ground leases and some are also in use, such as for yard space or surface parking.

Market trends for light industrial warehouse buildings reflect the current economic downturn that was also evident in the residential and commercial markets. The PTA as a whole showed about 14% of warehouse spaces vacant at year-end 2010, according to data provided by CMF. This is up significantly from an estimated 8% in 2008. However, positive space absorption is reported to have resumed in 2010. Net asking rents are available only for a sample of the North Kona properties. At an average \$0.95 per square foot, those rents appear to have declined about 11% per annum since 2008.



See Exhibit 6-1 for sources and further information.

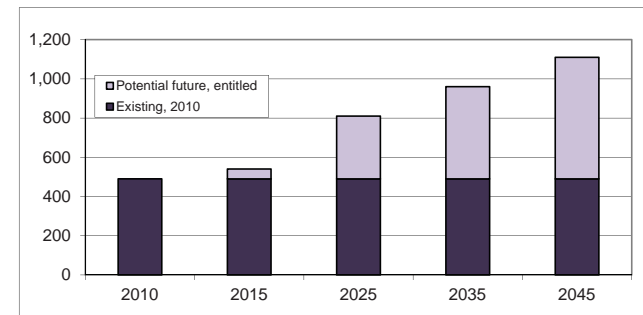
### Planned Development and Future Inventory (Exhibit 6-2)

There were about 620 gross acres of land entitled and planned for business park/industrial use in the PTA as of December 2010, excluding lands at government-owned and operated facilities such as the Airport and harbors.

As in the existing inventory, the largest areas of entitled future inventory are also in the immediate vicinity of Kaloko Makai. These include West Hawai'i Business Park, Kaloko Industrial Park Phases III and IV, and DHHL's Kalaoa lands. The list of planned and entitled potential properties is presented in Appendix 5.

Considering the potential future developments plus areas already in use, the PTA could offer some 1,110 gross acres of private business or industrial park lands by 2045, assuming all future projects are effectively marketed and sold out within the projection period. The majority of this inventory would remain in the North Kona District, surrounding the Project, on Queen Ka'ahumanu Highway.

**Potential Future Industrial Land Inventory**  
in the PTA (gross acres)



See Exhibit 6-2 for sources and further information.

### Industrial and Business Park Demand (Exhibit 6-3)

Demand for future business park/industrial lands in the PTA can be expected to originate from increases in civilian employment in the area, particularly in business and industrial categories such as energy production, construction, wholesaling and research & development.<sup>2</sup>

Of the 490 gross acres supplied in the PTA in 2010, 440 are estimated to have been occupied. This would mean that in 2010, there was excess supply compared to market demand amounting to about 10 acres.<sup>3</sup> Considering a 10% availability factor beyond occupied lands, market balance in 2010 might have been satisfied with about 480 gross acres rather than the

<sup>2</sup> Demand for new industrial properties can also be driven by transition mechanisms, such as when older industrial areas face urban redevelopment pressures. Such mechanisms may come into play in West Hawaii during the study period, possibly because of transitions in the Kailua-Kona outskirts. However, they are not yet evident and so this potential source of additional demand has not been estimated.

<sup>3</sup> This is based on an assumed 10% of lands not in use. This benchmark is derived from the 12% of lands found to be without significant building improvements (based on tax records), less an allowance for undeveloped lands known to be encumbered or otherwise employed.



490 that were in place<sup>4</sup>. This “desirable” level of supply would have represented 67 civilian employed persons per gross acre, as shown in Exhibit 6-3.

The ratio of employees per supportable gross industrial acre is assumed to remain close to historic levels. Given the projected rise in civilian employed persons in the PTA as discussed in Chapter 5, the PTA could be anticipated to support up to 1,160 gross acres of light industrial/business park lands by 2045. Subtracting the existing and entitled potential future supply, the area is seen to be able to support an additional 50 to 120 more acres of light industrial land during the study period, as shown in Exhibit 6-3.

### Assessment for Kaloko Makai

#### Kaloko Makai Proposal

The Kaloko Makai plan designates 75 acres of light industrial or business park land uses in the Special District located at its makai end fronting Queen Ka’ahumanu Highway.

Approximately 25 acres of these lands have been identified by the State Department of Transportation (DOT) for a possible future public highway interchange at the entrance to the Project. Thus, industrial/business activity on those lands will be interim uses and only 50 gross acres are seen as long-term land uses.

#### Projected Supportable Areas

The Special District is an appropriate area for light industrial uses because:

- ☒ Light industrial uses would represent a relatively low-investment interim source of income from those lands that would ultimately be taken for public use as a highway interchange.
- ☒ The Special District is surrounded by other existing and planned light industrial land uses, at both Kaloko Industrial Park to its north, and West Hawai’i Business Park to its south.

<sup>4</sup> Significant other properties could have been brought to market if conditions warranted. For instance, the 41 net acres of Phase III of Kaloko Industrial Park, unsuccessfully marketed in 2009, are here considered part of the future, rather than the existing supply, because they do not appear to be actively marketed now. Thus, those 41 acres do not factor into the percent of undeveloped, existing lands as reported here.

- ☒ The general locale has been clearly established as a light industrial zone that serves regional and even Island-wide needs and benefits from its proximity to Keahole Airport, Honokohau Harbor and the well-developed visitor infrastructure of the region.
- ☒ Within Kaloko Makai, the Special District area is less attractive for residential and certain commercial uses because of its Waste Water Treatment Plant, its frontage along a very busy highway and the proposed interchange, and its relative lack of views due to its low elevation.

In conclusion, the Special District is considered a very appropriate area for light industrial/business park uses, and the lands set aside in the Kaloko Makai master plan are be supported by the area’s market outlook, as follows:

**Summary of Kaloko Makai Light Industrial/Business Park Market Assessment, in gross acres**

	2016-2025	2026-2035	2036-2045	Total	Notes
<b>Net unentitled demand</b> at end of period (PTA)	100	120	50		Throughout the PTA, as shown in Exhibit 6-3
<b>Kaloko Makai absorption, in period:</b>					
Leasehold areas	25	0	0	25	10- to 20-year terms
Fee-simple areas	0	25	25	50	
Total absorption in period	25	25	25	75	
Less DOT taking	0	-25	0	-25	Timing of taking is hypothetical
<b>Kaloko Makai areas in use:</b>					
Maximum during period	25	50	50		
Maximum at end of period	<b>25</b>	<b>25</b>	<b>50</b>		<b>Compare to net PTA demand above</b>

Source: Mikiko Corporation, 2012.

## 7 – Lodge and Business Center Market Environment and Assessment

### *Background*

#### **Development Concept**

The Kaloko Makai Lodge and Business Center is proposed to cater to the business and leisure demands generated by other uses in Kaloko Makai and its surrounding area. It is envisioned to offer up to 120-rooms, a business center, and meeting and conference spaces.

The Lodge and Business Center would be situated on approximately 5 acres of land within a T-5 zone located mauka of the Ane Keohokalole Highway.

#### **Target Markets**

While the Lodge and Business Center may attract leisure travelers to West Hawaii, its marketing focus is those who are in the vicinity because of other uses in the area, such as Kaloko Makai's medical facilities, its residential community and in the broader area, the Kona Airport and a new Kona judiciary center.

Target markets for the Kaloko Makai Lodge and Business Center could include:

#### ☒ Primary targets:

- Kama'ainas visiting family and friends in Kaloko Makai or neighboring areas;
- Families and friends visiting or accompanying patients of the hospital;
- Visiting medical staff involved with the hospital or related medical facilities;
- Professionals and other parties to proceedings at the Kona Judiciary; and
- Airline crews and commuters needing accommodations near to Kona Airport.

#### ☒ Additional targets:

- Other budget- and convenience-oriented travelers wishing to avoid the congestion, unneeded amenities and higher price points of resort areas; and
- Athletic teams or other group travel seeking affordable and easily accessible accommodations away from resort the areas.

#### **Conformance to Public Policy**

Hawai'i County's economic growth during recent years has been closely tied to the visitor industry. However, as State and County policy makers seek to diversify their economic bases, new business and local service opportunities are highlighted.

The current County General Plan was developed under the assumption that the "County will continue to pursue the development of a strong multi-market base for the visitor industry that includes ... integrated product development for local products that can generate a healthy small business economic base. The County's visitor industry will continue to successfully grow and expand."<sup>1</sup>

Likewise, the Kona Community Development Plan provides for hotels and other lodging facilities within T5 zones such as proposed for Kaloko Makai.

The Lodge and Business Center at Kaloko Makai is planned to be in alignment with these goals and standards.

#### **Analytical Approach**

This chapter reviews general supply and demand indicators for visitor accommodations throughout the Island and in Kona. Due to the small size (up to 120 units, representing about a 1% addition to the Island inventory) and non-traditional market orientation of the proposed Lodge and Business Center, the assessment does not rely on a macro supply and demand assessment for the Island or region. Rather, the analysis considers visitor trends in the context of selected comparison hotel properties in Kona that appear to serve visitor markets such as those envisioned for Kaloko Makai.

#### **Hotel Supply Market Conditions**

##### **Islandwide Hotel Inventory** (Exhibit 7-1)

Just under half of the statewide visitor units in 2010 were located on O'ahu, according to a survey prepared for The Hawai'i Tourism Authority (HTA) by Hospitality Advisors, LLC. The island of Maui continued to have the second largest share of visitor units, followed by Hawai'i Island and Kaua'i.

Of Hawaii Island's 11,595 total visitor accommodation units, hotels continue to comprise the majority, or about 60% of units. While timeshare units are increasing most rapidly, they still represent only 16% of the Island's inventory.

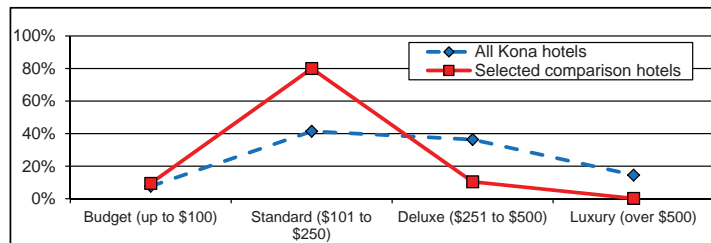
<sup>1</sup> County of Hawaii, County of Hawaii General Plan, February 2005, pg.1-11.

More than half of the Island's visitor units cater to high-spending market segments, with 40% classified the Deluxe price class (\$251 to \$500 per room night) and another 14% in the Luxury class (more than \$500 per room night).<sup>2</sup>

**Kona Hotel Inventory and Selected Comparison Properties** (Exhibit 7-2)

Within the Island inventory, the HTA distinguishes Kona visitor units from those in South Kohala and elsewhere on the Island. Focusing just on hotel properties, Kona showed 2,519 rooms in the 2010 inventory. These units show a similar price class mix compared to the island as a whole, with 51% classified as Deluxe or Luxury units.

**Kona Area Hotel Unit Market Orientation**



See Exhibit 7-2 for sources and further information.

Although primarily targeting out-of-State leisure visitors, a handful of Kona hotels also cater to and attract a fair share of the interisland and value-oriented visitor base, particularly those not seeking a resort vacation experience. These include:

- ☒ King Kamehameha's Kona Beach Hotel (a Marriott Courtyard, 460 units),
- ☒ Kona Seaside Hotel (225 units),
- ☒ Royal Kona Resort (436 units), and
- ☒ Uncle Billy's Kona Bay Hotel (110 units).

The above hotels are considered the existing comparison set for the proposed Kaloko Lodge and Business Center. However, their characteristics are not necessarily conducive to the convenience- and/or business-oriented traveler that is envisioned at Kaloko. Other than Uncle Billy's Kona Bay Hotel, the properties are large (225 to 460 units), making rooms and facilities less readily accessible than possible in a significantly smaller property. All are located in relatively congested Kailua-Kona Town. In addition, despite recent renovations at the King Kamehameha, the comparison properties tend to be dated: opened between 1960 and 1975, they are now 36 to 51 years old.

<sup>2</sup> These standard rates are based on published or "rack" rates. Actual achieved room rates would be lower, on average.

The selected properties do offer favorable price points for the traveler who does not need a resort vacation experience and prefers convenience and value. Eighty percent of the combined room inventory is within the Standard class (\$101 to \$200 per room night), and another 9% is listed in the Budget class (up to \$100).

**Market Orientation of Selected Comparison Kona Hotels**

	Budget (Up to \$100 per night)	Standard (\$101 to \$250 per night)	Deluxe (\$251 to \$500 per night)	Luxury (Over \$500 per night)
King Kamehameha's Kona Beach Hotel	0	460	0	0
Kona Seaside Hotel	116	109	0	0
Royal Kona Resort	0	306	128	2
Uncle Billy's Kona Bay Hotel	0	110	0	0
<b>Total</b>	<b>116</b>	<b>985</b>	<b>128</b>	<b>2</b>

Source: Hawaii Tourism Authority, 2010 Visitor Plant Inventory.

The proposed development at Kaloko Makai would offer a modern, purpose-built facility in a far more convenient location compared to these existing options.

**Planned Competitive Hotels**

The proposed Palamanui project, located north of the Kona Airport and Kaloko Makai, also includes a proposed a lodge, with some 70 units. It has been described as being oriented towards the university campus planned at Palamanui, but could also become competitive with some of the market segments targeted by the Kaloko Makai Lodge and Business Center.

There are no other known planned hotel projects in the North Kona or South Kohala areas at this time.<sup>3</sup>

<sup>3</sup> A 75-unit Holiday Inn Express was announced for Kailua-Kona town in March 2012, but development plans were in doubt by early April 2012.

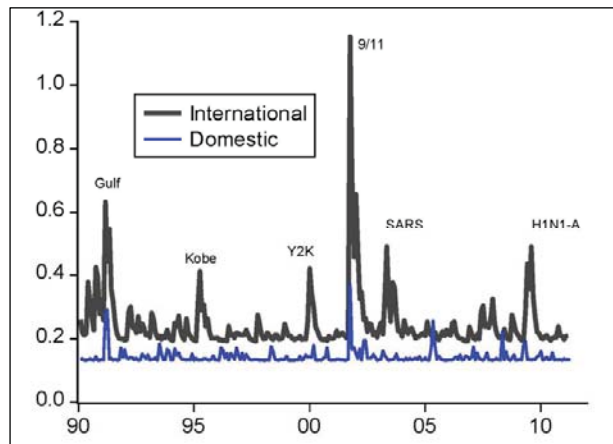
## Demand Assessment

### Statewide Trends

While Hawai'i hotel occupancy levels were starting to improve in 2010 and into early-2011, the March 2011 Japan earthquake, tsunami and subsequent aftermath, coupled with on-going global economic weaknesses, have renewed concern for the visitor and hotel industries.

However, Hawai'i's experience with external shocks such as 9/11, various recessions, the Gulf War and SARS has been a significant loss of visitor arrivals in the short-term, followed by recovery to more normal levels of volatility within a quarter or so. In particular, the domestic market has been far less sensitive to such events than the international arrivals market. This volatility relationship is reflected in 20 years of visitor arrivals data, as shown in the chart below, prepared by TZ Economics.

Volatility of Annualized, Seasonally-Adjusted Hawaii Visitor Arrivals



Source: TZ Economics, May 2011, reproduced with permission of the author. Raw data obtained from Hawaii Tourism Authority and Department of Business Economic Development and Tourism, seasonally adjusted with conditional estimates through March 2011.

### Big Island Outlook

On the Big Island, where international arrivals represent just 12% of the market, industry recovery from the Sendai events is again expected to be full in the medium-term, and certainly by the time of first operations at the proposed Lodge and Business Center.<sup>4</sup> Barring sharp increases in fuel costs or other new shocks, the Economic Research Organization at the University of Hawaii (UHERO) forecasts increasing visitor arrivals to the Island, at +5.1% in 2011, +7.3% in 2012, and +3.4% in 2013.<sup>5</sup>

Airline seat capacity to Hawaii Island has experienced uncertainty but is showing particular strength from westbound routes. In October 2010, Hawaii Island lost its direct air service from Narita via Japan Airlines, but many of these seats were replaced the following month, when Alaska Airlines initiated nonstop service from Portland to Kona, adding to other new routes it had initiated previously in 2010.

Finally, recent HTA surveys concerning visitor satisfaction state that ratings by U.S. visitors who were very likely to recommend Hawai'i Island to family and friends for future travel improved to 79% (up 7 percentage points) in the third quarter of 2010. When visitors are highly satisfied with the destination they visited, they will be more likely to recommend the place to friends and family<sup>6</sup>.

### Kona Visitor Trends (Exhibit 7-3)

Exhibit 7-3 presents 2009 HTA data on out-of-State travelers to Kona. Selected statistics of particular interest to the market segments proposed for the Lodge and Business Center are:

- ✘ Kona area hosted 6.8 million visitor-days in 2009, of which 88% were domestic travelers and 12% international. This was down 6.4% from 2008.
- ✘ The average out-of-State traveler party size was 2.1 persons.
- ✘ 39% traveled on group, package or group & package arrangements, while 61% were "true independent" travelers.
- ✘ 49% stayed in hotels, while 9% stayed with friends or relatives, and 15% in a rental house, B&B or cruise ship.

<sup>4</sup> Kona did experience direct tsunami damage related to the Sendai events. The 125-unit Kona Village Resort has closed while the Four Seasons Resort Hualalai closed for six weeks for repairs, and reopened April 30, 2011.

<sup>5</sup> UHERO, "UHERO COUNTY FORECAST: Uneven Recovery Continues," May 20, 2011.

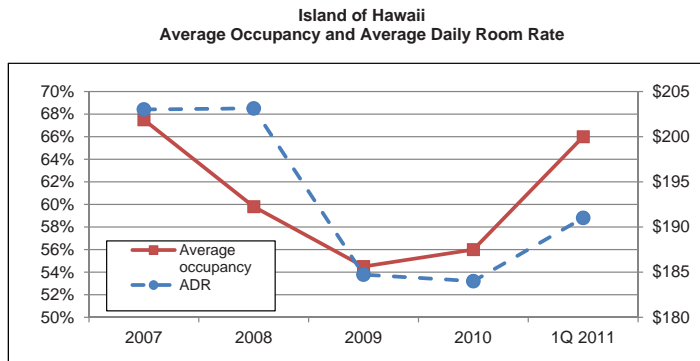
<sup>6</sup> HTA, 2010 Visitor Satisfaction Monitoring Report.

- ✘ 14% traveled to conduct business (other than meetings, conventions and incentive business travelers, or MCI), visit friends and relatives, attend sporting events or for other miscellaneous purposes including those traveling on government, military or school business.

In context, this “non-pleasure” and “non-MCI” market could theoretically require some 1,000 accommodation units per day<sup>7</sup>, a good share of which is likely to be with friends and relatives or in other nontraditional or noncommercial accommodations. However, the remainder of this sizeable market patronizes area hotels and other commercial accommodations for their overnight stays, and is representative of the markets being targeted by the Subject. Inter-island kama’aina business and other travelers are not counted in the HTA data and represent a significant expansion of this potential market.

**Area Hotel Market Trends (Exhibit 7-4)**

Hotel occupancy and average daily rates on Hawai’i Island have typically lagged those for O’ahu and Maui and therefore the State as a whole. Within Hawaii Island, average occupancy rates ranging from 55% to 66% have been the norm in recent years, compared to 65% to 77% for the State as a whole. According to data from the Hawai’i Tourism Authority, 2009 reflected a slowing economy and a struggling visitor industry but the Island’s 2010 numbers implied a rebound and the first quarter of 2011 continues the growth trend.



See Exhibit 7-4 for sources and further information.

<sup>7</sup>Total visitor days of 6,796,000 x 14% market share x 6/7 (conversion of days to nights) / 365 days / 2.1 persons per room.

In the first quarter 2011 report from Smith Travel Research and Hospitality Advisors, Hawai’i hotels experienced first quarter gains. While visitor arrivals from Japan were 13% higher through the month of February before dropping sharply following the March 11 earthquake and tsunami, arrivals from the Mainland and Canada pushed the overall market to positive territory during the quarter.

The average statewide hotel occupancy was 77%, up 6 percentage points compared to the first quarter of 2010. The average daily room rate was \$191, up 9% from last year, and revenue per available room, or RevPAR, was \$147, up 19% from a year ago.

The Big Island’s occupancy rate was 66%, up 10 percentage points, and its average daily room rate was \$191, up 2%. RevPAR for the Big Island was \$126, up 18% from last year.

**Assessment for Kaloko Makai**

**Suggested Facilities and Amenities**

Based on the target markets identified at the start of this chapter, the Kaloko Makai Lodge and Business Center is proposed as a relatively compact, efficient property of 120 or fewer rooms. Rooms may tend to be larger than typical at a tourist-oriented hotel, to accommodate larger travel groups, plus a work area within the room. It would likely also offer common amenities such as a front desk, swimming pool and/or workout facility, and on-site parking.

An integral component will be the Business Center. The Business Center could provide "an office away from home," with a range of services and amenities such as:

- ✘ Conference or meeting rooms,
- ✘ Copying, scanning and digital printing services,
- ✘ High-speed internet and Wi-Fi access,
- ✘ Equipment rentals,
- ✘ Videoconferencing,
- ✘ Courier delivery services,
- ✘ Send and receive e-mail and facsimiles,
- ✘ Full range of ground and express shipping services, and
- ✘ Notary service.

**Projected Lodge Market Performance**

The Kaloko Makai Lodge and Business Center concept is to focus on local, business and other market sources that seek convenient access and value-based rates over resort and recreational facilities. Currently, such markets must find accommodations in aging tourist-oriented hotel facilities in relatively congested Kailua-Kona or in nontraditional or non-commercial (such as with friends and family) venues. Despite their age, standard room rack

rates at the comparison hotel properties are generally priced from about \$100 to \$170, with achieved rates perhaps 20% to 40% lower.

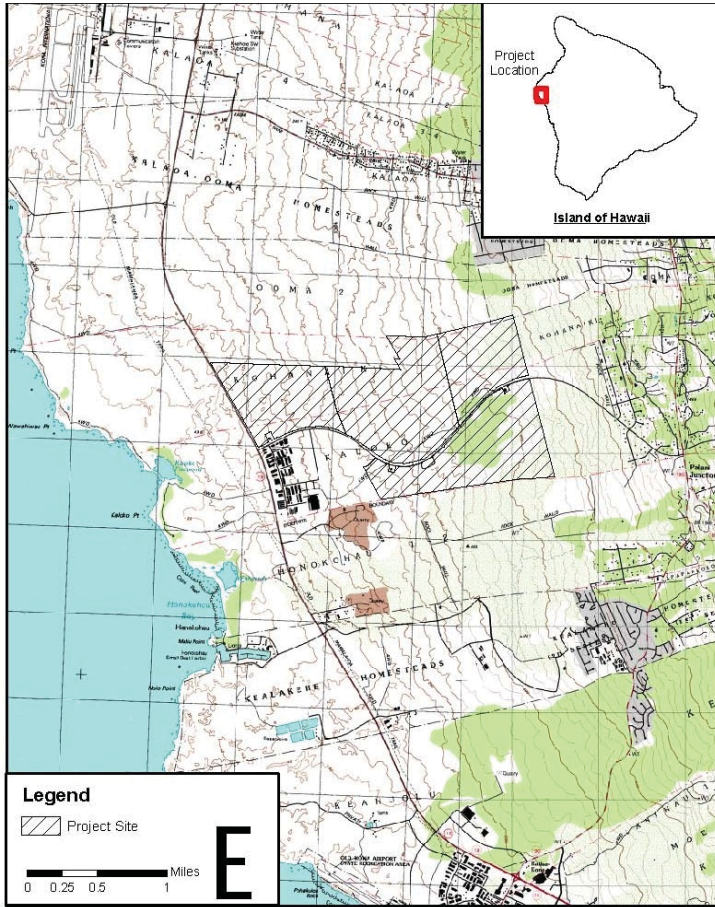
Based on these comparisons, the Kaloko Makai Lodge and Business Center is estimated to be supportable by 2025, and to achieve an average daily room rate of about \$120 to \$130 (in 2010 dollars), at stabilization of operations. This considers that it would be a modern, purpose-built and conveniently located facility, better suited to its targeted markets than existing options, and possibly competitive with a future lodge facility at Palamanui.

Given its small size and the magnitude of the relatively underserved kama'aina and business market segments targeted, average annual occupancy at the Kaloko Makai Lodge and Business Center is projected at 65% at stabilization.

## Market Assessment for Kaloko Makai

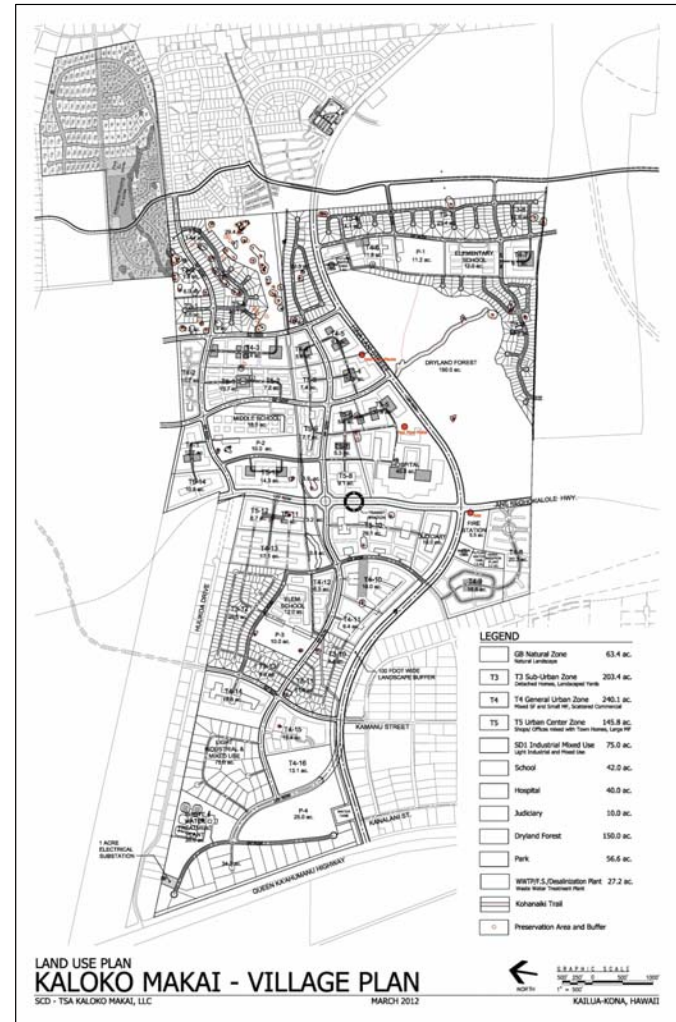
### Exhibits

**Exhibit 1-1  
Kaloko Makai – Site Location**



Source: SCD-TSA Kaloko Makai, LLC, 2011.

**Exhibit 1-2  
Kaloko Makai – Conceptual Land Use Plan**



Source: SCD-TSA Kaloko Makai, 2011.

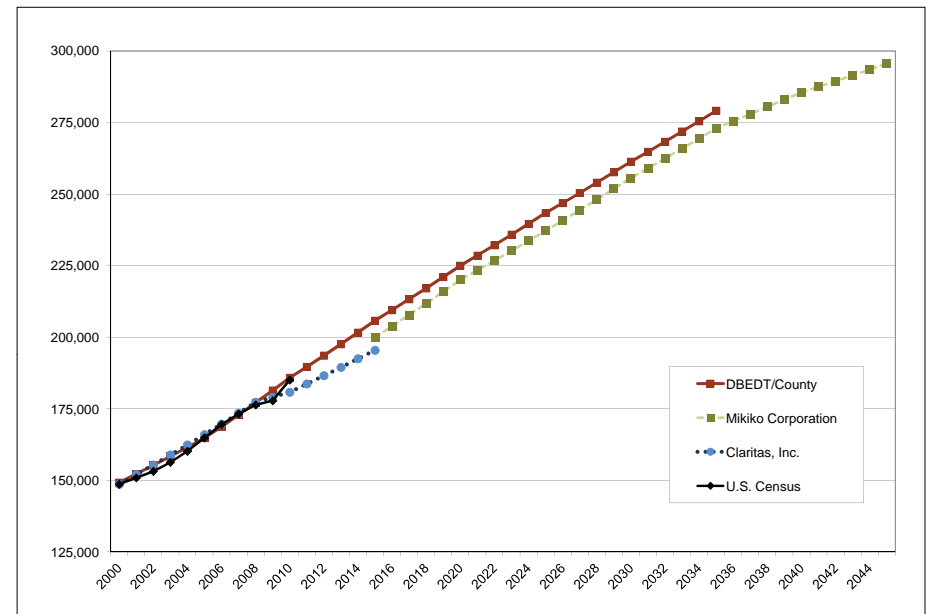
**Exhibit 2-1  
Kaloko Makai Location and Hawaii Island Districts**



Source: Claritas, Inc., October 2007.

**Exhibit 2-2  
Resident Population - Island of Hawaii  
Comparison of Estimates and Projections  
2000 to 2045**

Date of study	2000	2010	2015	2020	2030	2040	2045	Average annual growth					
								2000-2010	2010-2020	2020-2030	2030-2035	2035-2040	2040-2045
DBEDT/County <sup>1</sup>	2008	149,261	185,850	205,820	225,000	261,340	INA	2.2%	1.9%	1.5%	1.3%	NA	NA
Mikiko Corp. <sup>2</sup>	2010	INA	INA	200,000	220,100	255,600	295,600	INA	1.9%	1.5%	1.3%	0.9%	0.7%
Claritas <sup>3</sup>	2010	148,677	180,820	195,460	INA	INA	INA	2.0%	INA	INA	INA	INA	INA
U.S. Census <sup>4</sup>	2010	148,677	185,079	INA	INA	INA	INA	2.2%	INA	INA	INA	INA	INA



INA - Information not available.

<sup>1</sup> State of Hawaii, Department of Business, Economic Development and Tourism, Research and Economic Analysis Division, "Population and Economic Projections for the State of Hawaii to 2035," (DBEDT 2035 Series), January 2008. Actual and estimates through 2007; projections thereafter presented in 5-year increments. Figures interpolated by Mikiko for years in-between. County indicates that it has adopted DBEDT's projections.

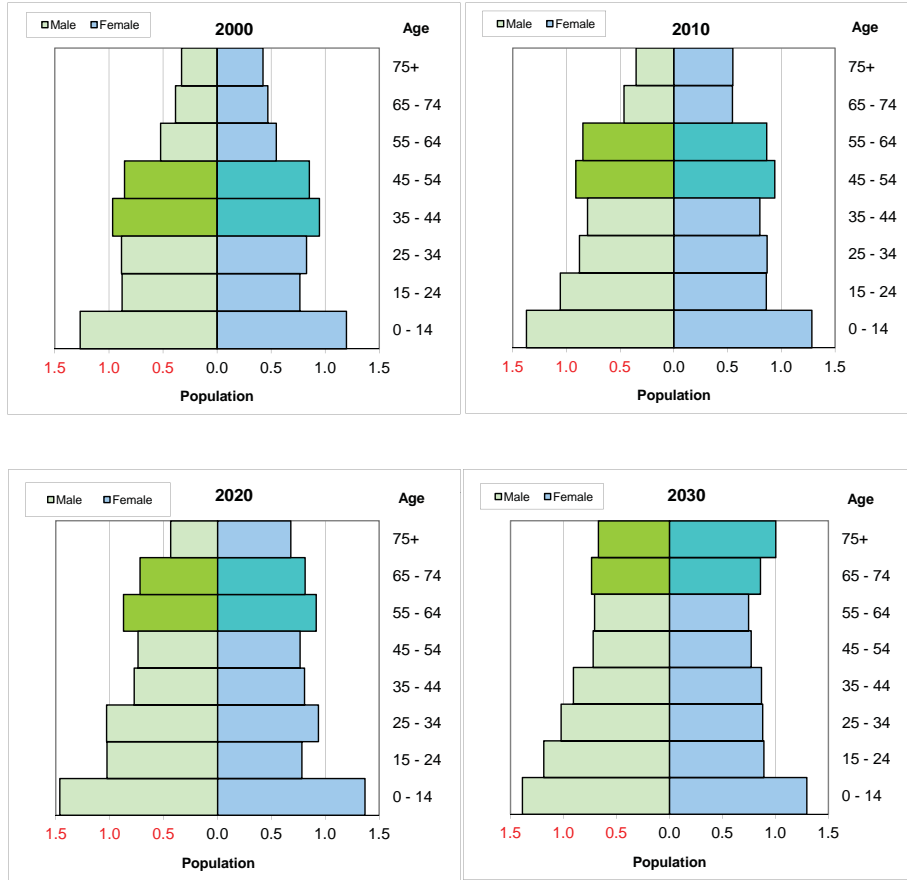
<sup>2</sup> Projections prepared by Mikiko assuming 2015 population at approximately midpoint of Claritas (2010) and DBEDT/County (2008) projections for that year. Projections thereafter based on DBEDT/County projected rates of growth to 2035 and an assumed declining rate thereafter as shown.

<sup>3</sup> Claritas, Inc., October 20, 2010, estimate for 2010, projection for 2015, figures interpolated in-between. 2000 to 2009 data shown are estimates prepared by Claritas in previous years.

<sup>4</sup> U.S. Census Bureau, 2011, Summary File, Table P1; Ibid, Population Division, "Table 1. Annual Estimates of the Resident Population for Counties of Hawaii" April 1, 2000 to July 1, 2009," (COEST2009-01-15) March 2010. (Next U.S. Census population update for Hawaii's counties is anticipated in April 2012.)



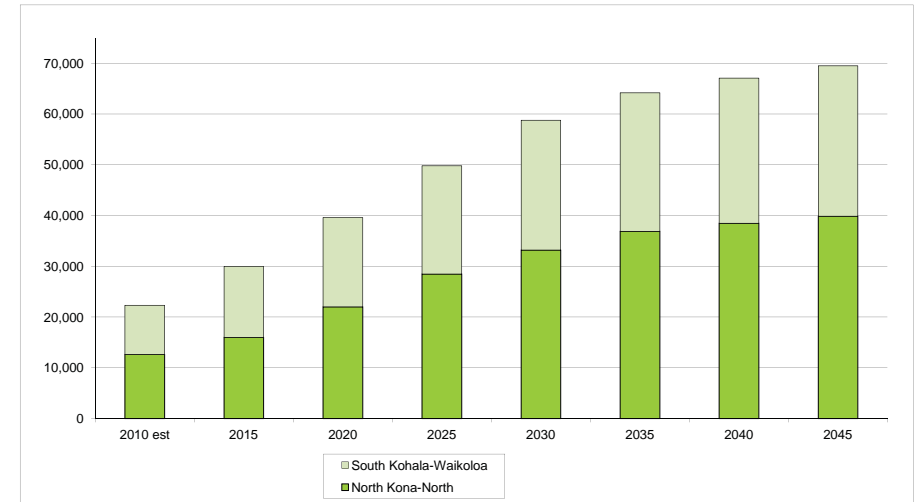
**Exhibit 2-3**  
**Projected Population by Age Group - State of Hawaii**  
 2000 to 2030



Notes: Each unit on the X axis represents 100,000 persons. Highlighted bars include the Baby Boom cohort.  
 Source: U.S. Census Bureau, Population Division, Interim State Population Projections (released 4/21/05),  
<http://www.census.gov/population/www/projections/statepyramid.html>.

**Exhibit 2-4**  
**Resident Population -**  
**Competitive Residential Market Area and Island of Hawaii**  
 2010 to 2045

	2010 Census/ Estimate	2015	2020	2025	2030	2035	2040	2045	Average annual % increase, 2010-45
<b>Competitive Residential Market Area<sup>1</sup>:</b>									
North Kona-North <sup>2</sup>	12,641	16,000	22,000	28,500	33,200	36,900	38,500	39,900	3.3%
South Kohala-Waikoloa <sup>3</sup>	9,675	14,000	17,600	21,300	25,600	27,300	28,600	29,600	3.2%
<b>Total CRMA</b>	<b>22,300</b>	<b>30,000</b>	<b>39,600</b>	<b>49,800</b>	<b>58,800</b>	<b>64,200</b>	<b>67,100</b>	<b>69,500</b>	<b>3.3%</b>
<b>Island of Hawaii<sup>4</sup></b>									
	185,079	200,000	220,100	237,200	255,600	273,000	285,500	295,600	1.3%
<b>As a percentage of Island:</b>									
North Kona-North <sup>2</sup>	6.8%	8.0%	10.0%	12.0%	13.0%	13.5%	13.5%	13.5%	
South Kohala-Waikoloa <sup>3</sup>	5.2%	7.0%	8.0%	9.0%	10.0%	10.0%	10.0%	10.0%	
<b>Total CRMA</b>	<b>12.0%</b>	<b>15.0%</b>	<b>18.0%</b>	<b>21.0%</b>	<b>23.0%</b>	<b>23.5%</b>	<b>23.5%</b>	<b>23.5%</b>	



<sup>1</sup> As provided by Claritas for 2008. Thereafter, population projected by Mikiko Corporation assuming CRMA's share of Island population should approach alignment with the area's relative share of its jobs base (21% in 2006, 23% in 2010) within the projection period.

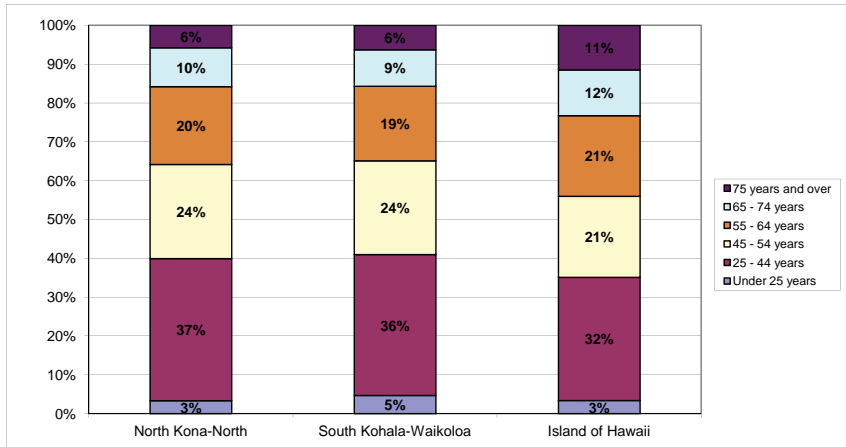
<sup>2</sup> Census Tract 215.01, the northern part of the North Kona District, generally to Henry Road. Excludes Kailua-Kona and areas southward. See Appendix 1 for map.

<sup>3</sup> Census Tract 217.01, the southern part of the South Kohala District, generally from Waikoloa Beach Resort to Mauna Kea Resort, and mauka to Waikoloa Village. Excludes Waimea Town. See Appendix 2 for map.

<sup>4</sup> Mikiko Corporation projections, as shown in Exhibit 2-2.

**Exhibit 2-5**  
**Households by Age of Household Head**  
**Competitive Residential Market Area and Island of Hawaii**  
 2010 Estimate

	As a percentage of Island of Hawaii				
	North Kona-North <sup>1</sup>	South Kohala-Waikoloa <sup>2</sup>	Island of Hawaii	North Kona-North <sup>1</sup>	South Kohala-Waikoloa <sup>2</sup>
Under 25 years	140	169	2,237	6%	8%
25 - 44 years	1,542	1,317	21,046	7%	6%
45 - 54 years	1,022	875	13,853	7%	6%
55 - 64 years	844	697	13,760	6%	5%
65 - 74 years	423	339	7,850	5%	4%
75 years and over	243	229	7,603	3%	3%
<b>Total</b>	<b>4,214</b>	<b>3,626</b>	<b>66,349</b>	<b>6%</b>	<b>5%</b>
<b>Median age</b>	<b>34</b>	<b>37</b>	<b>52</b>		



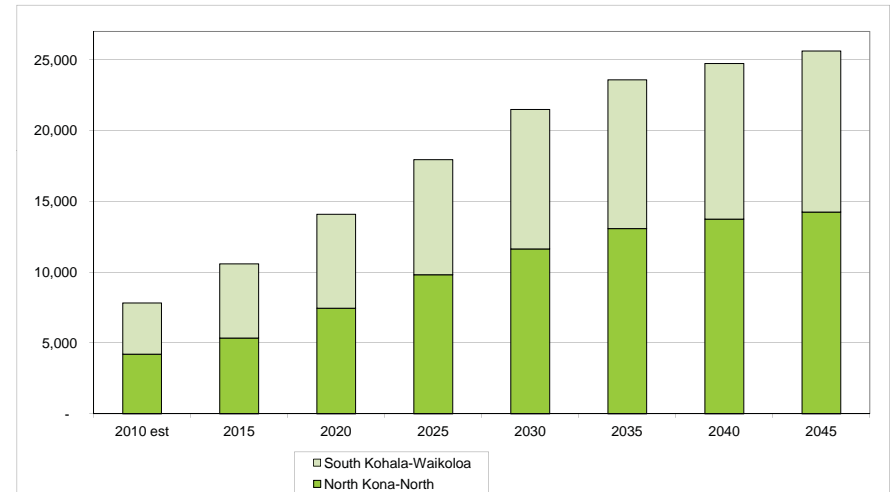
<sup>1</sup> Census Tract 215.01, the northern part of the North Kona District, generally to Henry Road. Excludes Kailua-Kona and areas southward. See Appendix 1 for map.

<sup>2</sup> Census Tract 217.01, the southern part of the South Kohala District, generally from Waikoloa Beach Resort to Mauna Kea Resort, and mauka to Waikoloa Village. Excludes Waimea Town. See Appendix 2 for map.

Source: Claritas, Inc., October 20 and 25, 2010.

**Exhibit 2-6**  
**Households - Competitive Residential Market Area and Island of Hawaii**  
 2010 to 2045

	2010								Average annual % increase, 2010-45
	Estimate	2015	2020	2025	2030	2035	2040	2045	
<b>Number of households:<sup>1</sup></b>									
<b>Competitive Residential Market Area -</b>									
North Kona-North <sup>2</sup>	4,210	5,350	7,460	9,830	11,650	13,090	13,750	14,250	3.5%
South Kohala-Waikoloa <sup>3</sup>	3,620	5,240	6,640	8,130	9,850	10,500	11,000	11,380	3.3%
Total CRMA, rounded	<b>7,800</b>	<b>10,600</b>	<b>14,100</b>	<b>18,000</b>	<b>21,500</b>	<b>23,600</b>	<b>24,800</b>	<b>25,600</b>	<b>3.5%</b>
<b>CRMA as % of Island</b>	<b>11%</b>	<b>14%</b>	<b>17%</b>	<b>20%</b>	<b>22%</b>	<b>23%</b>	<b>23%</b>	<b>23%</b>	<b>2.0%</b>
<b>Island of Hawaii</b>	69,100	74,600	83,100	90,200	97,600	104,200	109,000	112,800	1.4%
<b>Average household size:<sup>4</sup></b>									
North Kona-North <sup>2</sup>	3.00	2.99	2.95	2.90	2.85	2.82	2.80	2.80	-0.2%
South Kohala-Waikoloa <sup>3</sup>	2.67	2.67	2.65	2.62	2.60	2.60	2.60	2.60	-0.1%
Island of Hawaii	2.68	2.68	2.65	2.63	2.62	2.62	2.62	2.62	-0.1%



<sup>1</sup> As provided by Claritas for 2010. Thereafter, based on projected population as shown in Exhibit 2-4 and household sizes as shown.

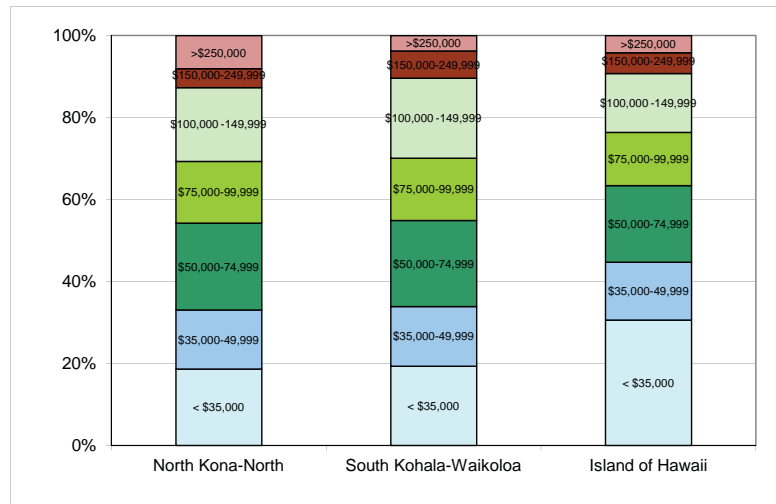
<sup>2</sup> Census Tract 215.01, the northern part of the North Kona District, generally to Henry Road. Excludes Kailua-Kona and areas southward. See Appendix 1 for map.

<sup>3</sup> Census Tract 217.01, the southern part of the South Kohala District, generally from Waikoloa Beach Resort to Mauna Kea Resort, and mauka to Waikoloa Village. Excludes Waimea Town. See Appendix 2 for map.

<sup>4</sup> As provided by Claritas for 2010, with nominal or no changes to 2015 as economic conditions solidify. Thereafter, household sizes projected to decline at a generally diminishing rate. Household sizes within the CRMA as a whole are projected to approach those of the County over time.

**Exhibit 2-7**  
**Households by Household Income -**  
**Competitive Residential Market Area and Island of Hawaii**  
 2010 Estimate

	North Kona-North <sup>1</sup>	South Kohala- Waikoloa <sup>2</sup>	Island of Hawaii
<b>Median household income</b>	<b>\$69,958</b>	<b>\$69,169</b>	<b>\$67,237</b>
<b>Per capita income</b>	<b>\$31,529</b>	<b>\$32,050</b>	<b>INA</b>
<b>Number of households, by income -</b>			
Less than \$34,999	787	702	20,322
\$35,000 - \$49,999	606	528	9,334
\$50,000 - \$74,999	894	760	12,398
\$75,000 - \$99,999	634	552	8,637
\$100,000 - \$149,999	758	708	9,504
\$150,000 - \$199,999	194	241	3,376
\$200,000 or more	341	135	2,778
<b>Total</b>	<b>4,214</b>	<b>3,626</b>	<b>66,349</b>



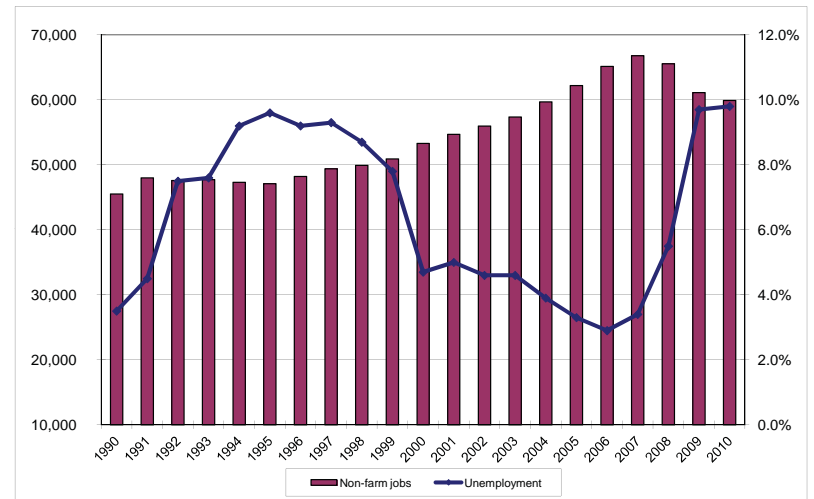
<sup>1</sup> Census Tract 215.01, the northern part of the North Kona District, generally to Henry Road. Excludes Kailua-Kona and areas southward. See Appendix 1 for map.

<sup>2</sup> Census Tract 217.01, the southern part of the South Kohala District, generally from Waikoloa Beach Resort to Mauna Kea Resort, and mauka to Waikoloa Village. Excludes Waimea Town. See Appendix 2 for map.

Source: Claritas, Inc., October 20 and 25, 2010.

**Exhibit 2-8**  
**Labor Force Trends - Hawaii County**  
 1990 to 2010

	Civilian labor force	Employed persons	Non-farm wage & salary jobs	Percent unemployment
1990	58,350	56,300	45,500	3.5%
1995	65,400	59,100	47,100	9.6%
2000	74,200	70,750	53,300	4.7%
2005	81,850	79,150	62,200	3.3%
2006	85,050	82,550	65,150	2.9%
2007	85,750	82,850	66,800	3.4%
2008	86,650	81,850	65,550	5.5%
2009	84,250	76,100	61,100	9.7%
2010	83,250	75,150	59,900	9.8%



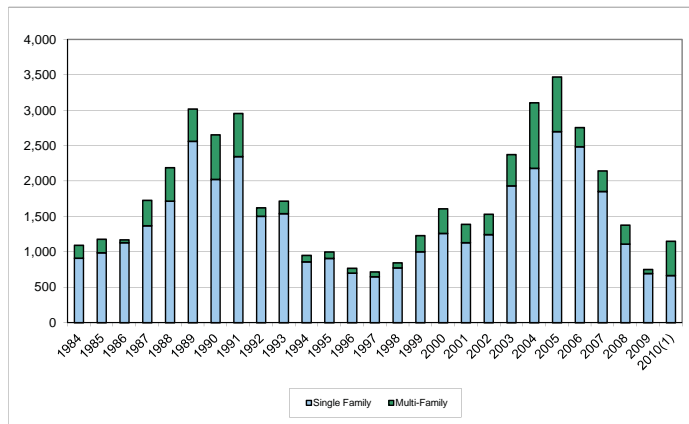
Source: \*Hawaii State Department of Labor & Industrial Relations, 2007. Labor force estimates revised by DLIR with new methodology employed by U.S. Bureau of Labor Statistics, as of 2007. As referenced in: [www.hiwi.org/admin/uploadedPublications/470\\_LFHC.PDF](http://www.hiwi.org/admin/uploadedPublications/470_LFHC.PDF), [www.hiwi.org/admin/uploadedPublications/1019\\_URATE.current.pdf](http://www.hiwi.org/admin/uploadedPublications/1019_URATE.current.pdf) and [www.hiwi.org/analyzer/qsllabforcedata.asp?cat=HST\\_EMP\\_WAGE\\_LAB\\_FORCE&session=LABFORCE&subsession=99&areaname=](http://www.hiwi.org/analyzer/qsllabforcedata.asp?cat=HST_EMP_WAGE_LAB_FORCE&session=LABFORCE&subsession=99&areaname=).

Non-farm wage and salary job estimates provided by DLIR as referenced in [www.hiwi.org/admin/uploadedPublications/700\\_CESH00S.PDF](http://www.hiwi.org/admin/uploadedPublications/700_CESH00S.PDF) and <http://www.hiwi.org/gspub/index.asp?docid=421>.

State of Hawaii, Department of Labor and Industrial Relations, Research and Statistics Division, March 2011.

**Exhibit 3-1  
Residential Building Permits - County of Hawaii  
1990 - 2010<sup>1</sup>**

	<b>Single Family</b>	<b>Multi- Family</b>	<b>Total</b>
<b>Average</b>	<b>1,484</b>	<b>321</b>	<b>1,805</b>
1990	2,024	627	2,651
1995	908	90	998
2000	1,260	347	1,607
2005	2,698	771	3,469
2006	2,484	270	2,754
2007	1,851	291	2,142
2008	1,108	270	1,378
2009	694	58	752
2010 <sup>1</sup>	667	482	1,149



Not seasonally adjusted.

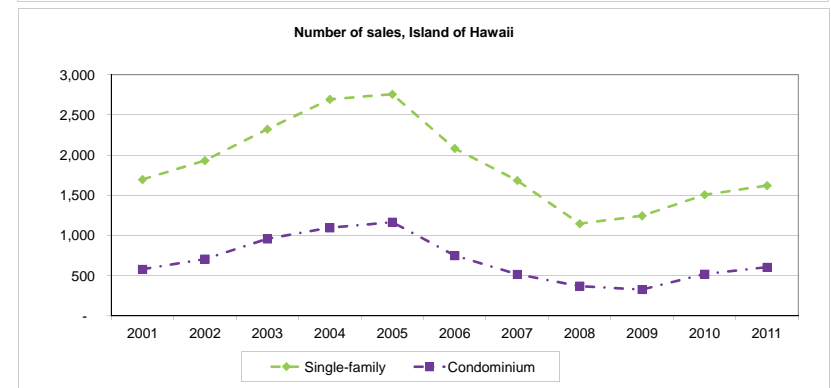
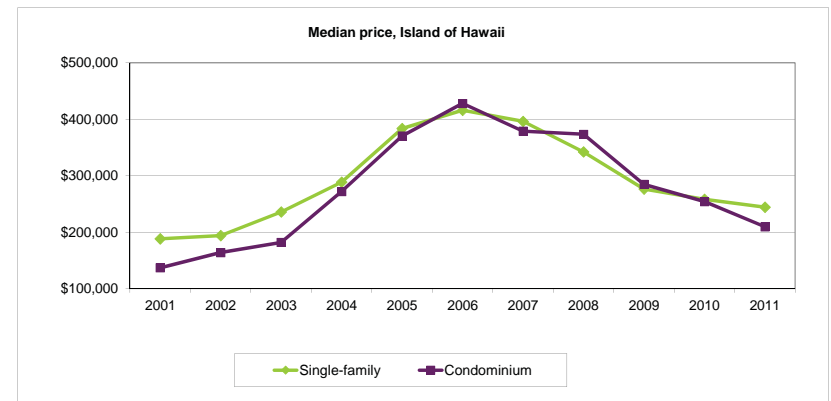
<sup>1</sup> Annualized based on data through November 2010.

Sources: "Hawaii County Data Book Section 16: Construction & Housing," [www.co.hawaii.hi.us/databook\\_current/section16.htm](http://www.co.hawaii.hi.us/databook_current/section16.htm), date last modified 04/23/2010; Hawaii County, Department of Public Works <http://www.hawaii-county.com/permits/2010permits.html>.

County of Hawaii: Department of Research & Development - County of Hawaii Statistics; <http://www.hawaii-county.com/info/stats/nov10.pdf>

**Exhibit 3-2  
Hawaii County Residential Resales Trends  
2001 to 2011**

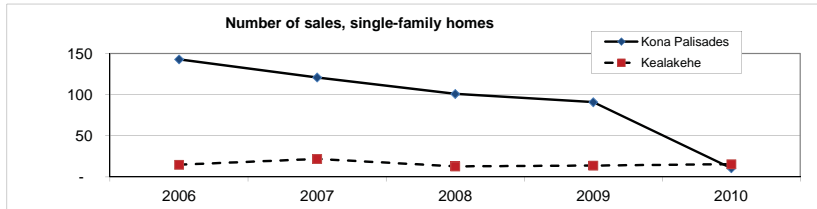
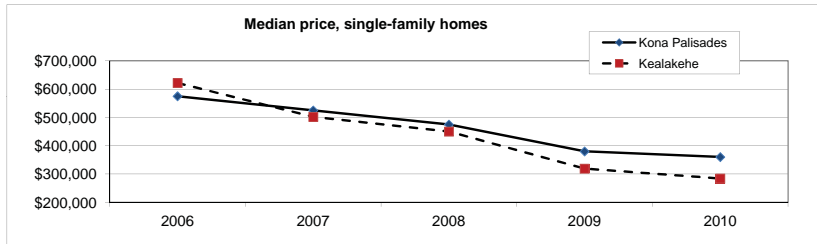
	<b>2001</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Median price -								
Single-family	\$188,400	\$383,800	\$416,100	\$396,400	\$342,400	\$276,600	\$258,400	\$244,400
Condominium	\$137,100	\$370,600	\$428,200	\$379,100	\$373,600	\$284,900	\$254,400	\$209,800
Number of sales -								
Single-family	1,696	2,757	2,083	1,685	1,147	1,246	1,507	1,620
Condominium	580	1,166	750	517	371	328	520	605



Sources: Annual data from University of Hawaii's Economic Research Organization, Data Portal, as accessed April 2012; recent month data from Pacific Business News, March 6, 2012.

**Exhibit 3-3**  
**Residential Sales in Kona Palisades and Kealakehe**  
 TMKs 3-7-3 & 4, North Kona-North  
 2006 to 2010<sup>1</sup>

	2006	2007	2008	2009	2010 <sup>1</sup>	Average annual percent change
<b>Kona Palisades:</b>						
Median price -						
Single-family	\$575,000	\$525,000	\$475,000	\$380,000	\$360,000	-11.0%
Condominium <sup>2</sup>	\$572,500	\$293,403	\$293,403	\$399,950	\$325,000	-13.2%
Number of sales -						
Single-family	143	121	101	91	154	1.8%
Condominium	16	35	14	18	11	-9.4%
<b>Kealakehe:</b>						
Median price -						
Single-family	\$622,000	\$502,000	\$450,000	\$318,700	\$284,000	-17.8%
Condominium	\$975,000	\$600,000	--	\$580,000	--	INA
Number of sales -						
Single-family	15	22	13	14	16	1.0%
Condominium	13	3	0	4	0	INA



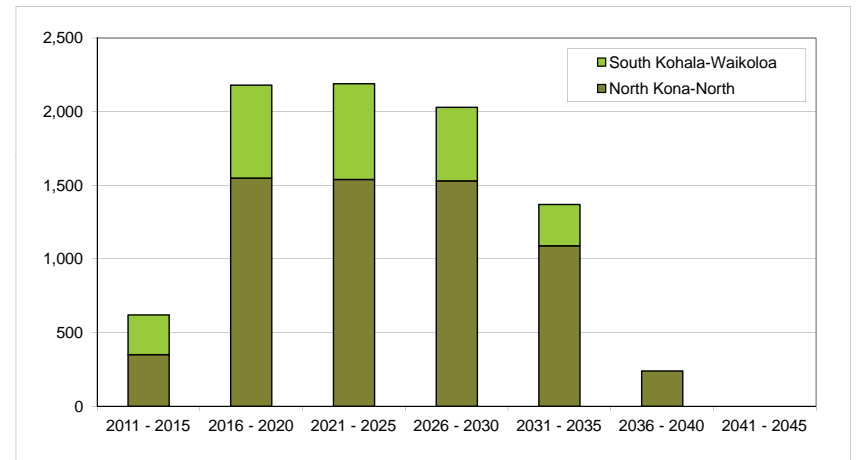
<sup>1</sup> Based on 2010 sales data through October: median price based on 10 months data; number of sales annualized. Figures not seasonally adjusted.

<sup>2</sup> Median prices for 2007 and 2008 are identical because they represent same floor plan developer sales by Seascape Development LLC. Note: Kona Palisades and Kealakehe neighborhoods evaluated based on recorded residential sales within Tax Map Keys 3-7-3 and 4, respectively, but excluding properties makai of Queen Kaahumanu Highway, west of Palani Road and mauka of Mamalahoa Highway.

Source: Hawaii Information Service, data as of November 4, 2010.

**Exhibit 3-4**  
**Potential New Resident Housing Units -**  
**Competitive Residential Market Area**  
 Based on Planned Developments with State Entitlement or Exemption  
 as of December 2010

	2011 - 2015	2016 - 2020	2021 - 2025	2026 - 2030	2031 - 2035	2036 - 2040	2041 - 2045	Total, rounded
<b>North Kona-North<sup>1</sup></b>	350	1,550	1,540	1,530	1,090	240	0	6,300
<b>South Kohala-Waikoloa<sup>2</sup></b>	270	630	650	500	280	0	0	2,300
<b>Total (rounded)</b>	<b>620</b>	<b>2,180</b>	<b>2,190</b>	<b>2,030</b>	<b>1,370</b>	<b>240</b>	<b>0</b>	<b>8,600</b>
<b>% of projection period</b>	<b>7%</b>	<b>25%</b>	<b>25%</b>	<b>24%</b>	<b>16%</b>	<b>3%</b>	<b>0%</b>	<b>100%</b>
<b>cumulative %</b>	<b>7%</b>	<b>33%</b>	<b>58%</b>	<b>82%</b>	<b>98%</b>	<b>100%</b>	<b>100%</b>	



<sup>1</sup> Census Tract 215.01, the northern part of the North Kona District, generally to Henry Road. Excludes Kailua-Kona and areas southward. See Appendix 1 for map.

<sup>2</sup> Census Tract 217.01, the southern part of the South Kohala District, generally from Waikoloa Beach Resort to Mauna Kea Resort, and mauka to Waikoloa Village. Excludes Waimea Town. See Appendix 2 for map.

Note: Survey targeted projects of 100 units or more. Excludes emergency shelters, dormitory beds and other group living quarters.

Sources: Interviews with developers, landowners and project principals as shown in Appendix 3. Component numbers may vary slightly from those in Appendix 3 due to rounding.

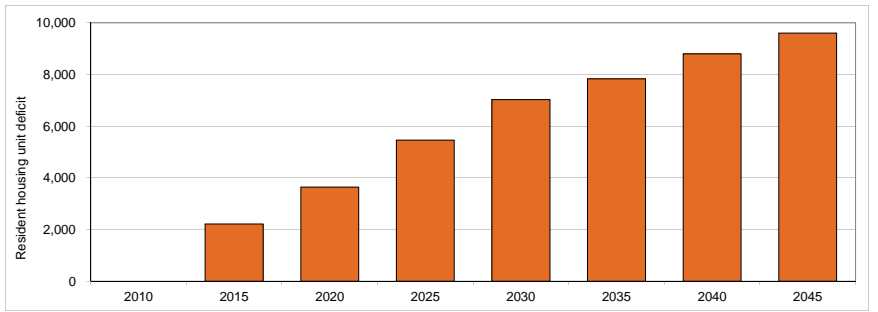
**Exhibit 4-1**  
Performance Indicators for Selected Comparison Residential Projects  
Comparison to Kaiako Market market unit plans

Kaiako Market Transsect Zone	Permitted uses <sup>1</sup>	Density and story height	Preliminary SCD plans - densities - market units	Comparison projects					
				Name, location (developer)	Density (U/A)	Recent price indicators <sup>2</sup>	Developer sales <sup>3</sup>	Comments	
Urban, T4 and T5	Townhouses, apartments, or SF condominiums; may be mixed with retail or office uses	Up to 12 (for T4) or 30 (for T5) units/acre;	Multi- and single-family, 8 to 16 units per ...	Maikoa Kai Whelan, (Castle & Cooke)	12	\$225,000 to \$295,000; average	\$191,000 average <sup>4</sup>	50' year 2007 at \$337,000- \$400,000+ residential.	4- and 6-plex THs, marketed 2/20/06 to 12/20/09, 80% primary residential.
				Alli Cove, Kailua-Kona (Suncoast Realty Partners X, LLC)	11	\$200,000 to \$395,000; average	\$305,567 average	70-110' 2005-2006 at \$365,000- \$400,000	Maikoa side of Alli Drive; first marketed late 2004; 200 total units. Transient rentals permitted.
				Alli Park Place, Kailua (Kona Alli Park Place LLC)	11	\$80,000 to \$192,153; average	\$350,619 average	20 & 40' 2004-2005, at \$370,000 & \$460,000 averages	Maikoa side of Alli Drive; first marketed in 2004, 59 total units. Transient rentals permitted.
				Pines at Kailua-Kona I and II, North Kona-South Triyo Hawaii Co., Ltd.)	7	\$270,000 to \$490,000; average	\$276,670 average	NA	191 units built 1989 & 1990. SFD condos/ZLL: 3,000 to 5,000 sf lots, ocean views from many.
Suburban, T3	SFD or duplex	Up to 6 units/acre; 1-2 stories	Single-family, 3 to 6 units/acre	Puakani Estates, North Kona-South (DR Horton-Schuler Division)	4	\$380,000 to \$627,000; average	\$527,732; \$403,273 average	50- 70' year <sup>5</sup> 2004 to 2008 at \$327,000 to \$357,000 average	Average 6,000 sf lots, range 5,000 to 8,000, with homes 1,140-1,680 sf. First sales in 2004.
				Kiikaha, Waianani, Maikoa Village (Castle & Cooke)	3	\$379,000 to \$450,000; average	\$568,000; \$453,000 average	20' year 9/2006-6/2009, at \$425,000 average	SFD - 56 homes and 18 vacant lots; average 10,000 sf.

<sup>1</sup> Pince Maekens, LLC, "Kona Village Design Guidelines" (calibrated for County of Hawaii), Final Draft, October 10, 2010. Density expressed in units per gross acre including through-lots but excluding civic zones such as trails, plazas, playgrounds, etc.)  
<sup>2</sup> Current asking prices for projects in marketing; recorded sales prices from 1/1/08 to 4/19/09 and 1/1/10 to 12/31/10 for projects with recorded sales; projected sales prices for planned developments. Excludes pricing of affordable units within projects, where applicable.  
<sup>3</sup> Range of average annual sales during years of substantial developer inventory; years specified.  
<sup>4</sup> All 5 transactions appear to represent bank foreclosures and subsequently discounted REO sales, and so are considered less representative; no developer sales.  
<sup>5</sup> Rate applies except in 2006, when only 19 developer sales recorded.  
 INA - Information not available. MF - multifamily homes; SFD - single-family detached homes; TH - townhouse; UA - units per gross acre.  
 Sources: Interviews with developers and other project representatives; project websites; Hawaii Information Service; Pacific Business News; Honolulu Star Advertiser.

**Exhibit 3-5**  
Projected Supply and Demand for Housing -  
Competitive Residential Market Area  
2010 to 2045

Basis/ reference	2010	2015	2020	2025	2030	2035	2040	2045	Total/ average, 2010-2045
<b>Demand (households):</b>									
Number	Exhibit 2-6	7,800	10,600	14,100	18,000	21,500	23,600	24,800	25,600
Change since prior date - Total (rounded)	--	2,800	3,500	3,900	3,500	2,100	1,200	800	17,800
Average annual	--	560	700	780	700	420	240	160	510
<b>Supply (resident housing units):</b>									
Estimated occupied housing units in 2010 <sup>1</sup>	Claritas/Mikiko	7,800							
Entitled new developments - Potential development since prior date (total rounded)	Exhibit 3-4	--	620	2,180	2,190	2,030	1,370	240	8,600
Less vacancy allowance (applied to new units, rounded)	5%	--	-30	-110	-110	-100	-69	-12	0
Net available RHUs (rounded)		7,800	8,390	10,460	12,540	14,470	15,770	16,000	8,200
Change since prior date - Total	--	590	2,070	2,080	1,930	1,300	230	0	8,200
Average annual	--	120	410	420	390	260	50	-	230
<b>Resident housing unit surplus/(deficit):</b>									
At prior date shown <sup>2</sup>		INA	0	(2,210)	(3,640)	(5,460)	(7,030)	(7,830)	(8,800)
Net surplus (deficit) in RHU production since prior date <sup>2</sup>		INA	(2,210)	(1,430)	(1,820)	(1,570)	(800)	(970)	(800)
By end of column date		0	(2,210)	(3,640)	(5,460)	(7,030)	(8,800)	(9,600)	



INA = Information not available RHU = resident housing unit (for full-time residents)  
<sup>1</sup> Estimated based on total less vacant housing units as estimated by Claritas for 2010, as of October 2010. Figure includes occupied vacation or seasonal homes and thus is considered an overestimate of available RHUs. See beginning of Chapter 3 text for discussion.  
<sup>2</sup> Unmet market demand (vs. desires) assumed to be 0 in 2010 due to prevailing soft economic conditions and relatively high primary residential vacancies compared to historical trends.

**Exhibit 4-2  
Residential Market Assessment for Kaloko Makai**

Based on maximum development scenario with 1,000 units of affordable housing  
2010 Dollars

Unit type/area	Number of units	Example densities (U/A)	Average annual absorption rate <sup>1</sup>	Average unit sales price	Potential marketing period (years)
Affordable homes (T4 & T5)	1,000 <sup>2</sup>	8 to 16	32	\$284,500 <sup>2</sup>	31
<b>Market homes:</b>					
T4 and T5 - Multi- or single-family	3,014	8 to 16	98	\$370,000	31
T3 - Single-family	986	3 to 6	35	\$475,000	28
Subtotal/average, market homes	4,000	3 to 13	130	\$396,000	31
<b>Total/average, all products (rounded)<sup>3</sup></b>	<b>5,000</b>	<b>3 to 16</b>	<b>160</b>	<b>\$374,000</b>	<b>31</b>

<sup>1</sup> Total assumes several but not all products are marketing simultaneously; therefore it may be less than sum of average absorption of individual product types.

<sup>2</sup> Affordable unit count expected to range from 700 to 1,000 units based on 5,000 total units, and varying with County rules regarding assignment of credits by income range of buyers. See Hawaii County Code, Chapter 11, Section 11-5 (amended 2011.) If additional housing credits are required to address nonresidential units at Kaloko Makai, developer will comply with such requirements.

For illustrative purposes, Hawaii County guidelines in effect as of September 1, 2010 would specify for-sale housing offered to households of two to four persons earning incomes ranging from less than 80% and up to 120% of the County median income be priced from \$202,500 to \$366,200; figure shown is based on a mix of market orientations that would satisfy the 1,0000 credits expected to be required of the developer.

Price guidelines also specify one- to two-bedroom rental units offered to households earning 80% to 100% of median income be priced from \$1,037 to \$1,500 per month, including utilities. County of Hawaii, Office of Housing and Community Development, "Affordable Housing Guidelines for the County of Hawai'i."

Actual inventory, unit types and tenure of affordable housing to be determined in future agreements with government agencies.

**Exhibit 4-3  
Kaloko Makai - Illustrative Potential Residential Sales Absorption**

Based on maximum development scenario, no rentals  
and 1,000 units of affordable housing

Unit type/area	Maximum units	Average annual absorption rate	2015 - 2025	2026 - 2035	2036 - 2045
<b>Number of years in period</b>			<b>11</b>	<b>10</b>	<b>10</b>
Affordable homes <sup>1</sup>	1,000	32	360	320	320
Market homes	4,000	130	1,400	1,300	1,300
<b>Total Project (rounded)<sup>2</sup></b>	<b>5,000</b>	<b>160</b>	<b>1,760</b>	<b>1,620</b>	<b>1,620</b>

<sup>1</sup> Affordable unit count expected to range from 700 to 1,000 units based on 5,000 total units, and varying with County rules regarding assignment of credits by income range of buyers.

<sup>2</sup> Total assumes several but not all products are marketing simultaneously; therefore it may be less than sum of average absorption of individual product types.

**Exhibit 5-1**  
**Existing Retail Supply and Market Indicators - Primary Trade Area**  
 In square feet, as of December 2010

	<u>North Kona<sup>1</sup></u>	<u>South Kohala<sup>2</sup></u>	<u>Total PTA</u>
<b>Gross leasable area</b>	1,937,000	676,000	2,613,000
<b>Vacancy indicators<sup>3</sup></b>	10%	11%	10%
<b>Largest properties</b>	Kona Commons including Target (505,000)	Parker Ranch Center (146,800)	Kona Commons including Target (505,000)
	Makalapua Shopping Center (170,000)	Queen's Marketplace (135,000)	Makalapua Shopping Center (170,000)

Note: Excludes retail uses in light industrial or business centers. Includes some office/service tenants within shopping centers or other primarily retail complexes.

<sup>1</sup> Defined as Census Tracts 215.01, 215.02, 215.03, 216.01 and 216.02.

<sup>2</sup> Defined as Census Tracts 217.01 and 217.02.

<sup>3</sup> PTA vacancies based on survey by Colliers Hawaii Consulting in November 2010, with sample representing approximately 88% of the PTA's GLA.

Sources: Colliers Hawaii Consulting, A Division of Colliers Monroe Friedlander, Inc., custom and proprietary reports, 2010. Pacific Business News, "Book of Lists 2010," 2010.

**Exhibit 5-2**  
**Existing Office Supply and Market Indicators - Primary Trade Area**  
 In square feet, as of December 2010

	<u>North Kona<sup>1</sup></u>	<u>South Kohala<sup>2</sup></u>	<u>Total PTA</u>
<b>Rentable building area (rounded)</b>	529,000	63,000	592,000
<b>Vacancy indicators</b>	18%	21%	18%
<b>Largest properties/areas (Rentable building area)</b>	The Pottery Terrace (47,500)	Waikoloa Highlands Center (19,900)	The Pottery Terrace (47,500)
	Kaiwi Square (37,600) <sup>4</sup>	Kamuela Business Center (18,400)	Kaiwi Square (37,600) <sup>4</sup>

Note: Excludes government-owned buildings and some exclusively owner-occupied buildings. Properties may also house some retail spaces, not included in retail inventory on previous exhibit.

<sup>1</sup> Defined as Census Tracts 215.01, 215.02, 215.03, 216.01 and 216.02.

<sup>2</sup> Defined as Census Tracts 217.01 and 217.02.

<sup>3</sup> PTA vacancies based on survey by Colliers Hawaii Consulting in November 2010, with sample representing approximately 84% of the PTA's GLA.

<sup>4</sup> May include ground floor retail.

Sources: Colliers Hawaii Consulting, A Division of Colliers Monroe Friedlander, Inc., custom and proprietary reports, 2010. Pacific Business News, "Book of Lists 2010," 2010.

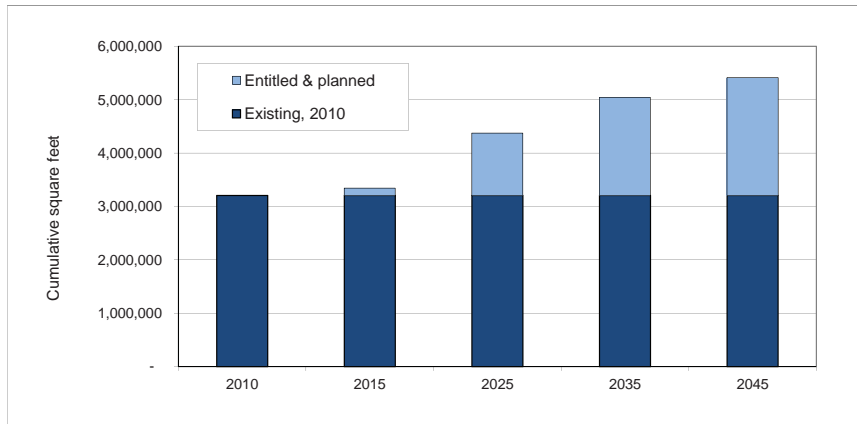


**Exhibit 5-3**  
**Potential Future Commercial Space - Primary Trade Area**

Existing and Planned/Entitled Developments

Square feet of gross leasable area, plans known as of December 2010

	Reference	Existing, Dec. 2010	Potential new market entries				Total
			2015	2025	2035	2045	
<b>Existing inventory:</b>							
Retail	Exhibit 5-1	2,613,000					2,613,000
Office	Exhibit 5-2	592,000					592,000
<b>Entitled potential spaces</b> (since prior date): <i>Appendix 4, distributed</i>							
North Kona <sup>1</sup>			140,000	880,000	470,000	320,000	1,810,000
South Kohala <sup>2</sup>			-	150,000	200,000	50,000	400,000
<b>Total</b>			<b>140,000</b>	<b>1,030,000</b>	<b>670,000</b>	<b>370,000</b>	<b>2,210,000</b>
<b>Potential future inventory</b> (cumulative):							
North Kona <sup>1</sup>		2,466,000	2,606,000	3,486,000	3,956,000	4,276,000	
South Kohala <sup>2</sup>		739,000	739,000	889,000	1,089,000	1,139,000	
<b>Total</b>		<b>3,205,000</b>	<b>3,345,000</b>	<b>4,375,000</b>	<b>5,045,000</b>	<b>5,415,000</b>	



Note: Includes proposed retail and office uses, but excludes industrial lands that could potentially accommodate similar uses.

<sup>1</sup> Defined as Census Tracts 215.01, 215.02, 215.03, 216.01 and 216.02.

<sup>2</sup> Defined as Census Tracts 217.01 and 217.02.

**Exhibit 5-4**  
**Resident Profiles - Primary Trade Area and Benchmarks**

2000 Census and 2010 estimates

	Primary Trade Area		
	North Kona <sup>1</sup>	South Kohala <sup>2</sup>	Total PTA
<b>Resident population:</b>			
2000 U.S. Census	28,543	13,131	41,674
2010 estimated	37,300	18,000	55,300
Compound annual % increase, 2000-2010			
	2.7%	3.2%	2.9%
<b>Median age (2010)</b>			
	39	36	38
<b>Civilian labor force (2010):</b>			
Number	21,900	10,500	32,400
Percent of population	59%	58%	59%

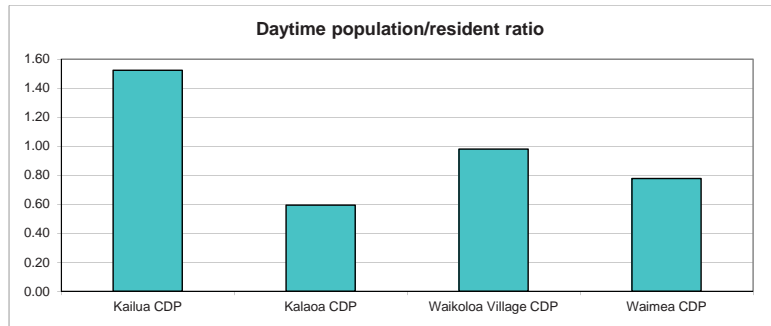
<sup>1</sup> Defined as Census Tracts 215.01, 215.02, 215.03, 216.01 and 216.02.

<sup>2</sup> Defined as Census Tracts 217.01 and 217.02.

Source: Claritas Inc., October 2010.

**Exhibit 5-5**  
**Daytime Resident Population and Employment Residence Ratios**  
**for Census Designated Places within the Primary Trade Area**  
2000

	Residents, 2000	Total working in the CDP	Daytime population <sup>1</sup>	CDP daytime population /residents
<b>CDPs in North Kona District:</b>				
Kailua CDP	9,870	9,992	15,036	1.52
Kalaoa CDP	6,794	965	4,036	0.59
Subtotal of CDPs	16,664	10,957	19,072	1.14
<b>CDPs in South Kohala District:</b>				
Waikoloa Village CDP	4,806	2,430	4,713	0.98
Waimea CDP	7,028	1,774	5,466	0.78
Subtotal of CDPs	11,834	4,204	10,179	0.86
Four CDPs combined <sup>2</sup>	56,996	30,322	58,502	1.03



INA = Information not available.

Note: All ratios shown are within the respective CDP. Ratios would be higher if reported on a regional basis.

<sup>1</sup> Residents of area plus workers working in area less workers living in area.

<sup>2</sup> Composite of four CDPs covers a smaller and slightly different area than the PTA.

Source: US Census Bureau, Census 2000, PHC-T-40, "Estimated Daytime Population and Employment-Residence Ratios: 2000" Journey to Work and Migration Statistics Branch, 2005.

**Exhibit 5-6**  
**Existing Commercial Areas in Relation to User Populations**  
As of 2010

	Primary Trade Area		
	North Kona <sup>1</sup>	South Kohala <sup>2</sup>	Total PTA
<b>Retail market:</b>			
<b>Estimated consumers:</b>			
Resident population	37,300	18,000	55,300
Daytime population -			
Daytime resident ratio in district <sup>3</sup>	1.37	1.03	1.26
Daytime resident pop. in district	51,200	18,600	69,800
Average daily visitors <sup>4</sup>	10,400	8,200	18,600
Total daytime pop.	61,600	26,800	88,400
<b>Retail GLA<sup>5</sup></b>			
GLA per daytime population	1,937,000	676,000	2,613,000
	31	25	30
<b>Office market:</b>			
<b>Estimated users:</b>			
Resident population	37,300	18,000	55,300
Civilian labor force	21,900	10,500	32,400
% in civilian LF	59%	58%	59%
<b>Office RBA<sup>6</sup></b>			
Per civilian employee	529,000	63,000	592,000
	24	6	18

<sup>1</sup> Defined as Census Tracts 215.01, 215.02, 215.03, 216.01 and 216.02.

<sup>2</sup> Defined as Census Tracts 217.01 and 217.02.

<sup>3</sup> 2000 CDP ratios, as shown in Exhibit 5-5, are increased 20% to reflect the larger population and employment areas encompassed by the relevant districts. PTA ratios shown here vary from those shown for the CDPs within the PTA in Exhibit 5-5, since the former reflect the total PTA, while the latter is a weighted average for the CDPs, smaller places within each district. No adjustments assumed for economic changes occurring between 2000 and 2010.

<sup>4</sup> Based on estimated 18,622 average daily visitor census in Kona for 2009; distribution within the PTA

based on DBEDT's 2008 visitor unit count, with 5,369 in Kona and 4,207 in Kohala/Waimea.

<sup>5</sup> As shown in Exhibit 5-1.

<sup>6</sup> As shown in Exhibit 5-2.

Sources: Claritas Inc., October 2010; Colliers Monroe Friedlander Consulting, November 2010; State of Hawaii, Department of Business Economic Development and Tourism, Hawaii Tourism Authority; Ibid, 2009, "Visitor Plant Inventory".

**Exhibit 5-7**  
**Projected Supportable Commercial Areas - Primary Trade Area**  
 In square feet, 2010 to 2045

	Basis/reference	2010	2015	2025	2035	2045	Ave. annual change, 2010-2045
<b>Resident population in Primary Trade Area:</b>							
Population in North Kona-North & South Kohala-Waikoloa <sup>1</sup>	Exhibit 2-4	22,300	30,000	49,800	64,200	69,500	3.3%
Trade Area in relation to CRMA (above)	2.7 in 2000 2.5 in 2010	2.5	2.4	2.2	2.1	2.1	-0.5%
Population in Trade Area		55,300	72,000	110,000	135,000	146,000	2.8%
<b>Retail-based demand assessment:</b>							
Trade Area daytime resident population - Ratio to resident pop	PTA estimated at 1.26 in 2010 <sup>2</sup> (Ex. 5-6)	1.26	1.30	1.32	1.32	1.32	0.1%
Daytime residents		69,800	93,600	145,200	178,200	192,700	2.9%
Visitor population <sup>3</sup>	18,600 in 2010	18,600	20,000	23,200	26,900	31,200	1.5%
Retail consumer population in Trade Area		88,400	113,600	168,400	205,100	223,900	2.7%
Supportable GLA in Primary Trade Area	30 sf/daytime population in 2010 <sup>4</sup>	28	28	27	27	26	-0.2%
Area in square feet		2,500,000	3,200,000	4,500,000	5,500,000	5,800,000	2.4%
<b>Office-based demand assessment:</b>							
Civilian labor force							
Percent of population	59% of resident population in 2010 <sup>5</sup>	59%	57%	56%	55%	55%	-0.2%
Number of persons		32,600	41,000	61,600	74,300	80,300	2.6%
Supportable RBA in Primary Trade Area	18 sf/person in 2010 <sup>4</sup>	16	17	17	17	17	0.2%
Area in square feet		520,000	700,000	1,000,000	1,300,000	1,400,000	2.9%
<b>Total supportable commercial areas</b>		<b>3,000,000</b>	<b>3,900,000</b>	<b>5,500,000</b>	<b>6,800,000</b>	<b>7,200,000</b>	<b>4.1%</b>

Note: Demand projections could be conservative in that market support from area second home is residents not explicitly considered.

<sup>1</sup> Census Tracts 215.01 and 217.01, respectively.

<sup>2</sup> Based on estimated ratios derived for the PTA, as shown in Exhibit 5-6.

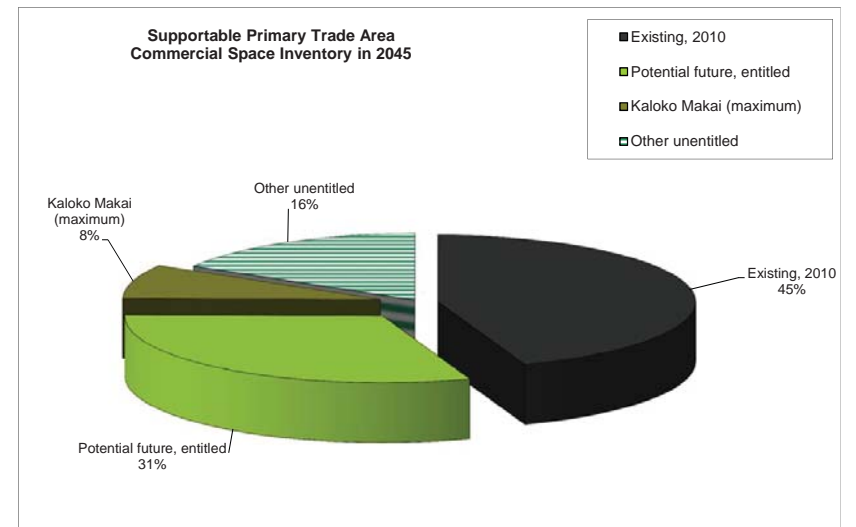
<sup>3</sup> Assumes annually compounded 1.5% average growth in visitor population, most originating in planned interval ownership developments. Projected growth rate based on Department of Business, Economic Development and Tourism, "Population and Economic Projections for the State of Hawaii to 2035: DBEDT 2035 series," January 2008. Table A-66 shows an average 1.1% increase in visitor days from 2010 to 2035 based on the "average growth scenario-baseline scenario." However, those projections do not consider the growing timeshare population of the region. Note also that estimated average daily visitor population in the PTA in 2006 was 21,700 persons, based on DBEDT data, and was unusually depressed in 2010.

<sup>4</sup> As shown in Exhibit 5-6. Supportable ratios for 2010 stated as below existing ratios due to high vacancies in 2010; declining retail ratio reflects potential new retailing modes, while slowly rising office ratio reflects an outlook for more professional opportunities within the PTA in the future.

<sup>5</sup> Compares to 46% for island as a whole in 2010, reflecting currently depressed labor market conditions, particularly outside of the PTA (see Exhibit 5-4.) A declining ratio within the PTA in the long-term is anticipated due to aging population.

**Exhibit 5-8**  
**Commercial Market Assessment for Kaloko Makai**  
 Cumulative square feet

	Basis/reference	2025	2035	2045
<b>Kaloko Makai commercial market:</b>				
Potential development phasing	600,000 maximum	430,000	560,000	600,000
Share of total future Trade Area		8%	8%	8%
Share of net unplanned PTA market support		38%	32%	34%
<b>Projected supportable in Primary Trade Area:</b>				
<b>Cumulative figures</b>				
Existing, 2010	Exhibit 5-3	3,205,000	3,205,000	3,205,000
Potential future, entitled	Exhibit 5-3	1,170,000	1,840,000	2,210,000
Net additional supportable		1,125,000	1,755,000	1,785,000
<b>Total</b>	Exhibit 5-7	<b>5,500,000</b>	<b>6,800,000</b>	<b>7,200,000</b>



Note: Demand projections could be conservative in that market support from area second home residents is not explicitly considered.

**Exhibit 6-1**  
**Existing Business Park/Industrial Supply and Market Indicators -**  
**Primary Trade Area**  
As of December 2010

	North Kona DPA	South Kohala DPA	Total	Comment
<b>Land inventory:</b>				
In net acres -				
Kona Industrial Subdivision	67		67	Mature subdivision adjacent to Kailua-Kona Town.
Kaloko Industrial Park, Phases I & II	110		110	Adjacent to Subject; includes Home Depot, Costco, CS Wo.
Kohanaiki Industrial Park & Honokohau areas	140		140	Adjacent to Subject. Includes McClean Warehouses, Kamanu Street & Huliko'a Drive.
Waimea		5	5	Seiselstad; includes Waimea Self-Storage.
Kawaihae		67	67	Includes DHHL's Kaei Hana II ("I" is in Hilo) & Kawaihae Village, also Kawaihae Industrial Center.
<b>Total net acres</b>	<b>320</b>	<b>70</b>	<b>390</b>	Rounded.
<b>Total in gross acres<sup>1</sup> -</b>	<b>400</b>	<b>90</b>	<b>490</b>	
Undeveloped lands as % of total	15%	1%	12%	"Undeveloped lands" may be encumbered with ground leases and in use.
<b>Built space</b> (square feet):	2,901,000	226,000	3,127,000	Based on CMF survey of approximately 70% of buildings in North Kona and 40% in South Kohala.
Average building vacancy	15%	2%	14%	Up from about 8% in 2008.
Average rent PSF	\$0.95	INA	INA	Down 11% since 2008.

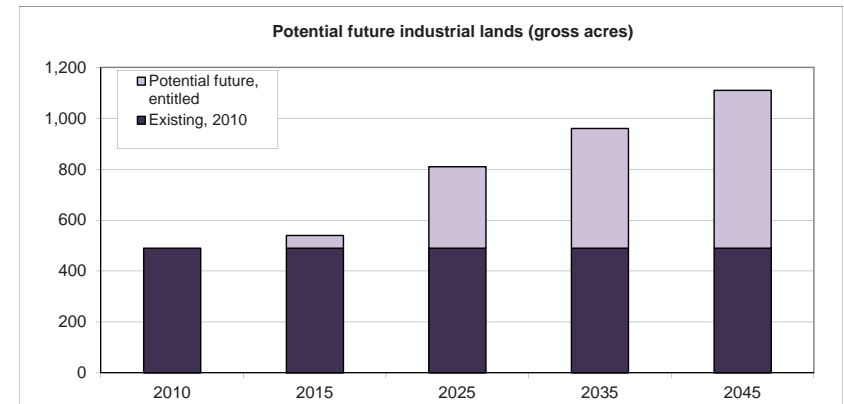
Notes: INA - Information not available. Net of government-owned and operated facilities such as military bases, harbors, airports and universities. (Excludes Honokohau and Kawaihae Harbors, Keahole-Kona International Airport, and the Natural Energy Laboratory of Hawaii.)

<sup>1</sup> Estimated based on 1.25 times net acres.

Sources: Mikiko Corporation; Colliers Hawaii Consulting, A Division of Colliers Monroe Friedlander, Inc. 2010, custom report.

**Exhibit 6-2**  
**Potential Future Business Park/Industrial Lands**  
**in North Kona and South Kohala Districts**  
Existing and Planned/Entitled Developments  
Gross acres; plans known as of December 2010

Location	Existing, Dec. 2010 (Ex. 6-1)	Potential new market entries <sup>1</sup>				Total
		2015	2025	2035	2045	
<b>Entitled potential development</b> (since prior date):						
North Kona	400	50	257	150	150	607
South Kohala	90	0	10	0	0	10
<b>Total, rounded</b>	<b>490</b>	<b>50</b>	<b>270</b>	<b>150</b>	<b>150</b>	<b>620</b>
<b>Potential future supply</b> (existing and planned, cumulative):						
North Kona	400	450	707	857	1,007	
South Kohala	90	90	100	100	100	
<b>Total, rounded</b>	<b>490</b>	<b>540</b>	<b>810</b>	<b>960</b>	<b>1,110</b>	



Note: Gross acres represent salable or leasable areas plus allowance for major roads and other infrastructure. Planned inventory excludes government-owned and operated facilities such as harbors, airports and university campuses.

<sup>1</sup> See Appendix 5 for listings. Based on plans known as of December 2010. Some proposed projects assumed to occur beyond the projection period, if at all.

Sources: Colliers Hawaii Consulting, A Division of Colliers Monroe Friedlander, Inc. 2010, custom report; interviews with landowners; company web sites.

**Exhibit 7-1  
Hawaii Island Visitor Unit Inventory  
2010**

	Number of units	Percent mix
<b>Type of accomodations:</b>		
Hotel	6,958	60%
Individual Vacation Unit <sup>1</sup>	1,675	14%
Timeshare	1,609	14%
Condominium	872	8%
B&B	362	3%
Other	119	1%
<b>Total</b>	<b>11,595</b>	<b>100%</b>
<b>Market orientation (rack room rate):</b>		
Budget (up to \$100)		13%
Standard (\$101 to \$250)		33%
Deluxe (\$251 to \$500)		40%
Luxury (over \$500)		14%
<b>Total</b>		<b>100%</b>

<sup>1</sup> According to the HTA, an individual vacation unit (IVU) may be a condominium unit (not in a hotel rental operation), a house, villa, or cottage or a cabin unit. Unclassified units may also be listed as individual vacation units.  
See HTA survey and definitions at:  
<http://www.hawaiitourismauthority.org/default/assets/File/reports/accommodations/2010-VISITOR-PLANT-INVENTORY-REPORT-FINAL-1.pdf>

Source: Hawaii Tourism Authority, 2010 Visitor Plant Inventory.

**Exhibit 6-3  
Projected Supportable Business Park/Industrial Land Areas**  
Cumulative gross acres, North Kona & South Kohala

	Benchmark -		Projected				Average annual change, 2010-2045
	2010	2015	2025	2035	2045		
<b>Sources of demand:</b>							
Civilian employed persons	Exhibit 5-7	32,600	41,000	61,600	74,300	80,300	2.6%
<b>2010 PTA market characteristics:</b>							
Land area (gross acres)	Exhibit 6-1	490					
Occupied lands <sup>1</sup>	Year-end 90% of land area	440					
<b>Future land demand</b> (gross acres, cumulative):							
Required lands for market balance, rounded	10% availability/ surplus	484	600	910	1,080	1,160	2.5%
Ratio <sup>2</sup>	Employees per gross acre	67	68	68	69	69	0.1%
<b>Supportable industrial land areas</b> (gross acres, cumulative):							
Less existing areas, 2010	Exhibit 6-1	490	490	490	490	490	0.0%
Potential delivery of entitled lands	Appendix 5	50	50	320	470	620	
<b>Net unentitled demand</b> (surplus), rounded		<b>(10)</b>	<b>60</b>	<b>100</b>	<b>120</b>	<b>50</b>	

Notes: <sup>1</sup> Net of government-owned and operated facilities such as military bases, harbors, airports and universities. FAR - Floor area ratio.

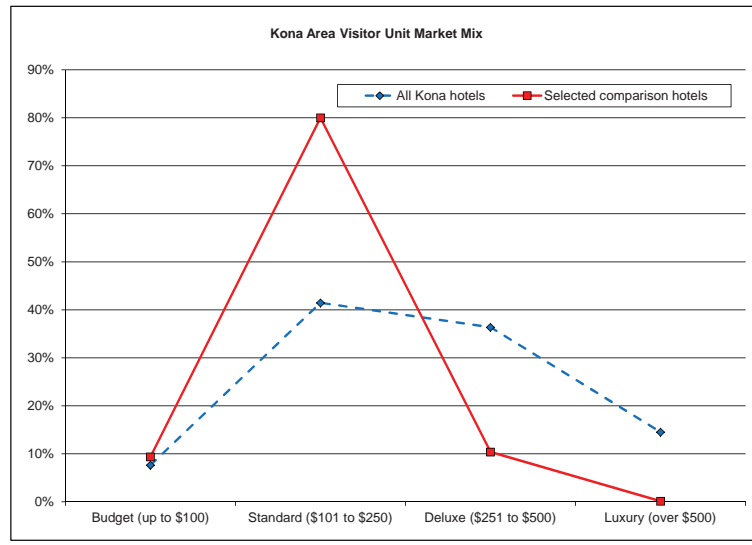
<sup>1</sup> Estimated based on the 12% of lands observed to be "undeveloped" (Exhibit 6-1), less a share known to be encumbered by ground leases and that may also be in use, such as for surface parking.

<sup>2</sup> Note many of these PTA industrial lands serve island-wide needs but are being benchmarked here to PTA employment levels. Therefore the ratios shown above may appear to be lower than their actual function. Higher than historic ratio reflects potential increase in more intensive land uses over time.

Sources: Mikiko Corporation, 2011; Colliers Hawaii Consulting, A Division of Colliers Monroe Friedlander, Inc. 2010, custom report.

**Exhibit 7-2  
Kona Area Visitor Units by Market Orientation  
2010**

	Year built	Budget (up to \$100)	Standard (\$101 to \$250)	Deluxe (\$251 to \$500)	Luxury (over \$500)	Total
<b>All Kona hotels<sup>1</sup>:</b>						
Number of units		193	1,044	916	366	2,519
Market mix		8%	41%	36%	15%	100%
<b>Selected comparison hotels:</b>						
King Kamehameha's Kona Beach Hotel	1975	0	460	0	0	460
Kona Seaside Hotel	1960	116	109	0	0	225
Royal Kona Resort	1967	0	306	128	2	436
Uncle Billy's Kona Bay Hotel	1975	0	110	0	0	110
Total, selected hotels		116	985	128	2	1,231
Market mix of selected hotels		9%	80%	10%	0%	100%
% of Kona hotel rooms		60%	94%	14%	1%	49%



<sup>1</sup> Includes 125-unit Kona Village Resort (Deluxe to Luxury class), which was closed after being damaged by the tsunami following the Sendai Earthquake on March 11, 2011.

Source: Hawaii Tourism Authority, 2010 Visitor Plant Inventory.

**Exhibit 7-3  
Kona Out-of-State Visitor Characteristics  
2009**

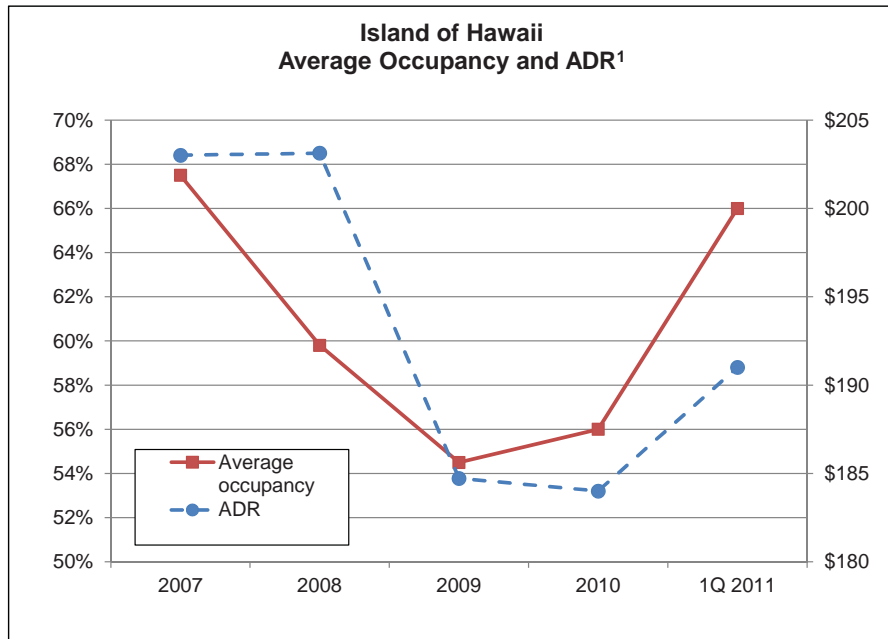
	Domestic	International	Total
<b>Visitor days</b>			
Market mix	5,995,257 88%	801,679 12%	6,796,936 100%
<b>Average party size</b>			
	2.0	2.4	2.1
<b>Travel method:</b>			
Group tour	5%	15%	7%
Package	23%	40%	27%
Group tour & package	3%	13%	6%
True independent	69%	32%	61%
Total sample	100%	100%	100%
<b>Length of stay (days):</b>			
In Kona	7.3	4.2	6.7
In State	11.3	9.3	11.0
<b>Accommodations:</b>			
Hotel	45%	68%	49%
Condominium	17%	14%	17%
Timeshare	12%	5%	11%
Friends or relatives	10%	5%	9%
Other (rental house, B&B, cruise ship)	17%	8%	15%
Total sample	100%	100%	100%
<b>Purpose of trip:</b>			
Pleasure (net)	79%	86%	80%
MC&I	7%	4%	6%
Other business	3%	1%	3%
Visit friends or relatives	9%	6%	8%
Sport events	1%	2%	2%
Other (government, military, school)	1%	1%	1%
Total sample	100%	100%	100%

Note: data tracks out-of-State arrivals by air only.

Source: Hawaii Tourism Authority, "Annual Research Tables - 2009, Table 54: Kona Visitor Characteristics: 2009 vs. 2008".

**Exhibit 7-4  
Hotel Market Performance  
2007 - 1Q 2011**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>1Q 2011</u>
<b>State of Hawaii:</b>					
Average occupancy	75%	70%	65%	71%	77%
ADR <sup>1</sup>	\$200	\$201	\$177	\$174	\$191
<b>Island of Hawaii:</b>					
Average occupancy	68%	60%	55%	56%	66%
ADR <sup>1</sup>	\$203	\$203	\$185	\$184	\$191



<sup>1</sup> Average daily room rate.  
Source: Hawaii Tourism Authority, 2009, 2010 and 2011.

**Market Assessment for Kaloko Makai**

**Appendices**

**Appendix 1: Census Tract 215.01 – Portion of North Kona District  
Considered Within the Competitive Residential Market Area**



Source: Claritas, Inc., 2007.

**Appendix 2: Census Tract 217.01 – Portion of South Kohala District  
Considered Within the Competitive Residential Market Area**



Source: Claritas, Inc., 2007.



**Appendix 3: Planned Primary Residential Development Projects  
in CRMA - Census Tracts 215.01 and 217.01, Island of Hawaii**

Subject and Primary Residential Projects with  
State Entitlement or Exemption, as of December 2010

Project identification	Landowner or developer	Number of units			Est % primary resident & buildout <sup>1</sup>	Projected additional RHU at buildout	Comment
		Total	Built by 12/2010	Potential for 2011+			
<b>North Kona-North (CT 215.01):</b>							
<i>Subject: Kaloko Makai</i>	<i>SCD-TSA Kaloko Makai, LLC</i>	<i>5,000</i>	<i>0</i>	<i>5,000</i>	<i>85%</i>	<i>4,250</i>	
Palamanui (previously Hilu Hilu)	Palamanui LLC (Hunt Development Group/Charles Schwab/Guy Lam)	1,116	0	1,116	80%	890	Total is max per 2/2010 ordinance. Excludes dormitories. TND design within 725-acre site tied to proposed UH West Hawaii Center.
Kula Nei	The Shopoff Group, LP (TSG Kula Nei LP & Springbrook Investments, LP)	270	0	270	60%	160	216-220 lots plus affordable housing. 3/4-mi makai of Mamalahoa, adjacent and to north of Kaloko Heights.
Keahole Heights Phase II	INA - marketed by American Dream Realty	40	29	11	60%	10	On Oneone St., northern side of Kaiminani
Kaloko Heights	Stanford Carr Development/Kaloko Heights Associates LLC	1,362	0	1,362	75%	1,020	Adjacent to Subject, on Hina Lani. Urban designation for southern half of site vests after meeting completion goals on northern half per LUC, 1986.
Villages of La'i 'Opua (Kealakehe ahupua'a)	State - DHHL	1,097	225	872	95%	830	SF at Villages 1,2,4,5,7. V5 now being developed/marketed, V3 is completed. Others are planned for nonresidential uses or are indefinite.
Keahuolu	State - DHHL	750	0	750	95%	710	150 acres adjacent to La'i 'Opua; potential development not likely until 2020+ (after Lai Opua.)
Kamakana Villages	State-HHFDC landowner; Forest City developer.	2,330	0	2,330	95%	2,210	272 acres mauka of Ane Keohokalole Hwy. LUC approved plan 11/4/2010.
Seascape Phase I	Formerly Seascape Development LLC	108	92	16	95%	20	Stalled. For-sale condominiums, 25 or 26 sold. Lender took over but has gone insolvent.
Seascape Phase II	Formerly Seascape Development LLC	300	0	300	95%	290	Stalled. 10-acre extension to Seascape site, south of end of Kakahiaka St. Affordable housing.
Lohaki Makai	Sonny Ventures, LLC	191	97	94	70%	70	Stalled. Vacant lots. Developer related to Seascape. Phases I & II sold 4-5 years ago; III - V on hold.
Wainani Estates	INA; marketed by Clark Realty Corporation	49	29	20	70%	10	Lots, 15,000 to 25,000 sf and some finished homes. Ko'iko'i and Kaiminani Streets.
Kaloko Housing Project	County of Hawaii, OHCD	72	0	72	100%	70	Broke ground June 2010, 96 units total. On Hina Lani St., south and adjacent to Subject. Figure is net of 24 u lost at Hale O Kawaihae Transitional Housing Program.

**Appendix 3: Planned Primary Residential Development Projects  
in CRMA - Census Tracts 215.01 and 217.01, Island of Hawaii**

Subject and Primary Residential Projects with  
State Entitlement or Exemption, as of December 2010

Project identification	Landowner or developer	Number of units			Est % primary resident & buildout <sup>1</sup>	Projected additional RHU at buildout	Comment
		Total	Built by 12/2010	Potential for 2011+			
<b>South Kohala-Waikoloa (CT 217.01):</b>							
Wehiani (formerly "Na Puu Nani")	Castle & Cooke Waikoloa LLC (C&C Homes Hawaii, Inc. subsidiary)	804	104	700	70%	490	Makana Kai (68 MFs) and Kikaha (36 SFs) closed out 2009. Rest on hold. West & south of Waikoloa Village entrance.
Kilohana Kai at Waikoloa Phase II	Marketed by Hawaiian Island Homes	230	116	114	65%	70	80 homes/150 vacant lots. Ph I (51) sold 2005; Ph II (148) on market with 83 shown available; Ph III (31) on hold.
Kamakoia Nui (Waikoloa Workforce Housing)	County of Hawaii	1,200	0	1,200	95%	1,140	Infrastructure complete; first phase of 91 units projected for 1Q2012 with County as developer. Coastal building model homes.
Sunset Ridge	Towne Development	197	136	61	25%	20	Phases 5 & 6 now on market; developer asked County to rescind Phase 7. Mostly second home buyers.
Keolalani at Waikoloa (formerly "Waikoloa Heights")	Keolalani Investment Partners (purchased from Lynch; entity known as Waikoloa Ma La'i)	2,000	0	2,000	20%	400	On hold. Zoned for up to 3,000 units but unlikely; RHU % considers slope, lack of affordable condition and stated intention to price above Sunset Ridge.
Kohala Place at Waikoloa ("Waikoloa Village")	Metric Passco Waikoloa, LLC (may have lost project)	300	0	300	65%	200	Project in default. 45 acres total: 300 apartments, commercial & business park. Across Waikoloa Road from Village Golf Course.

**Totals, rounded (excluding Subject):**

<b>North Kona-North</b>	7,700	500	7,200	6,300
<b>South Kohala-Waikoloa</b>	4,700	400	4,400	2,300
	<b>12,400</b>	<b>900</b>	<b>11,600</b>	<b>8,600</b>

Note - Based on survey of projects planned on lands with State Land Use "Urban" designation as of November 2010, or with landowner that may be exempt from LUC governance. Survey targeted projects of 100 or more planned units. Excludes projects developed in conjunction with beachfront resorts offering golf and/or hotel amenities; also excludes QLT Urban lands for which LUC petitions to be filed to redesignate uses from commercial to residential. Figures shown based on stated owner or developer plans where available, else maximum entitled units.

DEIS - Draft Environmental Impact Statement; DHHL - Department of Hawaiian Home Lands; DLNR - Department of Land & Natural Resources; HHFDC - Hawaii Housing Finance & Development Corporation; INA - Information not available; LUC - State Land Use Commission; MF - Multifamily; MFY - median family income; MU - Mixed use development including residential and retail uses; QLT - Queen Lili'uokalani Trust; RHU - primary resident housing unit; sf - square feet; SF - Single-family detached home; TH - Townhouse (multifamily) - residential unit

<sup>1</sup> Reflects estimated percent of project anticipated to sell to primary residents already established on-island and the likelihood of project building to maximum entitled capacity.

Sources: Interviews with project principals, developers, planners and brokers, and County and State officials; Honolulu Star Advertiser; Pacific Business News; West Hawaii Today; State of Hawaii, Office of Environmental Quality Control; project websites and internet searches.

**Appendix 4: Entitled and Planned Commercial Developments in the  
North Kona and South Kohala Districts, Island of Hawaii**  
Lands with State Entitlement or Exemption, as of December 2010

Project identification	Location	Landowner or developer	Site area (Ac)	Estimated GLA (Sq. ft.)	Comments
<b>North Kona:</b>					
<i>Subject: Kaloko Makai</i>	<i>Hina Lani Street and Queen Kaahumanu</i>	<i>SCD-TSA Kaloko Makai, LLC</i>	<i>INA</i>	<i>600,000</i>	<i>Timing is hypothetical; ties to commercial market conclusion; don't use numbers</i>
Kaloko Heights	Mauka of Subject	Stanford Carr Development/Kaloko Heights Associates LLC	6	60,000	Neighborhood commercial; zoned CN-20. Parcel currently on market for sale or land lease.
Kamakana Village	North of Palani Road, between QLT lands	Forest City/State of Hawaii, HHFDC	18	196,000	Received LUC-U approvals Fall 2010. Part of 272-acre affordable master-planned community awarded to Forest City for development.
Palamanui (previously Hilu Hilu)	North of Airport	Hunt Development Group/Charles Schwab/Guy Lam	INA	100,000	UH West Hawaii Center to open in 2012. Village and Community Commercial areas designated within 725-acre site. Excludes 70-acre potential business park shown on industrial analysis.
Kona Commons	N. of Kona Industrial Park	QLT lands; Kona Commons LLC (MacNaughton Group & Kobayashi Group)	INA	305,000	GLA shown is net additional (Phase I of 132,000 SF completed in 2008, 163,000 SF Target opened 2009.)
Kalaoa area (south of Palamanui)	1 across Airport, 1 South of Kaiminiani	State Department of Hawaiian Home Lands	40	400,000	Assumed retail portion of two parcels being marketed Jan 2011 (152 acres gross, 122 acres net); balance allocated to industrial. Lease offerings in 2009 & 2010 yielded no results.
DHHL La 'i Opua Other	Within Villages of La 'i Opua	State Department of Hawaiian Home Lands	INA	245,000	Maximum potential developments on Villages 7 & 8 of 350K adjusted because portions of V7 may be undevelopable; no current plans for either.
CG10 site	Keahuolu - South of Palani, Makai of Henry Street	Queen Lili'uokalani Trust Estate	10	110,000	Project on hold. Office and retail potential development; no residential planned at this time.
Lots 14 & 15	Keahuolu - Kona Industrial Subdivision	Queen Lili'uokalani Trust Estate	9	60,000	To resubmit to LUC due to old approvals. Project on hold; plans under review.
Makalapua Shopping Center Phase 2	Keahuolu - adjacent existing	Queen Lili'uokalani Trust Estate	20	116,000	To resubmit to LUC due to old approvals. Currently on hold due to poor market conditions. Up to 20-acre expansion permitted by water agreements within current Urban Phase 1.
Lanihau Shopping Center Phase 2	Kailua-Kona outskirts	Westwood Development Group	22	220,000	Fronts Henry Street. Westwood recently sold Lanihau Center back to A&B, but still holds these vacant lands.
<b>South Kohala:</b>					
Kohala Place at Waikoloa (prev. "Waikoloa Village")	Waikoloa Rd. and Pua Melia St.	Metric Passco Waikoloa, LLC	13	200,000	Development postponed. Zoned CV-10; project also includes residential rentals, senior housing, business park lands, hotel.
Waimea Town Center	Waimea Town, various locations	Parker Ranch	90	200,000	Town Center Plan under review; represents maximum development expected.

**Totals of available information, rounded (excluding Subject):**

<b>North Kona</b>	1,810,000	<b>1,810,000</b>
<b>South Kohala</b>	400,000	<b>400,000</b>
<b>Total, Primary Trade Area</b>	<u>2,210,000</u>	<u><b>2,210,000</b></u>

2,210,000

Note: Survey covers projects with LUC "Urban" designation as of December 2010. Survey targeted community and regional facilities, generally those of 20,000 square feet or more.

INA - Information not available; Ac - Acres; LUC - Land Use Commission; UIC - Under construction; MUD - mixed-use development, including residential and retail; SC - Shopping center

Sources: Interviews with project developers, landowners, planners and brokers; area site visits; Colliers Hawaii Consulting, A Division of Colliers Monroe Friedlander, Inc., December 2010; Pacific Business News (weekly); developer websites; Honolulu Star Advertiser; West Hawaii Today.

**Appendix 5: Entitled and Planned Industrial Developments in the  
North Kona and South Kohala Districts**  
As of December 2010

Location	Landowner or developer	Site area (gross acres)	Comments	
<b>North Kona:</b>				
<i>Subject: Kaloko Makai</i>	<i>Hina Lani Street and Queen Kaahumanu</i>	<i>SCD-TSA Kaloko Makai, LLC</i>	<i>75</i>	<i>35 acres interim use and 40 acres long-term use.</i>
Kaloko Industrial Park Phases III and IV	Hina Lani Street	TSA Corporation	105	Phase III (Kaloko Business Center) 41 net acres, infrastructure completed in 2009; future Phase IV estimated at 57 net acres.
West Hawai'i Business Park	Queen Kaahumanu Hwy	Lanihau Partners	327	337 gross acres less 10 net acres used by West Hawaii Concrete as quarry, with one building. To be marketed as lots. Absorption may extend beyond projection period.
Palamanui	Queen Kaahumanu Hwy	Palamanui Global Holdings LLC	70	Planned as condominium lots in business park; Phase I is 29 acres.
Kalaoa	Across from Airport, south of Palamanui	DHHL	112	Portion of 152 acres offered at 2 sites on Queen Kaahumanu Hwy.; balance assumed to be retail/office.
<b>South Kohala</b>				
Waikoloa Village	Waikoloa Village, Pua Melia Rd.	Formerly Passco Waikoloa LLC & Metric Waikoloa, LLC	10	Total site of 45 acres previously planned for 200,000 SF retail, 300 apts, limited service hotel as well as business/industrial park.

**Area summaries, excluding Subject**

North Kona	614
South Kohala	10
<b>Total, rounded</b>	<u><b>620</b></u>

Notes: Excludes potential government-sponsored or related enterprises at Airport, Honokohau Harbor, and at NELHA. Also excludes lands between Kalaoa and Palamanui which DHHL recently acquired from State for "income purposes," but for which no plans have yet been determined.

Sources: Mikiko Corporation, 2011; Colliers Hawaii Consulting, A Division of Colliers Monroe Friedlander, Inc. 2010, custom report; Pacific Business News; interviews with landowners.

## **Appendix 6: Report Conditions**

This assessment is based on information provided by government agencies, developers, brokers, landowners, and other third party sources. While every attempt has been made to verify information via multiple sources, it is not always possible to do so. Mikiko cannot guarantee the accuracy of all information upon which its assessments may be based.

Mikiko has no responsibility to update this report or any of the underlying data for events and circumstances occurring after December 31, 2010, the date of substantial completion of primary data collection.

This report is for the planning purposes of SCD-TSA Kaloko Makai, LLC and its consultants, as well as for public disclosure of the nature of Kaloko Makai pursuant to seeking State and County land entitlements. It is not to be used for solicitation of investment or other third party purposes without prior written consent of the author.

This report does not offer an appraisal of Kaloko Makai, nor should it be construed as any opinion of value for Kaloko Makai.