

## Exhibit A

### Kapa'a Housing Market Study

## I. INTRODUCTION

The Data@Work is a market research firm that specializes in analyzing residential real estate markets for developers and lenders. We have been retained to perform a study analyzing the market for proposed master planned community on the island of Kauai, called Kapaa Highlands.

This study focuses on the historical and projected market conditions and trends in accessing the ability of the project to be successful in selling its residential properties at a price and at a velocity. The study entailed collecting, comparing and analyzing information that has a bearing on the numerous aspects of market demand for the proposed project, including but not limited to publicly available real property, economic and commercial data.

The author makes every effort to verify that all of the information in study and in particular the market description and analysis is accurate, but is aware that 100% accuracy is unlikely. Finally, the analysis and statements herein are based on independent research by the author.

## II. PROJECT DESCRIPTION & STUDY OUTLINE

### *Project*

Kapaa Highlands is a master planned project on the Island of Kauai targeting primary housing demand from local and in-migrant families, as well as offshore second home demand for view estate ownership. It sits above the historic town of Kapaa and below the foothills of the mountain chain that forms the island. It is equidistant from the two major resorts on the island (and at the center of the third, the Coconut Coast). Thus, it is at or close to the centers of employment and commercial activity.

As Kapaa is arguably at the center of the island, the target market for this development will be spread across a wide range of households, but mainly appealing to local families looking for reasonably priced housing that is well-located with regard to the centers of employment in the county, as well as to a good range of shopping, recreational and social facilities.

The development contains a portion of the Kapaa bypass road, a major arterial road adjacent to the property. As such, the property is accessible from three sides and is adjacent to already improved county roads. Furthermore, the property has no significant restraints relative to adequate water availability and wastewater. Finally, the Kapaa Middle School is located adjacent to the property and adds to the attractiveness of the site to the local population.

### KAPAA HIGHLANDS PRODUCT MIX AND SALES PROJECTION

Product	Units
House Lot Packages, On Large Lots (10,000 sf)	36
House Lot Packages, On Medium Lots (7,500 sf)	50
Multi-Family Dwelling Units (4 Plex, 8 DU/Ac)	500
Affordable Housing Dwelling Units (12 DU/Ac)	183

The units described above include condominiums (Multi-Family pads and Affordable Housing) and single-family homes (House Lot package).

[Note that some of the House/Lot package units may be sold as home sites, depending on future demand and market conditions].

The condominium units will be designed in a range of bedroom configurations that will best meet the demand for housing by providing designs that apply to different family types, including starter families, empty nesters, families with children, and households that qualify for affordably priced housing.

The design of the single family units will appeal to some of those in the aforementioned condominium demographic groupings, but will go further by addressing the needs of large families, families wanting to be close to the Middle School, trans-generational families needing adequate (read larger and more defined) living space, and professional families or those with multiple wage-earners.

The design of the condominiums could include stacked flats and townhomes, both of which have cost and livability advantages. They will be located in multi-unit buildings (four and six-plex, etc.) and laid out in a way that will be taking advantage of the site's benefits: including those of the ocean views, the cooling winds, the warming sunlight, etc. Their density would range from 8 to 12 units per acre.

The single-family units will be designed to take advantage of the area topography, as well as wind and sun direction and views. By having two different lot sizes allows for the land plan to address two demographics: the smaller lot size units would be most appropriate to starter families, and larger lot size units would be appropriate for larger families and multigenerational households.

It is worth being mindful that, generally speaking, the high cost of housing production in Hawaii, and Kauai in particular, often pushes housing prices beyond what local families, particularly workforce families, can afford. To counter that, often Kauai home purchasers include a number of income earners into the purchase, both family members and non-family members. It is this market demand segment that the larger lot size and house size units will address.

In keeping with the county's affordable housing requirement, the requisite number of units will be produced and priced according to the existing income guidelines when marketed. The current affordable requirement is 30%, and the fulfillment of that will be a benefit to the local families seeking better housing or a more convenient location.

Additionally, while the market homes will be priced to the market, and done so at the time of the start of construction, they will also be more affordably priced, relative to much of the new construction on the island. This is because the large size of the overall development (750+ units) is conducive to achieving construction economies of scale, both for infrastructure and vertical construction - which can be passed on to the consumer.

Further, these homes and condos will also be designed with the needs of local families in mind, as opposed to the offshore buyer market. This will thus 'lessen' the overall demand for them, resulting in a more moderate price point. This stands in contrast to many other new home construction projects and developments on the island and in the state, which seek to address the needs of the offshore buyer (and are priced accordingly higher).

Finally, it is important to note that this development will benefit those in the community who will not be purchasing here, but who nonetheless are in the market for affordable housing. This is because this, or any, provision of new housing acts to soften the pressures that push housing prices higher - national and local studies and data has shown that the supply of new housing into an existing market place results in a moderating trend in prices.

### Study Outline

In an effort to evaluate the proposed project, the study will begin by describing the area, the housing stock and the economy. It will take account of the economic factors and trends that affect housing relative to the county and to the proposed project. Thereafter, it will describe the housing market in general, and in particular to this project. In doing so, it will describe and analyze the factors and trends behind the general and specific supply and demand for housing. And it will summarize the findings and finish with some concluding remarks and expectations.

## III. OVERVIEW of COUNTY and MARKET

### Subject Property's Community

Kauai County is the fourth largest county in the state, as ranked by population and economic activity, behind the City & County of Honolulu (Oahu), Maui County and the Big Island of Hawaii.

The majority of the island's roughly 52,000 residents lives and works in the coastal areas leaving the interior of Kauai natural and pristine. Kauai's weather is near perfect year round with daytime temperatures ranging from the mid 70's to the mid 80's, slightly warmer in the summer. The northeast trade winds average about 15 mph for most of the year, and provide refreshing breezes. Rain showers usually fall in the evening and early morning hours, predominantly over the mountain ranges. The temperature of the ocean ranges from 68 to 80 degrees Fahrenheit.

It has one of the strongest brands in the global visitor industry, as well as arguably the most diversified visitor industry of any of the islands, combining large resort master planned communities, cruise ship visitations, time share developments and small-scale bed and breakfasts.

The breadth and depth of this economic base, like the rest of the state, rests on the county's economy's unique comparative advantage relative to the other visitor destinations world-wide: it has a very high quality of life, a function of a naturally beautiful setting, with a benign environment and near perfect climate. Indeed, the proof of its attractiveness can be found in the quality of the number of 'rich and famous' who have bought in Hawaii, starting with Lawrence Rockefeller in 1960 (followed by John Wayne, George Harrison, Peter Gruber, Charles Schwab, Michael Dell, Ben Stiller, Oprah Winfrey, Akio Morita, Michael Creighton, etc.)

Kauai has three major resort destinations:

- **Princeville**, a 45-minute drive from the Airport, is a resort that runs across a large plateau overlooking one of the largest deep-water bays in Hawaii. The view of the sunset, looking west, is extraordinarily beautiful.
- **Poipu**, also a 45-minute drive from the airport, sits above the south shore, with numerous bays and beaches safe for swimming. It has the largest concentration of hotels and golf courses on the island.
- **Coconut Coast**, a 20 minute drive from the airport, this area was the favored area of Hawaiian royalty and the original site of resort development on the island and, save for Waikiki, the state. It today hosts one of the largest percentage of accommodations, shops, recreation, restaurants and historical sites on the island.

The majority of the primary housing development is located within the Kapaa and Lihue urban zones, with secondary sources located areas in and around Poipu, Kilauea/Hanalei, and Hanapepe and Waimea. Second home development is located within and around the three major

resort communities, as well as in locations that are close to the coastline and/or in westward facing locales).

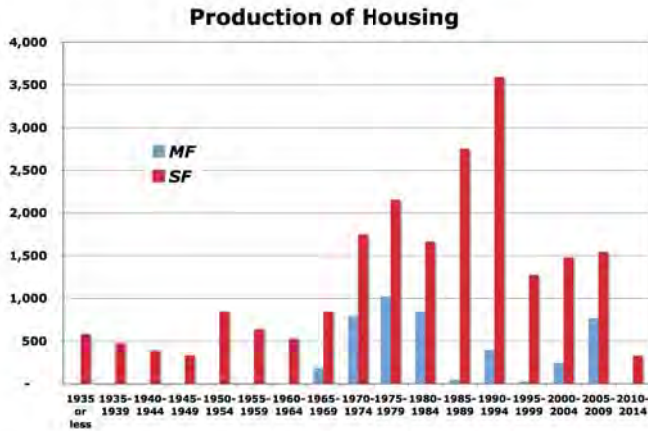
**Subject Property's Housing Stock**

Most of the primary housing inventory and on-going development is located within the Kapaa and Lihue urban zones. Primary housing is also concentrated, but to a lesser degree, in and around the communities of Poipu, Kilauea/Hanalei, and Hanapepe and Waimea.

Since the 1990s, Kauai's housing stock has grown faster than the population, as measured by the average annual growth rate for dwellings: it grew by 3.5% p.a. between 1990 and 2000, the highest in the State. The growth rate dropped to around 1.7% over the 2000-2010 period. Many of these new units have been targeted for the visitor or second home industry.

For instance, in 1990, the percentage of occupied housing units was about 92.5% of the county's total housing stock. By 2006, according to the Hawaii Housing Study, that dropped to 76.2 percent, the greatest rate of change among the four counties. Since 2006, however, there has been a reversal of that trend, with the percent of housing stock being build for primary homeownership has increased to 89.6%.

By way of context, housing development and construction was most active on Kauai during the time when the major resorts were developed in the 1970 and 1980s. Thereafter, primary housing production reached only half that level, save for periods of housing reconstruction that followed a major hurricane event.



In the years after the establishment of the resorts, there was a boom in condominium production, but many of these projects that were developed targeted the offshore buyer market. TMK records

show that over 70% of the condo units and 12% of the single-family homes are owned by out of state residents.

Census records have shown that a quarter of the County's housing stock did not house residents in 2000. Thus, while the Census categorizes these units as "vacant," they may be actually rented to vacationers, reserved by owners as a second home, or both. Demand in the housing market hence comes from residents, investors, and non-residents.

As a result, the average prices for housing units are skewed upwards and do not necessarily reflect residents' ability to pay for housing. Kauai housing stock is 78% owner occupied and 22% vacant, per their definition (it includes seasonal or recreational use, which itself constitutes 64% of all vacant units, with rental units constituting 20% of that total).

Indeed, housing inventory shows that about 3,000 of the 4,000 condominium units in the county, or 73%, are owned out-of-state. This would account for the high prices of condos in the county, the second highest in the state. Median resale price this May 2013 for a condo on Kauai is \$323,000.

**HOUSING CHARACTERISTICS OF THE MARKET**

Kauai County	Units
Occupied housing units	23,051
Owner-occupied housing units	13,968
Renter-occupied housing units	9,272
Vacant housing units	6,553
For rent	1,312
Rented, not occupied	61
For sale only	251
Sold, not occupied	51
For seasonal, recreational use	4,172
All other vacant units	706
Homeowner vacancy rate (percent)	1.8%
Rental vacancy rate (percent)	12.3%

Note that the homeowner vacancy rate is low but the rental vacancy rate is high. This is indicative of a community that has high priced houses – therefore the homeowner vacancy rates are low. Additionally, as it is a very desirable place to live, there are a lot of rental units for vacation rental – and therefore the rental vacancy rate is high.

**HOUSING CHARACTERISTICS OF THE MARKET, BY AREA**

	Waimea	Koloa	Lihue	Kawaihau	Hanalei	Total
Detached Home	2,270	4,843	4,706	5,212	2,013	19,044
Townhouse	57	128	142	36	113	484
Condominium	0	195	326	190	366	1,082
Duplex/multiplex	85	201	24	142	22	484
Apartment	328	139	564	202	185	1,428
Co-op	0	67	107	0	0	184
Other/Not	0	179	65	148	52	345
	2,739	5,752	5,935	5,930	2,751	23,051

Note that the area of the proposed development is Kawaihau, highlighted in blue, and that area has very few dwellings that are attached units (condo, townhouse, etc.).

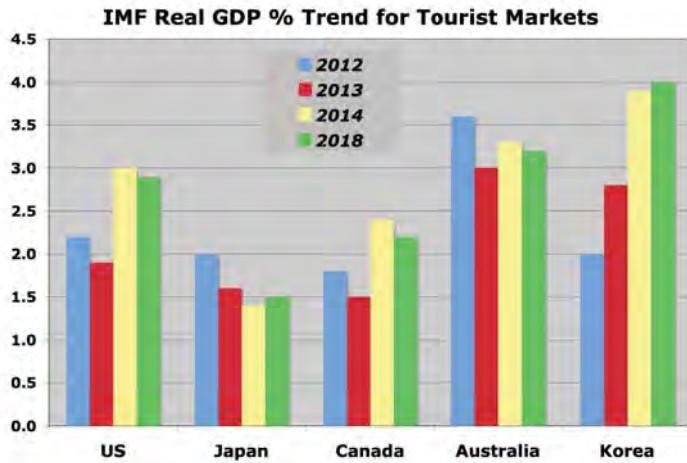
**IV. THE ECONOMY**

Simply put, residential for-sale and rental values move closely in synch with an area’s economic growth, and economic growth is determined in the short run by the balance of trade between the area and it’s major trading partners. And the mechanism by which this growth in values occurs is via rising incomes and higher job counts. We start by looking at the economic outlook for the state and the county. As the major industry is tourism, the county’s significant visitor sources would be the US, Canada and Asia

As such, we look at the economic trends in all three sources.

**GLOBAL ECONOMY:**

The overall global economic forecast by the IMF earlier this year noted that the recovery had solidified, but the unemployment remained high. It said global financial risks have shrunk, including the chance of a fallback in economic activity (a double dip).

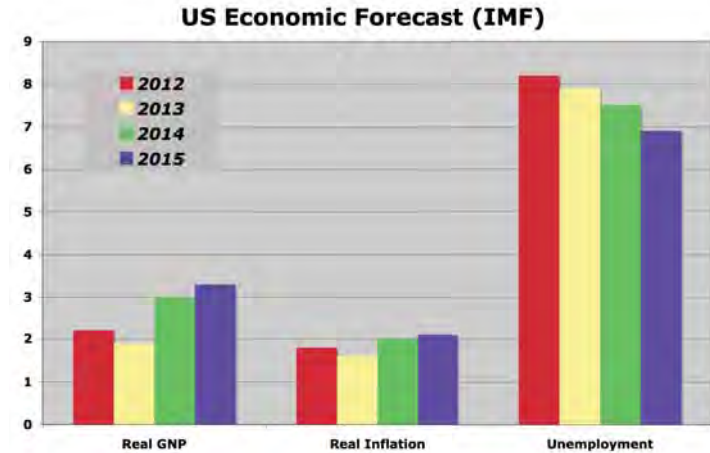


If the advanced economies continue to repair their public and financial balance sheets, and stimulate employment, and if emerging markets do not overheat their economies, global financial markets and property markets will stabilize and grow.

**UNITES STATES:**

The US economy is projected to grow by 3 percent in 2014, as firmer private final demand takes the burden to stimulate the economy off of federal fiscal policy. More and more, the risks to the economic outlook are abating: the recovery in housing prices and the slight growth in the job

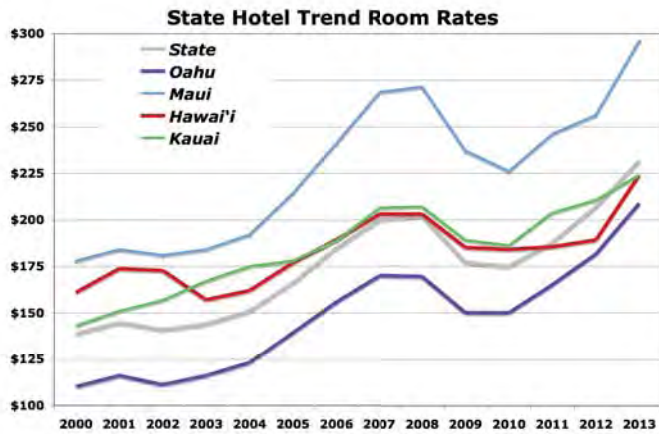
market are big positives looking ahead. Given the slack in the economy, inflation is expected to remain subdued, but with a rise in the interest rates in the cards.



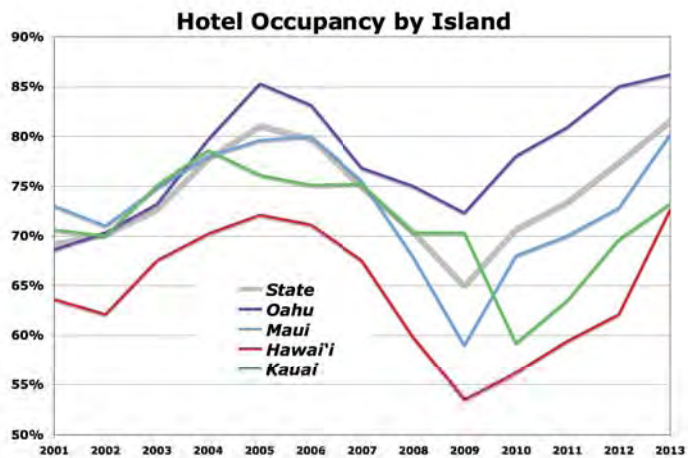
Looking ahead, the US economy will be on the rise. That, plus the perception of a growing economy, should be sufficient to grow the Hawaii state and the Oahu county economies. As an improved US economy is manifested in terms of higher visitor industry revenues, this commensurate growth in state economic activity will then put pressure on housing, via higher job counts (immigration) and incomes.

**HAWAII STATE:**

According to the state economic forecasters, Hawaii’s economy continues to grow strongly in 2013 at an accelerating rate. The state has very low unemployment relative to the rest of the nation, thanks to a resurgent demand in the visitor industry, which is the major engine of economic growth in the county and the state (as seen below).



Historically, Hawaii's economy follows those of the Pacific Rim countries, which bodes well for the future.



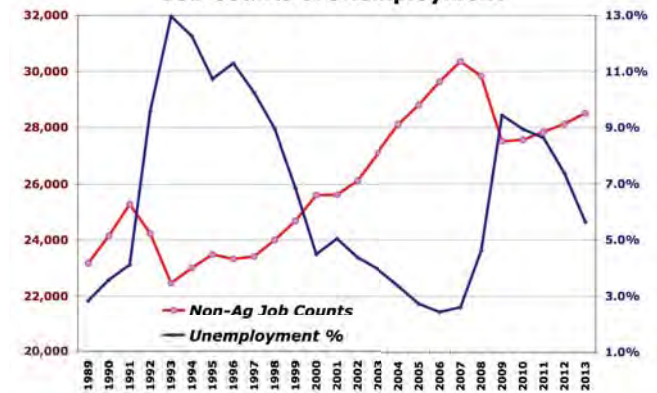
**Kauai Visitor Industry Trends**



**KAUAI:**

Kauai is enjoying economy growth again, thanks to a resurgent demand in the visitor industry, which is the major engine of economic growth in the county and the state (as seen in job counts rising and unemployment rates falling).

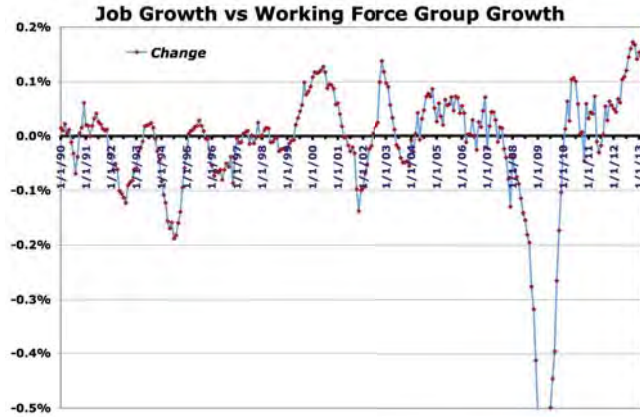
**Job Counts & Unemployment**



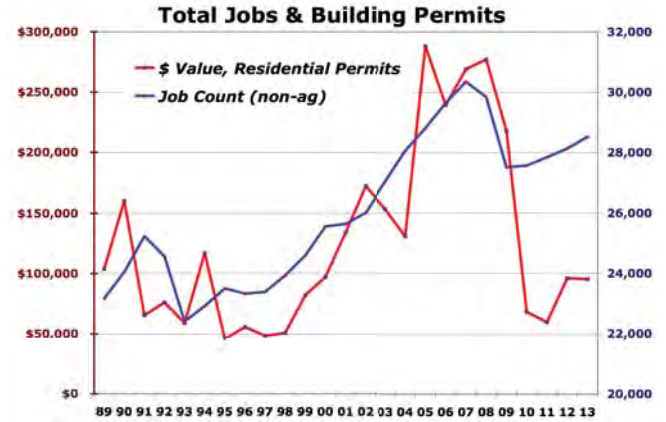
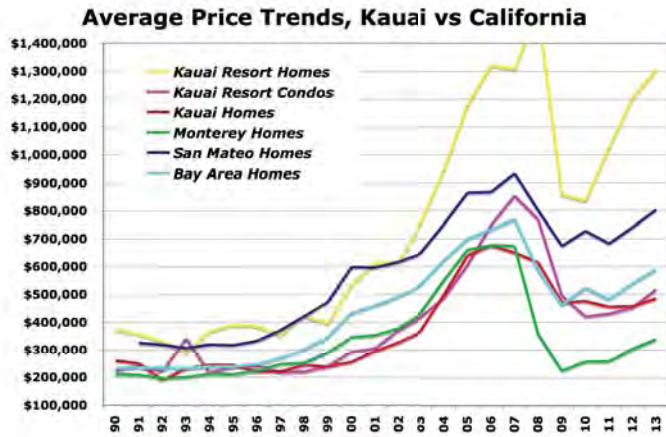
Going forward, Kauai will begin to experience tight labor conditions, with immigration occurring in order to meet rising job growth. Indeed, this is happening already, as seen next.



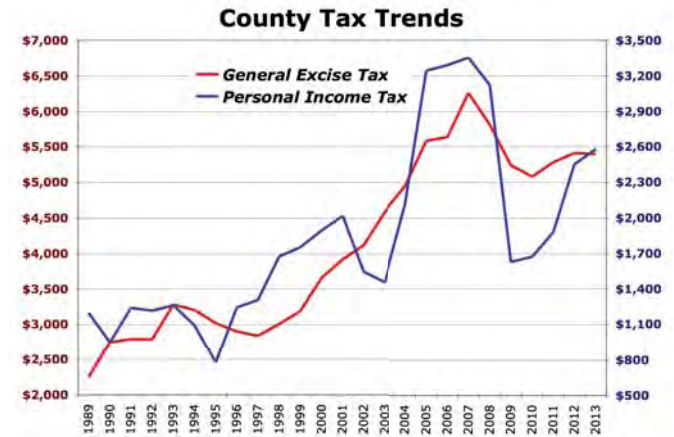
This chart shows that the recent growth in jobs is outpacing the natural growth in the workforce, i.e., population growth. Thus, in-migration will occur (which leads to increased housing demand).



Housing demand will also grow thanks to offshore demand. As seen, when California's residential markets improve, prices (demand) for second homes in Kauai also rises.



Finally, Kauai's economy and real estate market are closely tied, as an increase in one leads to an increase in the activity of the other (per the following chart). In sum, economic indicators look to growth for the island's residential market.



## V. HOUSING MARKET

**Overview:** Much like the state, Kauai's residential real estate supply is inflexible and constrained, but to a greater degree – the cost constraints are even tighter (higher costs of transporting material inputs to a remote locale, plus of sourcing labor in a small community), and the political climate there is generally unfavorable to housing development, particularly at the high end and/or in areas that are highly visible (but decidedly less so, relative to affordable and senior housing, as well as work force housing, which this project is proposing).

At the same time, demand for residential real estate is both flexible and strong, particularly in good economic times and over the long run. It can be, and is currently, constrained to an uncharacteristic degree, thanks to havoc in the financial markets the last few years and the drastic fall off in economic activity globally and nationally.

The first condition, limited supply, arises due to Kauai having a very small landmass, coupled with inadequate infrastructure and challenging geographic conditions (atop the aforementioned political, social and legal impediments).

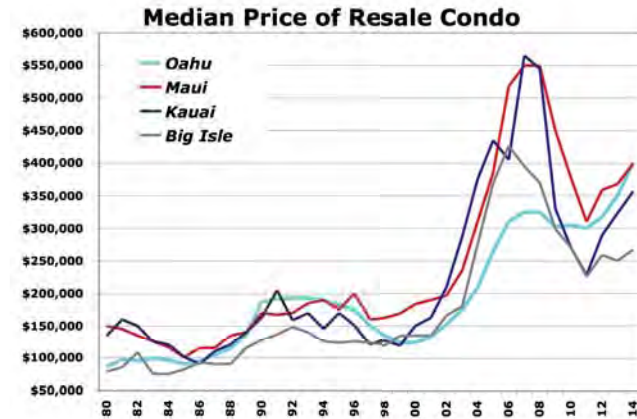
The second starts with the very high quality (defined a high quality of life, in terms of being a place that is environmentally safe, aesthetically pleasing, socially accommodating, politically stable, etc.). This is coupled by a deep and broad appreciation of that lifestyle by very large population accustomed to visiting the island (mainly West Coast and East Asia), which has one of the highest rankings in brand awareness and acceptance.

In combination, this results in a market that can dramatically volatile, up and down, in terms of sales and, to a lesser extent, prices. We note that in the past cycles, prices have been relatively 'sticky' downward, i.e., generally holding on to accumulated values. In this cycle, however, the price appreciation was so extensive and lasted so long, that the ensuing price depreciation during the down cycle has also been extensive.

Currently, Kauai's residential markets are now at the beginning of the up-cycle. The question is, going forward, how long this will last. The rule of thumb for the residential market is that the upswing in the cycle, the up cycle, generally lasts about 6.5 years, and is about twice as long as the down cycles. In addition, the up cycle, through to peak, results a tripling of the number of closings.

For the condo market, the up cycles last about 7 years, almost more than twice as long as the down cycles. In addition, the movement trough to peak of closings can be 300% or 400%, while for prices, it can be 400% or higher (note that this condition is not just particular to Kauai, but to all the neighbor islands).

The following charts illustrate this, starting with price appreciation trends.



For the condo market on Kauai, the one that relates to this project, the up cycles last about 7 years, almost more than twice as long as the down cycles.



Next, we describe the balance between supply and the demand using sales and listings island-wide for condos, as well as the indicator showing the balance between the two, MRI or Months of Remaining Inventory.

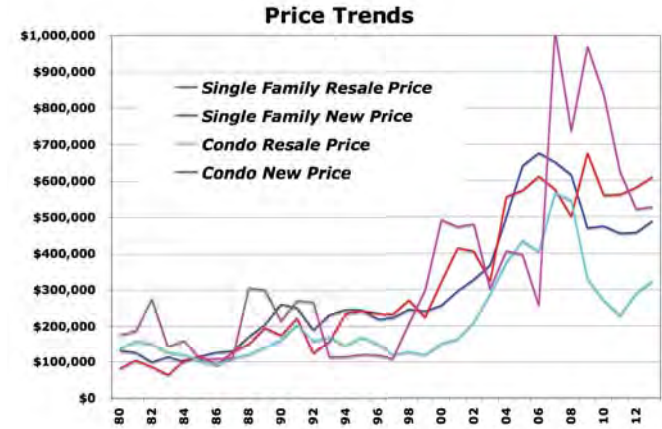
Right now, the MRI trend is declining, per the growth of sales and shrinkage of listings, indicative of a tight market. A normal reading is between 8 and 12 months, with the two balanced.



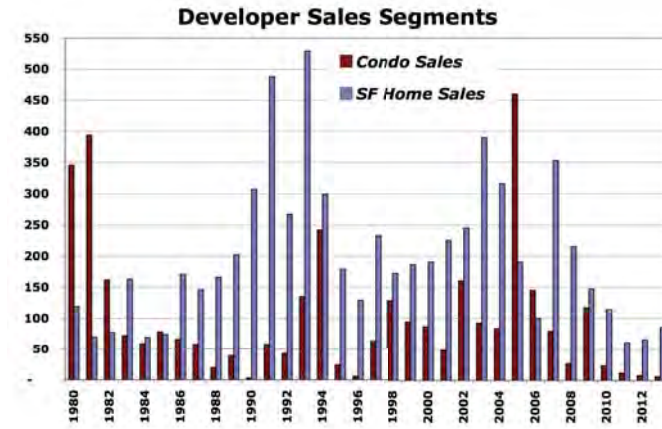
Looking ahead, we assume that the sales will continue to grow (as a function of low interest rates, plus the spread of the economic recovery in the areas where buyers of Kauai real estate reside (basically on Kauai, plus on the west coast of North America)).

In this case, the proper market response to tight supply is for sellers to raise their prices. As seen in other charts, this has already started two years ago, and continues this year as well.

The following chart shows the price trend over the last 32 years for the four basic housing products: single-family resales and developer (newly constructed) sales, plus condominium resales and developer sales. As seen, the price trend over the last four years has been down, with the recovery taking hold first with single-family product, followed by condos.



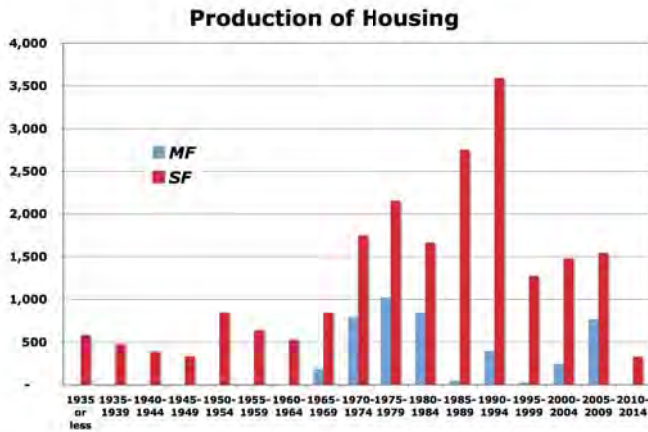
Next, we look at the market for developer sales. As seen in the next chart, the level of new housing production is at a historic low. This is a condition of scarcity and it leads to price movement to the upside.





When that happens, the general public will get a sense that there is a housing shortage, and pressure will be brought politically to increase the supply of affordable housing. In and of itself, that will help to alleviate the demand existing for affordable rental units. That said, it is likely that the demand for reasonably priced housing will vastly outpace the supply.

Another way of seeing this is the long-term production of housing chart. Not only has housing production been low of late, but this also says that the current stock of housing is old, and dated.



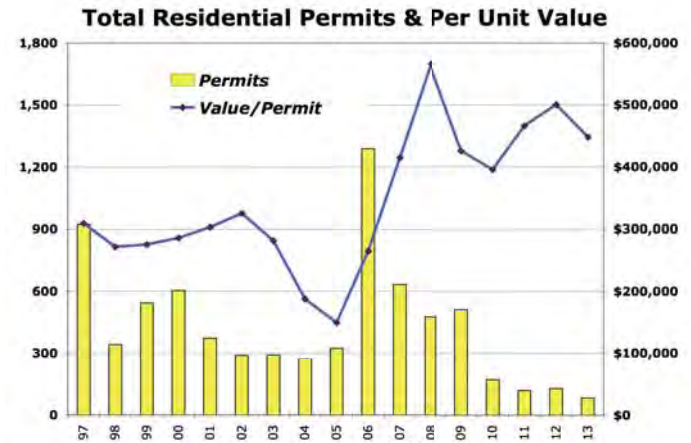
**VI. FUTURE KAUAI HOUSING SUPPLY**

**PERMITS**

The easiest way to look ahead to where the housing market is going in the short-term is by examining the activity in permits (where developers apply for permission, and pay their fees, for building residential units). A high level of activity indicates more supply is in the works, which means that more demand will be met, and the potential for prices adjusting downwards. With less supply in the works, prices will feel pressure upwards (and higher prices in the future, when demand recovers).

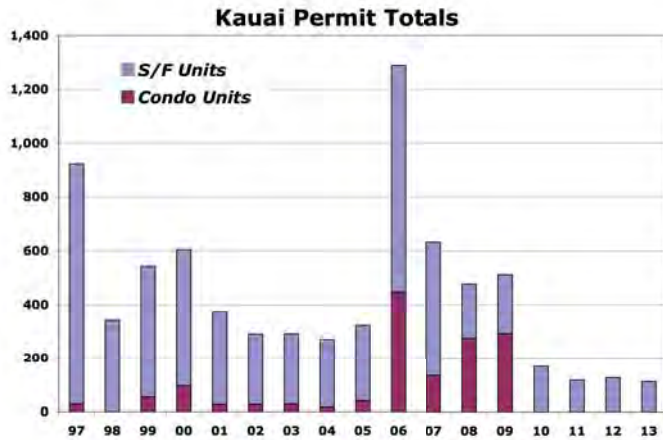
In addition, low levels of per unit value indicate that the units being built are for the lower end of the market (and vice versa). And, this has not been the case overtime on Kauai, indicating that most of the new housing has been targeted on the upper income end of the housing market.

An overview of the TOTAL RESIDENTIAL PERMITS AND VALUES Chart shows that the number of permitted units has sunk so low that it is at an all-time historical low. On the other hand, the value per permitted unit is at a record high.

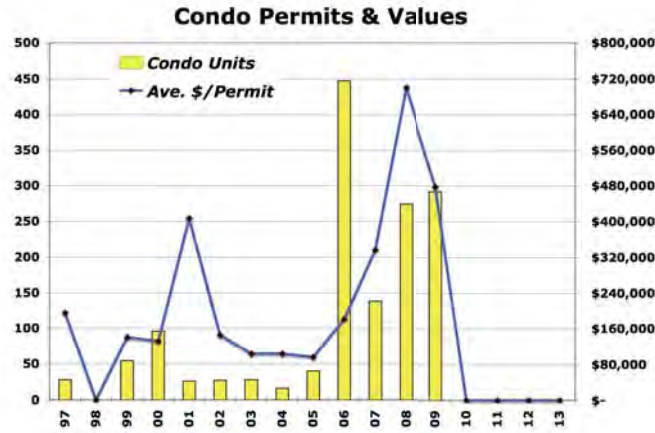


Note that the 2013 data is extrapolated, using actual data through April 2013.

The following chart shows the actual breakdown between condos and single-family homes.

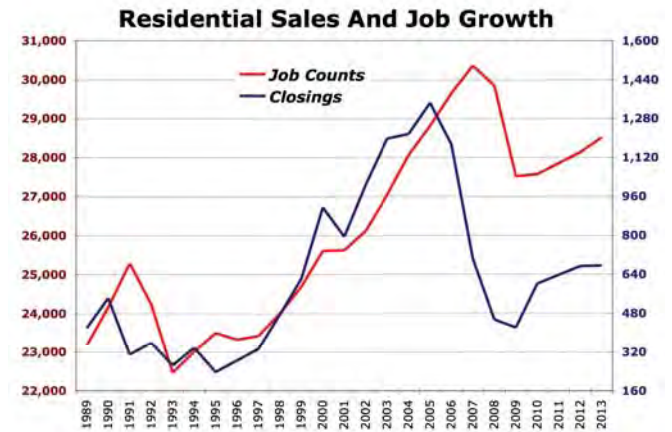


As seen, the number of permits is very low – caused mainly by the condo market.



## VII. HOUSING DEMAND

The prime determinant of housing demand is household formation, itself is a function of the economy and demographic and social trends. As noted above, in the short term, residential housing demand is driven by economics – specifically of job creation/income growth, as well as interest rate trends.



Incomes to buy homes, and they drive immigration, which is a prime source of housing demand (sometimes linked to population growth). This linkage is best illustrated in the RESIDENTIAL SALES & JOB GROWTH Chart.

Note how closely the two trends track one another, up until the 2004-2005 period, when high prices prevented many families from buying a house. This then shows how the lack of housing supply on an on-going basis drives prices higher, and thus lowers the sales of homes.

Further note, the gap that has opened up between the two trends starting in 2005. In previous recessions, a similar pattern occurred, with the sales of homes (blue line) picking up during the recovery. This was because a lot of families doubled up (multiple families living in one dwelling) during the recession. Thereafter, they took the economic gains they made in the recovery and invested it in housing. This will be happening in the next few years.

If the subject property were under construction, then this unmet housing demand would turn to this project as a source of housing supply.

### VIII. HOUSING DEMAND POTENTIAL & PROJECTION

**JOB GROWTH TO HOUSING DEMAND:** In the tables below, we describe DBEDT's predictions for wage and salary job creation on Kauai for the next 10-15 years, and derive from that a general expectation for housing demand over the next five to ten years (in other words, we will translate it into housing demand). Note that the model\* used here ran from 2007, but was updated in 2009

**HOUSING DEMAND, FROM DBEDT'S 2035 JOB FORECAST FOR WAGE & SALARY JOBS**

	2007	2015	2020	2025
Total civilian wage and salary jobs	44,077	46,900	49,500	51,900
5 Year Growth		2,823	2,600	2,400
Annual Job Growth		565	520	480
Annual Housing Demand (1.75 Jobs: 1 Home)		332	306	282

\*([http://hawaii.gov/dbedt/info/economic/data\\_reports/2035LongRangeSeries/LRFreport\\_2035series\\_revised\\_Aug09.pdf](http://hawaii.gov/dbedt/info/economic/data_reports/2035LongRangeSeries/LRFreport_2035series_revised_Aug09.pdf))

As seen, we use the annual changes in job counts to derive housing demand on the premise that it will take an average of 1.75 new jobs to generate demand for one new house.

However, the job counts used in the charts and tables above are just the number of wage and salary jobholders, and do not encompass the self-employed or home worker. According to DBEDT's projections, self-employed workers consist of about 20% of the total work force, but are growing to 25% in the next ten to twenty years. As such, we want to add this demand for housing into our projections.

The following transforms those projections into annual job growth projections, and then summarizes it in a complete DBEDT projection table.

**HOUSING DEMAND, FROM DBEDT'S 2035 JOB FORECAST, SELF-EMPLOYED**

	2007	2015	2020	2025
Annual Housing Demand (1.75 Jobs: 1 Home)		332	306	282
Self Employed Housing Demand (15% of total)		33	31	28
Total Annual Housing Demand		365	336	311

Finally, we want to take into consideration offshore demand, relative to housing demand. Studies have shown that this demand varies from a low of 15% on Oahu to a high of 60% on Maui. For Kauai and our purposes here, we use a very conservative factor of 20%. Thus, the total amount of housing demanded in the future should see an increase of another 20%. The following table shows this:

**HOUSING DEMAND, FROM DBEDT'S 2035 JOB FORECAST PLUS OFFSHORE DEMAND**

	2007	2015	2020	2025
Total Annual Housing Demand		365	336	311
Offshore Buyer Housing Demand (20% of total)		66	61	56
Total Annual Housing Demand		431	397	367

Note that the average number of residential permits taken out in the last five years for the county is 373 units p.a., but the average over the last 2 years (projecting 2011 using YTD numbers through September, is 125 units, p.a.



In sum, housing production in the past has not satisfied housing demand, as driven by job growth, leading to higher priced housing and overcrowding in existing housing.

Looking ahead, this will only continue, as the level of permitting this year has been below what is would house just the recent growth in potential homebuyers.

