



2015 Quarter 2 Update
may 28, 2015



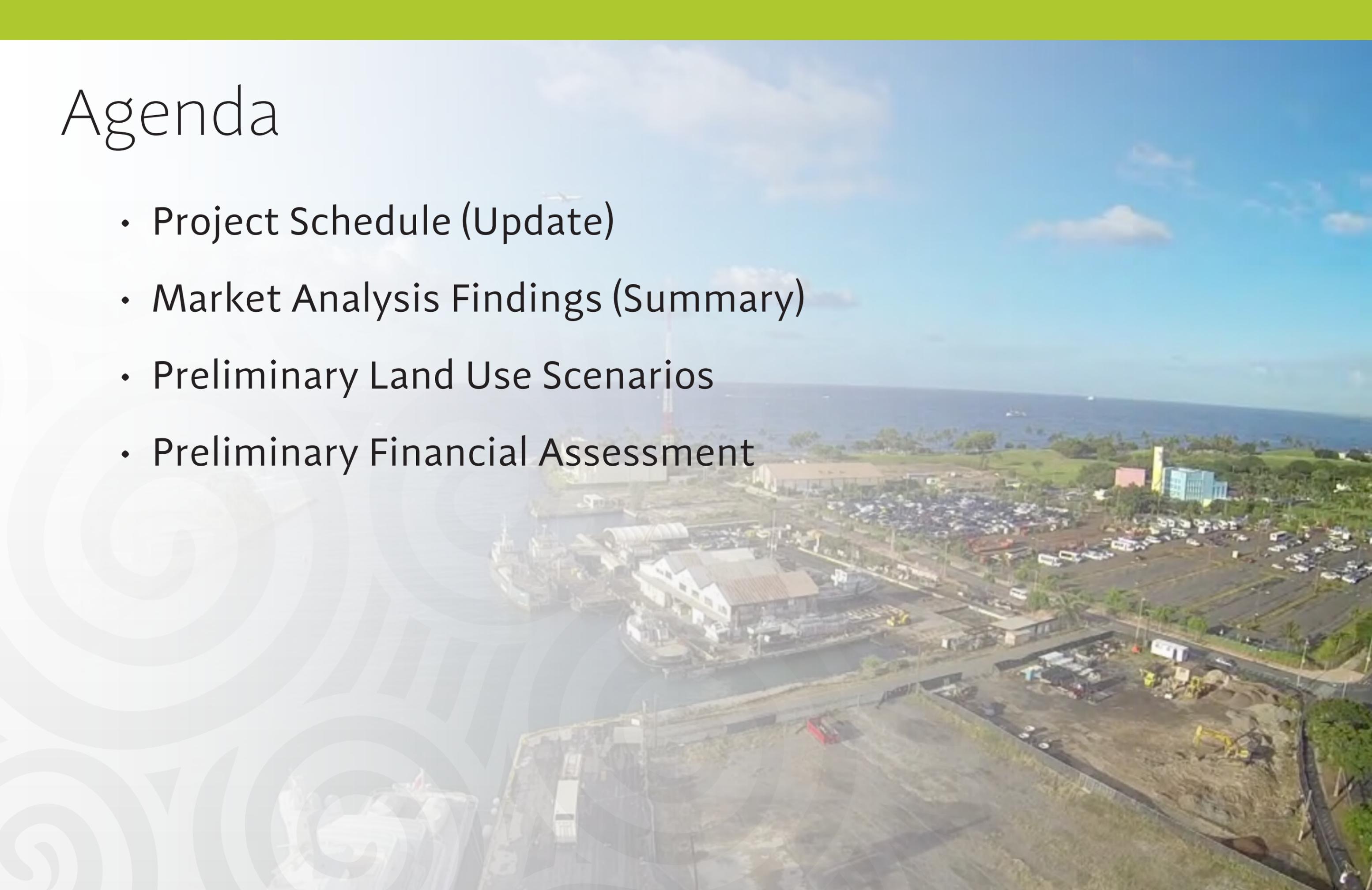
KAKA'AKO MAKAI



KUHIKUI PU'UONE
COLLABORATIVE

Agenda

- Project Schedule (Update)
- Market Analysis Findings (Summary)
- Preliminary Land Use Scenarios
- Preliminary Financial Assessment



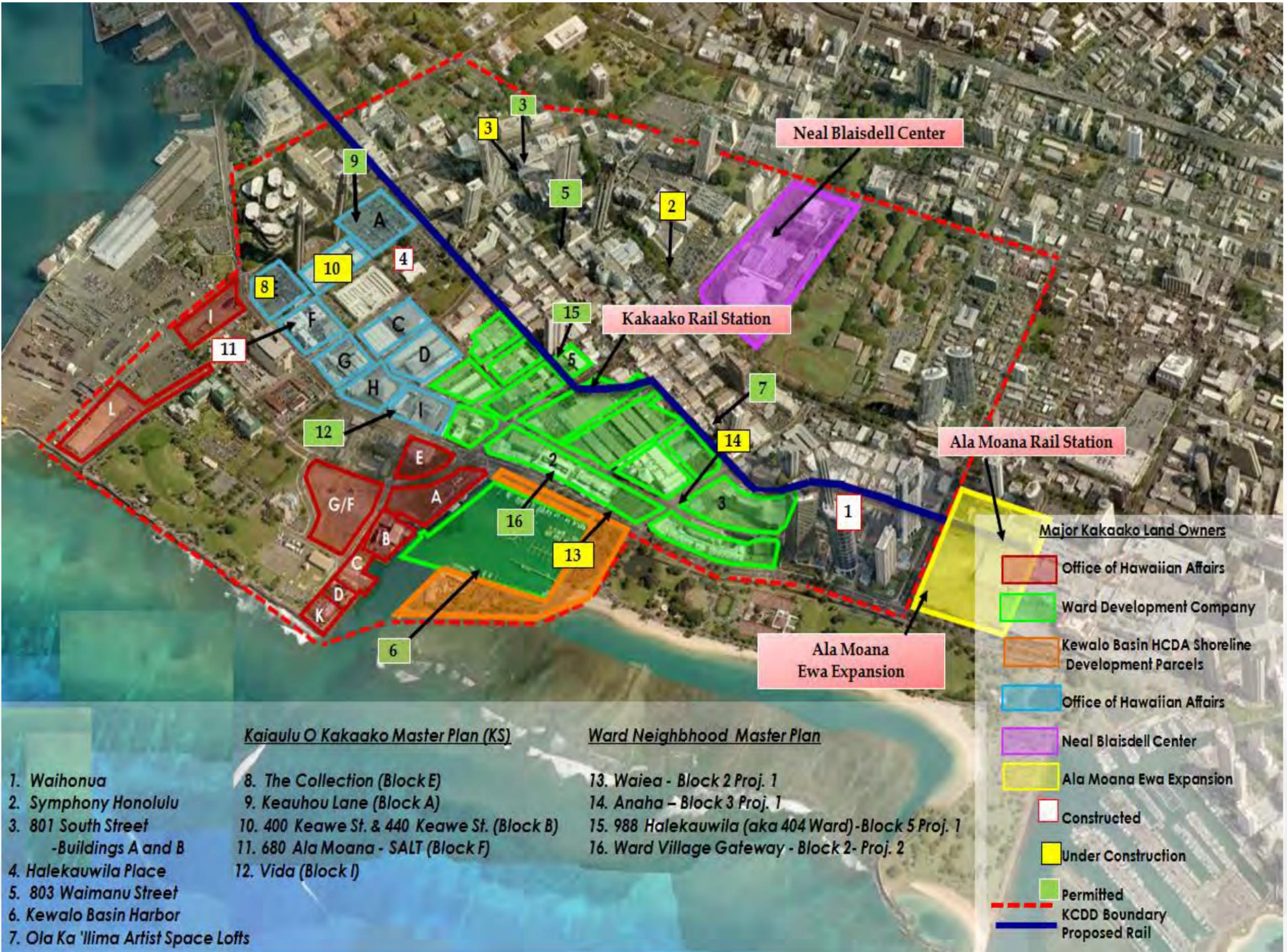
Project Schedule

		2014	2015				2016			
		Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
A. Conceptual Master Planning	Conceptual Land Use Scenarios		■	■	■					
	Phasing Strategy & Development Schedule			■	■					
	Private Funding Financing Tools			■	■					
	Development Roadmap			■	■					
	Background Analysis	■	■							
	Land Use Theme Refinement			■	■					
	Market Analysis		■	■						
	Community Engagement	■	■	■	■					
	Draft Community Engagement Plan	■	■							
	Obtain Input From Beneficiaries on CMP		■	■						
	Consultation Memo				■	■				
	Financial Assessment			■	■					
	Development Guidelines				■	■	■			
	Present Kaka'ako Master to Beneficiaries				■	■	■			
B. CMP Implementation	Kaka'ako EIS Master Plan	■	■	■	■					
	EIS Master Plan Approval				■	■	■	■	■	■
	Special Management Area				■	■	■	■		

**MARKET
ANALYSIS FINDINGS
(SUMMARY)**

Market Study of OHA Kaka‘ako Makai Lands

- **Study Objective:** Identify the highest and best use of the OHA Kakaako Makai lands under existing zoning/use restriction and within potential master plan(s).
- **Study Context:** Analyze the market from end-user, developer and landowner perspective, acknowledging OHA would be initially in the landowner position.
- **Time Frame:** Long-term, but focused on the 2015 through 2025 period in which the majority of the lands would be planned, developed and absorbed.
- **Uses Considered:**
 - » Commercial (Retail/Restaurant)
 - » Residential (Multifamily, all price points)
 - » Hospitality (Hotel and Timeshare)
 - » Office (General/Standard and Medical)
 - » Industrial
 - » Cultural
- **Aspects Analyzed:**
 - » Demand (Macro and Specific)
 - » Supply (Existing and Proposed)
 - » Pricing and Absorption
 - » Investor/Development Interest
 - » Appropriateness of the Subject Site(s) for Each Use Type
 - » Recent Honolulu Land Transactions of Each Use Type
- **Overview:** While showing signs of stabilization following major post-recession recovery, the Honolulu economy and virtually every real estate sector continues in an up-cycle period with strong demand, activity, prices and interest from end-user, developer and landowner perspectives.
- Kakaako is a focal point of the current surge and development activity, with the resident population expected to double during the next decade and the district to undergo major transformation.



- Kaiulu O Kakaako Master Plan (KS)**
- 1. Waihonua
 - 2. Symphony Honolulu
 - 3. 801 South Street
-Buildings A and B
 - 4. Halekauwila Place
 - 5. 803 Waimanu Street
 - 6. Kewalo Basin Harbor
 - 7. Ola Ka 'Ilima Artist Space Lofts

- Ward Neighborhood Master Plan**
- 8. The Collection (Block E)
 - 9. Keauhou Lane (Block A)
 - 10. 400 Keawe St. & 440 Keawe St. (Block B)
 - 11. 680 Ala Moana - SALT (Block F)
 - 12. Vida (Block I)

- Ward Neighborhood Master Plan**
- 13. Waiea - Block 2 Proj. 1
 - 14. Anaha - Block 3 Proj. 1
 - 15. 988 Halekauwila (aka 404 Ward) -Block 5 Proj. 1
 - 16. Ward Village Gateway - Block 2- Proj. 2

Major Kakaako Land Owners

- Office of Hawaiian Affairs
- Ward Development Company
- Kewalo Basin HCDA Shoreline Development Parcels
- Office of Hawaiian Affairs
- Neal Blaisdell Center
- Ala Moana Ewa Expansion
- Constructed
- Under Construction
- Permitted
- KCDD Boundary
- Proposed Rail

Commercial (retail/restaurant)

- **Demand:**

- » Based on resident and visitor population growth and spending there will be a demand for more than 4 million additional square feet of commercial (retail/restaurant) space on Oahu over the next ten years with 48 percent, or 1.96 million square feet, oriented towards central Honolulu and primarily the Kakaako-Waikiki corridor encompassing the subject.
- » Vacancy rates are currently less than 3 percent in the corridor, with prime Waikiki areas at 0.6 percent, Ala Moana Center at less than 2 percent; and, Ward Village centers nearing 100 percent.
- » The demand for oceanfront and makai-oriented restaurant spaces in Honolulu is virtually unlimited. Of the 56 such spaces from Diamond Head to Downtown, only one is currently vacant, with most being long-time successful operations with high annual sales per square foot.

- **Supply:**

- » There is 3.1 million square feet of commercial space proposed on Oahu about equally divided between the Kakaako-Waikiki corridor and locations outside Honolulu. 70 percent will come on-line between 2015 and 2020, with the remainder in the 2012 through 2025 period.
- » Major corridor additions include the Ala Moana Center expansion, International Marketplace, Ward Villages and KS Kakaako projects. Some of the new supply will be offset by the closure of Ward Warehouse and the net loss of space at King's Village, with the large majority also being built from 2015 to 2020.
- » The only oceanfront project proposed in the corridor is on the HCDA lands located across Kewalo Basin from the OHA holdings. HCDA is currently reviewing development bids for three sites fronting the basin which could support some 70,000 to 100,000 +/- square feet of interior floor space.

- **Conclusion:**

- » Every available indicator points to there being significant demand for additional makai-oriented retail and restaurant space in the study corridor during the development, absorption and ramp-up period for the OHA Kakaako Makai lands. The proposed supply is insufficient to meet demand, quality sites scarce, and alternative oceanfront locations unavailable outside of Kewalo/Kakaako.
- » End-user and developer interest is high, vacancies are low, rents are climbing, and sales are generally strong.
- » The OHA Kakaako Makai lands are a highly appropriate location for moderate to high-end retail and restaurant development serving Kakaako, Oahu residents and visitors.

Residential

- **Demand:**

- » The demand for new residential units on Oahu is forecast at some 24,000 over the next decade, with nearly that many more needed from 2026 through 2035. The large majority of demand would be focused towards Honolulu, much in Kakaako but there are insufficient reasonably-priced sites available and development cannot keep pace.
- » From 2015 through 2025 it is expected about 5,700 multifamily units will be absorbed in Kakaako, and another 5,000-plus during 2026-2035, across the pricing spectrum from low-income affordable to ultra-luxury.
- » Every affordably-priced unit offered to date in Kakaako (prices generally ranging from \$500 to \$700 per square foot) has been absorbed with most developments having long waiting lists. All completed low to moderate-market priced units (\$700 to \$1,000 per square foot) have been absorbed along with nearly 90 percent of those in pre-sale. Under-construction upscale/luxury projects (\$1,500 to \$2,500 per square foot) are achieving pre-sale rates above 70 percent.
- » The condominium resale market in Kakaako is perhaps the strongest in Honolulu with some of the highest and fastest appreciating prices for standing inventory.

- **Supply:**

- » Currently in Kakaako there are 17 projects containing nearly 4,500 total units which are permitted (1,585 units), under-construction (1,666 units) or have recently been completed (1,238 units).
- » An additional 14-plus towers housing 5,500 units are in the planning stages, with others being announced on a regular basis. Another 4,000 plus units are under-construction or proposed for the Ala Moana neighborhood.

- » To date much of the development focus has been on luxury and mid to upper market-priced inventory in the prime makai-oriented, Ala Moana and Kapiolani-fronting areas of Kakaako, with mid to lower market-priced and affordable product anticipated to follow on interior sites.

- **Conclusion:**

- » Despite the surge in number of units being developed and the stabilizing economy, the demand for residential units in Kakaako is outpacing supply across every pricing segment. Even the top-end sector which is achieving the highest pre-sale prices for condominium units in the history of Hawaii, and was thought to be reaching saturation, continues to show strength.
- » End-user (purchaser) demand is strong, developer interest is the highest in a generation, unit prices are climbing, and absorption appears to be gaining momentum. However, a meaningful hike in interest rates could stymie activity.
- » The OHA Kakaako Makai lands would be a superior location for condominium development of all prices and types, and has the ability to support upscale/luxury-class product. The panoramas are unmatched and cannot be blocked by future projects, and the sites are centrally situated in urban Honolulu close to parks, shopping, entertainment and employment centers.

Hospitality

- **Demand:**

- » The Oahu/Waikiki visitor industry enjoyed a strong post-recession recovery and has reached record-levels in regards to visitor arrivals, total visitor days and visitor expenditures. It is now in a stabilized up-cycle although there has been some short-term volatility in Japanese and Australian spending due to currency issues.
- » Hotel Average Daily Rates and occupancy are also at peak levels as are overall operating profits, and investor interest, with sales prices for Waikiki hotels reaching record per room prices.
- » There is an estimated demand for some 5,300 additional transient lodging units on Oahu by 2025, much of which would be directed to greater Waikiki.
- » The demand for timeshare on Oahu has averaged nearly 270 units annually since 2004, staying strong through the recession and steadily increasing in velocity in recent years. Demand is thought to be somewhat stabilized and should average 250 to 275 annually over the coming decade.
- » Asking weekly interval equivalent prices in Waikiki for fresh inventory now range from \$24,000 to \$82,000 for a one-bedroom and \$35,000 to \$109,000 for a two-bedroom unit.

- **Supply:**

- » There are a maximum of 3,200 total new lodging units proposed for Oahu over the coming decade. This total includes new timeshare and condotel units. The large majority of new hotel rooms would be located outside of Waikiki/Honolulu in smaller limited service hotels.
- » There are approximately 2,300 potential new timeshare units proposed for Oahu by 2025, most of which would be located in Ewa/Kapolei well-outside of Waikiki.

- » Potential hotel and timeshare development sites in Waikiki are very scarce, particularly those with a makai-orientation, and very expensive. There is an insufficient supply of available land in the urban resort district.

- **Conclusion:**

- » There is both strong demand and a market need for new additions to the hotel supply in the greater Waikiki area, with the emerging Asian and booming youth segments clamoring for modern, new, high-quality product and showing a reluctance to pay increasingly high rates at older Waikiki hotels.
- » The maximum potential supply will fail to meet demand even if the visitor industry slows. Should the City & County go through with its proposed crack-down on the estimated 3,583 “illegal/uncertified” units on the island, the shortfall would be even greater.
- » The proposed supply of timeshare units, though continuing to be developed at a steady pace, would fail to meet demand by some 200 to 400 units by 2025.
- » End-user demand is at all-time levels, developer interest is exceptionally high, and room rates and interval prices are steadily climbing with no near-term signs of abatement.
- » Once again, the OHA Kakaako Makai lands would be a superior location for hospitality development in the middle-upper to top end of the price/quality range. Much of the product could be oceanfront with excellent views, nearby Ala Moana Beach Park and shopping, dining and entertainment, and centrally located in the Diamond Head to Chinatown primary visitor corridor.

Office

- **Demand:**

- » The general/standard office sector remains stagnant. Demand remains low (with negative absorption in 2014), vacancies high (about 15%), and rents have remained fundamentally unchanged for many years. Development of new inventory of this type is non-economic and would provide nominal returns to the underlying land.
- » The demand for medical office space is increasing as Hawaii's generally well-insured population ages, particularly in close proximity to a hospital or clinic which can provide support and services for the practice and patients. Rents of \$4.00 to \$4.50 per square foot monthly are achievable in the prime, proximate locations, nearly twice that for standard office space.
- » Medical practitioners seek out central urban locations with access to major thoroughfares and plentiful parking (preferably free). New projects with such characteristics have been quickly absorbed.

- **Supply:**

- » There have been several major additions to the medical office inventory in greater Honolulu in recent years, all being well-received; notably in projects near Pali Momi Hospital and the Hale Pwaa building.
- » The Ala Moana building, reversing course yet again, is not extending doctor's leases which will reduce available, competitive supply, especially among established practices which will be looking for a prominent location in central Honolulu.

- **Conclusion:**

- » End-user (doctor) interest in medical office space is moderate to favorable, although younger practitioners may have financial difficulty setting up an office

in new space. Developer interest is also moderate to favorable but somewhat specialized and limited in a market of the size of Honolulu. Rents are steadily increasing, but the space can be more costly to construct than other office or commercial uses.

- » The OHA Kakaako Makai lands would be a reasonable site for medical office space development given its central location and ease of access onto Ala Moana Boulevard. Its desirability would increase significantly if either the Burns/UH School of Medicine or the Cancer Center would open a clinic, operating rooms, and/or emergency room.

Industrial

- **Demand:**

- » Although a somewhat lower order urban use, the Honolulu industrial market is very strong, with shrinking vacancies, escalating rents, and rapidly increasing land prices.
- » Nearly 215,000 square feet of industrial floor space was absorbed on Oahu last year, pushing the island-wide vacancy rate down to 2.6 percent; the lowest for any real estate sector.
- » Kakaako has an industrial vacancy rate of about one percent, and achieves the highest rents on the island outside of the acutely under-supplied Windward side.
- » Industrial land prices in Honolulu are typically near or above the \$100 per square foot mark, with recent HART rail right-of-way purchases in Kakaako at from \$150 to \$170 per square foot for the underlying land.

- **Supply:**

- » There are approximately 34 million square feet of floor space on Oahu, of which 1.7 million are in Kakaako.
- » Significant new development is occurring in Ewa/Kapolei where there are available zoned lands but little in central Honolulu which is nearing effective build-out.
- » The supply of industrial space and lands in Kakaako are rapidly diminishing as they are converted into higher order uses such as condominium or commercial, or are being disrupted or taken for the rail right-of-way.

- **Conclusion:**

- » End-user demand is exceptionally high for industrial uses in the Kakaako area, development interest in the sector is strong throughout the island (although there are no real opportunities in Kakaako), rental rates and land prices are moving strongly upward, and the amount of available supply is shrinking.
- » Industrial use for selected OHA Kakaako Makai sites, particularly on an interim basis, would be reasonable in their “As Is” condition before becoming part of a larger master plan; specifically Site G/F and Site I, which is currently put to industrial use.

Cultural

How and why do we conduct market analysis for cultural attractions?

- Long term economic sustainability
- Right-sizing
- Quantify tradeoffs between mission and business considerations
- Assess attendance potential & ability to create value and economic impact for surrounding real estate



Market Based Site Analysis

Strengths and Opportunities

Kaka'ako is emerging site for arts and culture with existing cultural and community assets

Multiple planning efforts → greater critical mass of activity and onsite market

Enough land area to create a destination

Major development interest already – opportunity to cross subsidize for long term financial support

Water frontage and views

Authenticity

Kaka'ako Park & HCDA properties – do not control what happens around the site

Other cultural attractions being developed may be competitive

Parking and access- not a lot of parking and getting congested

Located away from large tourist base

Need to create enough critical mass to draw visitors

Challenges

Review of Available Markets: Summary & Implications

Resident
Market -
995,000 in 2020

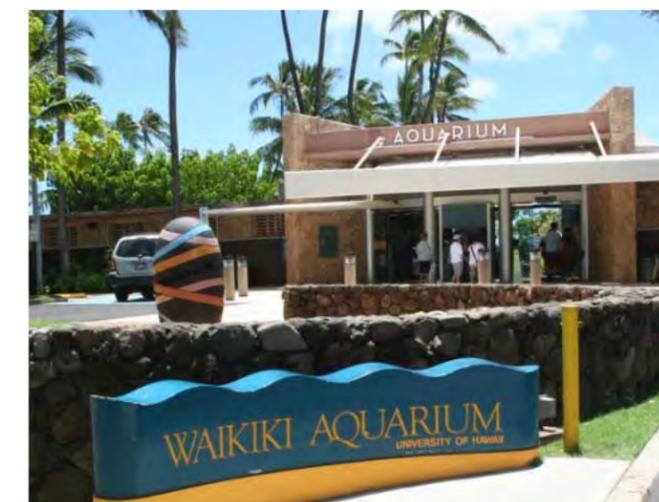
- Modest sized, expected to grow slowly
- Education levels are strong compared to state and national averages
- Strong income levels, but due to high cost of living, less discretionary income
- Captive audience and limited competition

Tourist
Market
4.7 million in 2020

- Mature and large tourist market, with very high ratio of tourists to residents
- Challenging and distracted market primarily based in Waikiki
- Major focus on water-based activities and the outdoors
- Japanese tourism still highest and growing, Chinese & Korean visitors increasing; group travel may increase
- Long length of stay, with sufficient time to do a variety of activities
- Most tourists stay in hotels, which is a marketing opportunity
- Flat seasonality reduces potential capacity problems
- Tourists are a mix of ages and life stages, with mix of seniors, adults, and families

Review of Competitive Environment

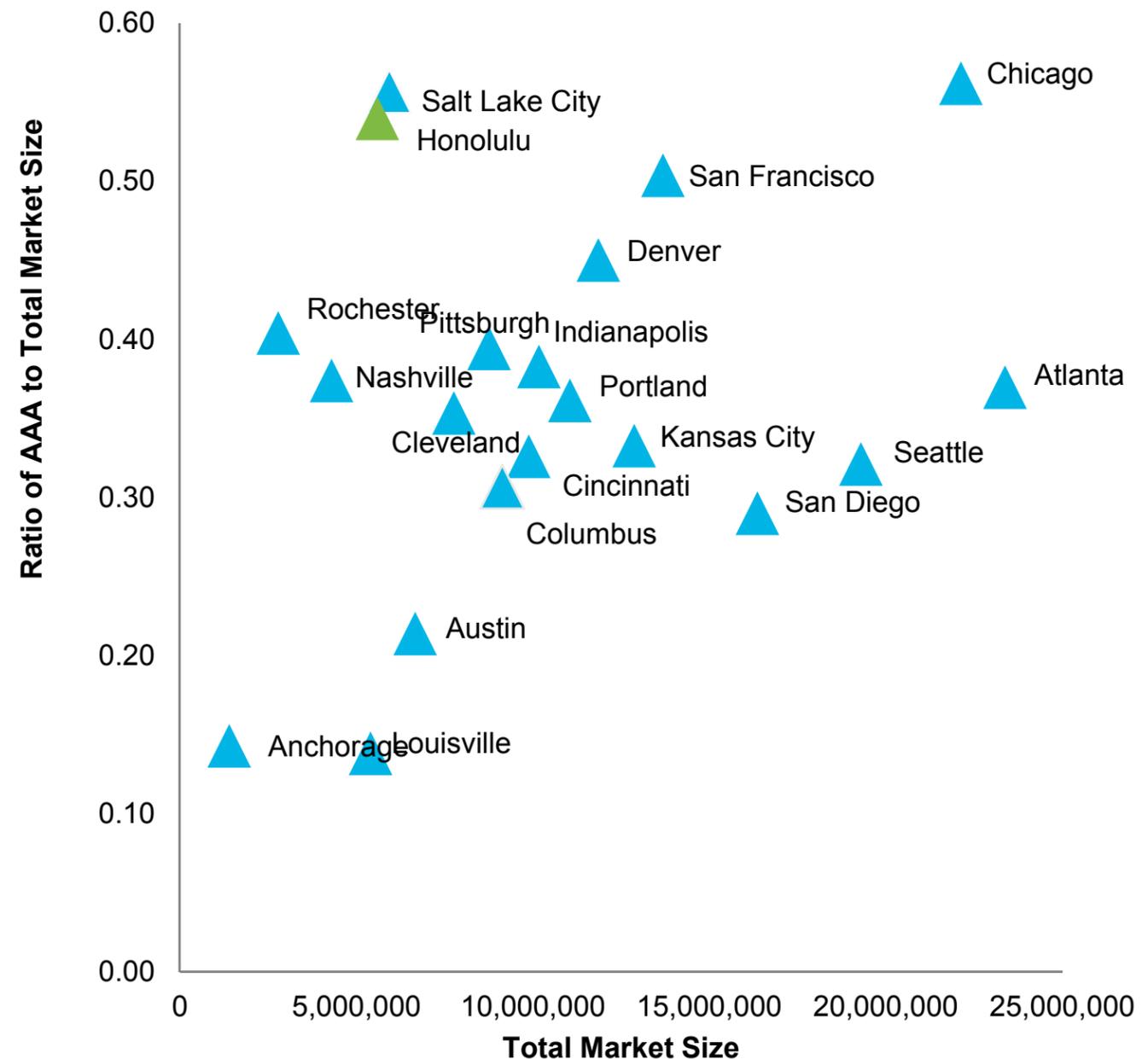
- From over 40 attraction facilities on Oahu, AECOM researched operational characteristics for the following relevant destinations.
- Commercial Attractions
 - Dole Plantation
 - Sea Life Park Hawaii
 - Wet n' Wild Hawaii
- Zoo / Aquaria / Gardens
 - Honolulu Zoo
 - Waikiki Aquarium
 - Waimea Valley Botanical Garden
 - Honolulu Botanical Gardens
- Cultural / Historical Attractions
 - World War II Valor in the Pacific National Memorial
 - Polynesian Cultural Center
 - Bernice P. Bishop Museum
 - Honolulu Museum of Art
 - Hawaii Children's Discovery Center
 - Iolani Palace
 - Hawaii Plantation Village



Review of Competitive Environment: Aggregate Attraction Attendance

- Aggregate institutional attendance per capita in Honolulu is very high and indicates an oversupply of attraction offerings relative to market size
- Second highest ratio of visitors to residents among key comparable cities; resident based attractions may face even greater challenges.
- Competition among attractions is further increased by the varied cultural programming offered by hotels in Waikiki
- In order to compete new offering will need to be fundamentally different and unique
- Attractions, particularly non-profits, face challenging market conditions for viable business models
- Future competition in pipeline - PA'I Arts & Culture Center and Center for Hawaiian Music & Dance

Aggregate Attractions Attendance per Capita by Market



Review of Competitive Environment: Gap Analysis

on Bishop Museum plans), multimedia / new cultural concepts, theme / amusement park

Attractions Gap Analysis

	Seattle	San Diego	San Francisco	Denver	Portland	Cincinnati	Vancouver	Cleveland	Austin	Memphis	Salt Lake City	Honolulu	Nashville	Anchorage
MSA Population	3.7 m	3.3 m	4.6 m	2.8 m	2.3 m	2.1 m	2.3 m	2.1 m	1.9 m	1.3 m	1.2 m	1. m	1.8 m	.4 m
Tourist Market	15.6 m	13.1 m	9.1 m	9.1 m	8.7 m	7.7 m	7.2 m	5.7 m	4.7 m	5. m	4.8 m	4.6 m	2.5 m	1. m
Total Market	19.3 m	16.4 m	13.7 m	11.9 m	11. m	9.9 m	9.5 m	7.8 m	6.7 m	6.3 m	5.9 m	5.6 m	4.3 m	1.4 m
Attraction Type														
Aquarium	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Art Museum	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Children's Museum	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Cultural Center / Interpretive Center	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Eatertainment Destination	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Garden Attraction / Botanic Garden	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Multimedia / New Cultural Concept	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Natural History Museum	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Observation Deck/Tower	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Outdoor Water Park	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Science Center	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Specialty Retail Village/District	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Theme / Amusement Park	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Wheel	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Zoo / Live Animal Attractions	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Source: AECOM

Evaluation of Attraction and Entertainment Alternatives Initial Screening Process

- Key Questions / Criteria:
 - What uses are consistent with OHA's mission and vision for Kaka'ako Makai?
 - What uses will require operating subsidy and which will generate positive net revenues?
 - Will future uses create a sense of place and destination experience?
 - Will the future use attract both residents and visitors?
 - What uses have strong market demand?
 - What uses are appropriate for the site, scale, and neighboring uses in the neighborhood?

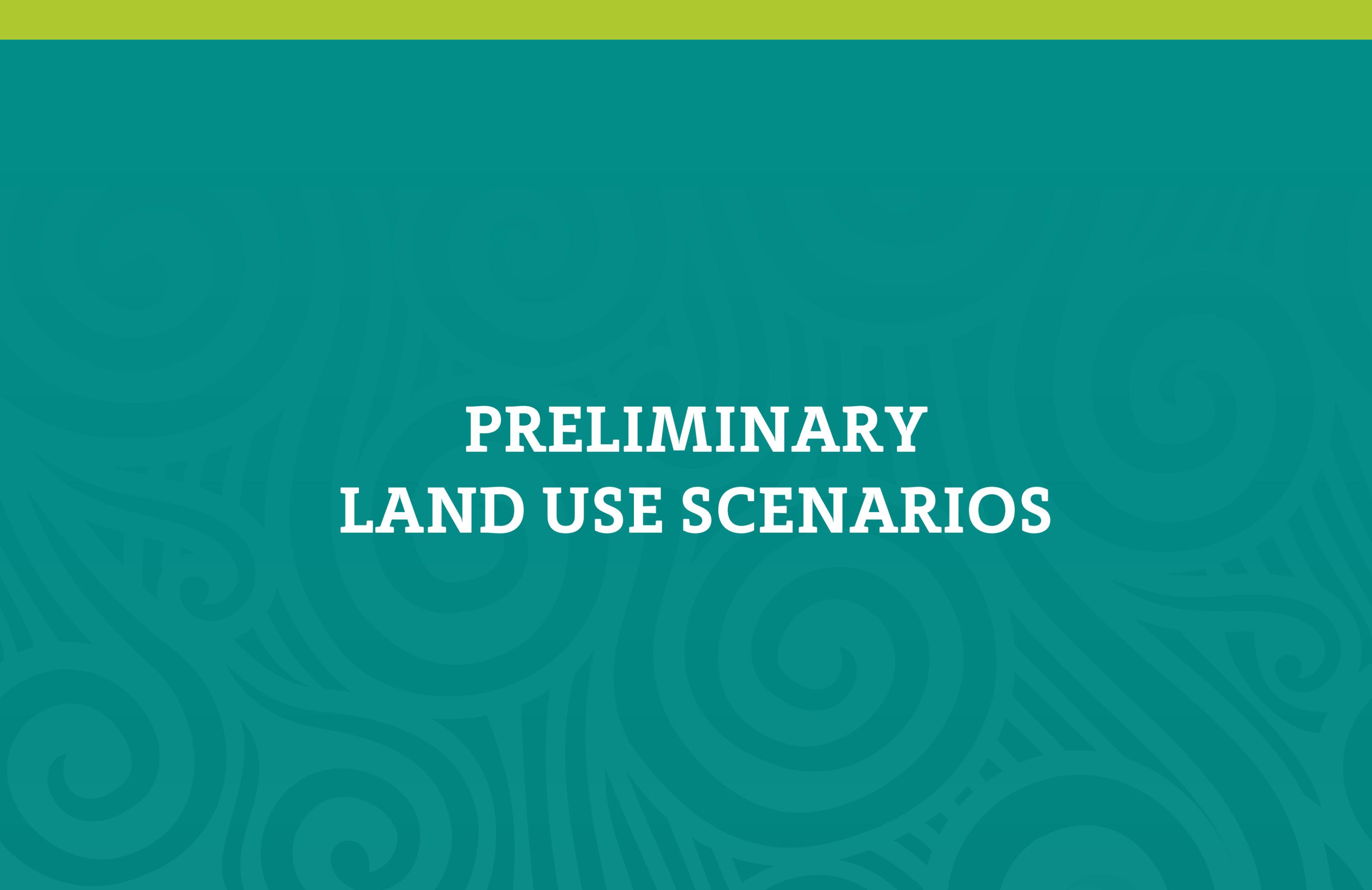
Criteria	Consistent with OHA Vision	Need for Operating Subsidy	Creates a Destination	Appeal to Mix of Residents & Tourists	Market Potential / Demand	Appropriate for Development; Scale, Site and Other Uses
1	Not at all by definition	Requires more than 50% operating subsidy	Attraction only exists due to surrounding uses and/or has specialized appeal	Appeals to one market only	No opportunity	Not at all
2	Minimal	Requires less than 50% operating subsidy	Attraction primarily relies on existing destination and/or has specialized appeal	Appeals to one market primarily	Limited potential / competition	Minimal
3	Somewhat consistent depending on execution	Break even	Attraction with mix of primary purpose and secondary visitors	Attractions both market, but weighted to one more	Strong market potential depending on execution	Somewhat
4	Very consistent depending on execution	Positive net revenue	Anchor attraction with primary purpose visitors	Modest appeal to both markets	Good market potential	Fairly consistent
5	Very consistent by definition	Very strong revenue	Major "must see" anchor, destination attraction with spillover impact	Equal appeal to both	Strong market potential / no competition	Very consistent

Evaluation of Attraction and Entertainment Alternatives Results of Screening Process

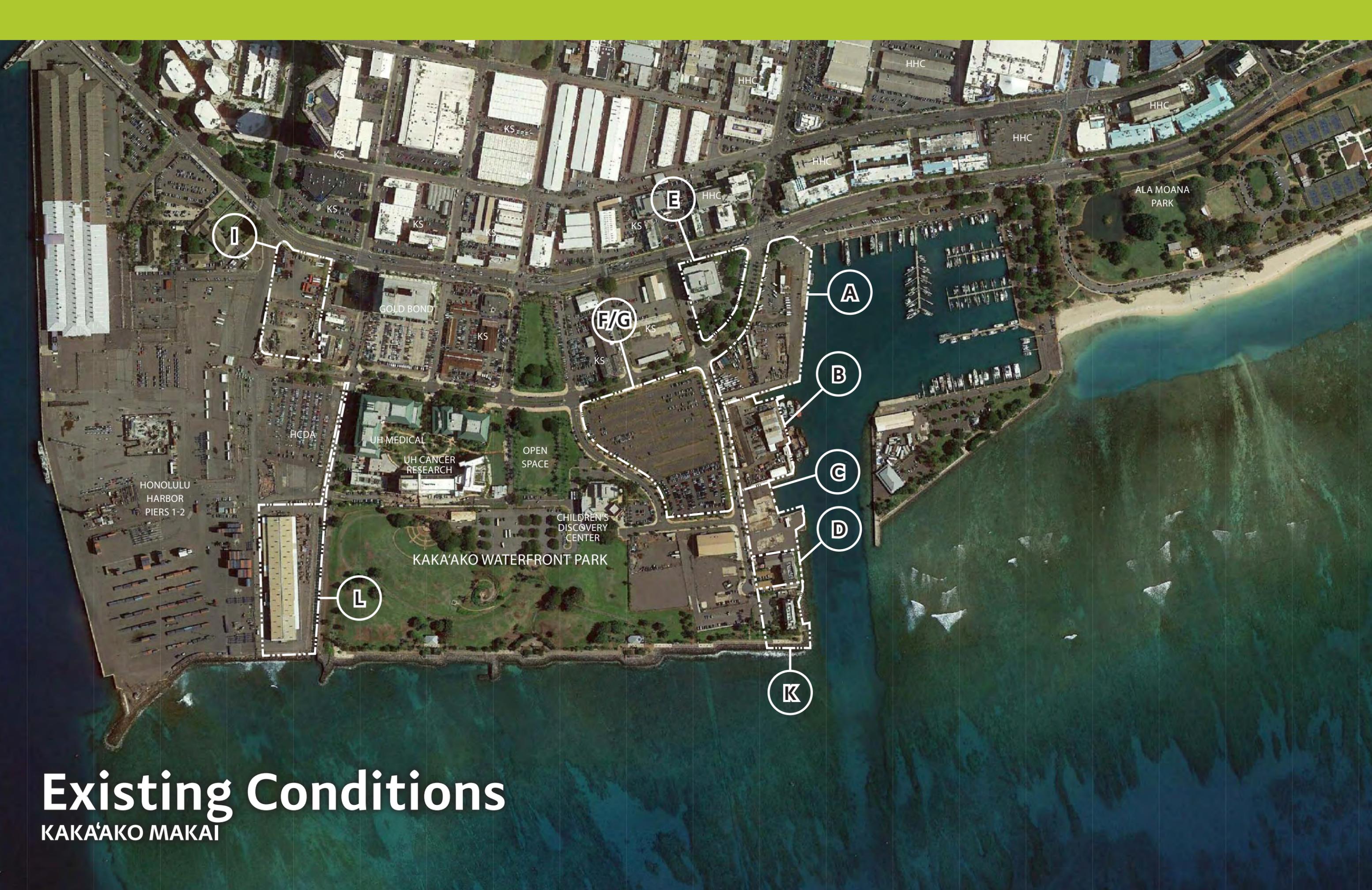
- 15 potential uses – 6 scored more than 60% of the possible 120 points.
 - 2 clear front runners: Observation Tower and licensed multimedia / new cultural concept, ranged highest, both with more than 100 points, or 85 percent and 88 percent
 - The remaining uses, eatertainment destination, wheel attraction, science center, and cultural center / interpretive center, all scored 72-77 points

Weighted Ranking Results	Consistent with OHA Vision	Need for Operating Subsidy	Creates a Destination	Appeal to Mix of Residents & Tourists	Market Potential / Demand	Appropriate for Development; Scale, Site and Other Uses	Total Score	% Total
Highest Possible Score	25	20	25	10	25	15	120	100%
Potential Uses								
Observation Deck/Tower	15	20	25	6	25	15	106	88%
Licensed Multimedia New Cultural Concept	20	12	20	10	25	15	102	85%
Eatertainment Destination	10	12	20	8	15	12	77	64%
Wheel Attraction	5	16	20	4	20	12	77	64%
Science Center	20	8	15	4	15	12	74	62%
Cultural Center / Interpretive Center	25	4	15	6	10	12	72	60%
Aquarium	20	8	15	8	10	9	70	58%
Theme / Amusement Park	5	20	20	4	15	3	67	56%
Specialty Retail Village/District	5	16	20	6	10	9	66	55%
Garden Attraction / Botanical Garden	25	8	15	8	5	3	64	53%
Art Museum	15	4	15	6	5	12	57	48%
Natural History Museum	20	4	10	4	10	9	57	48%
Children's Museum	15	4	5	4	5	12	45	38%
Outdoor Water Park	5	16	10	2	5	3	41	34%
Zoo / Live Animal Attractions	5	8	10	4	5	3	35	29%

Source: AECOM



**PRELIMINARY
LAND USE SCENARIOS**



Existing Conditions

KAKA'AKO MAKAI



Residential (400 ft)

Residential (400 ft)

Commercial

Commercial

Commercial

Commercial - Leased

Industrial

Industrial/Wellness

Commercial - Leased

Land Use Scenario 1A

NO MASTER PLAN with Residential

- Commercial
- Residential
- Cultural
- Wellness

Land Use Scenario 2

MASTER PLAN - Marina



SITE F & G:

- » Attraction 1: Marina* (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation of waterfront
 - Significant cost/risk for entitlements & construction
 - Significant cultural value for ocean access
- » Attraction 2: Tower* (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation attraction and icon
- » Attraction 3: Cultural* (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation of attraction

Land Use Scenario 2A

MASTER PLAN - Marina with Residential



SITE F & G:

- » Attraction 1: Marina* (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation of waterfront
 - Significant cost/risk for entitlements & construction
 - Significant cultural value for ocean access
- » Attraction 2: Tower* (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation attraction and icon
- » Attraction 3: Cultural* (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation of attraction

ICONIC OBSERVATION TOWER



HARBOR EDGE TRANSITIONS
FOR ACCESS TO WATER

Land Use Scenario 3

MASTER PLAN - Plaza



- Commercial
- Residential
- Cultural
- Wellness

SITE F & G:

- » Attraction 1: Plaza (1.5 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation of plaza frontage
- » Attraction 2: Tower* (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation attraction and icon
- » Attraction 3: Cultural (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation of attraction

Land Use Scenario 3A

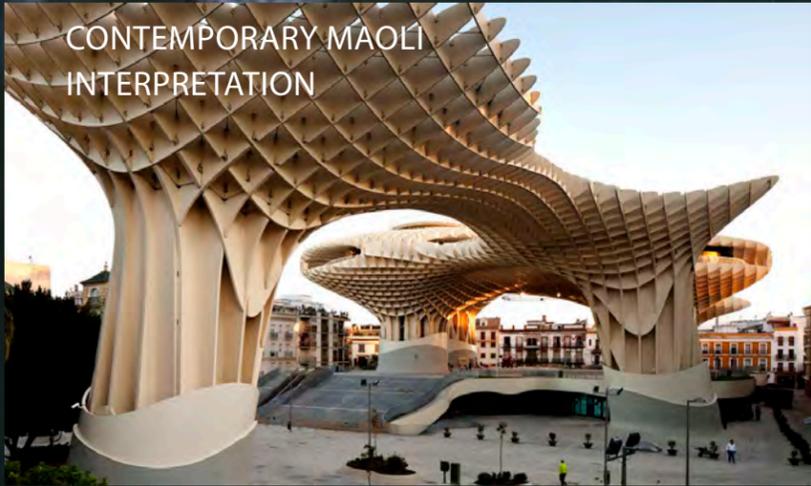
MASTER PLAN - Plaza with Residential



SITE F & G:

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 - Reduction in value due to loss of land area
 - Increase in value due to creation of plaza frontage
- » Attraction 2: Tower* (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation attraction and icon
- » Attraction 3: Cultural (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation of attraction

ICONIC OBSERVATION TOWER



PLAZA BECOMES TRANSITIONAL SPACE TO ACCESS WATER

COMMERCIAL EDGE FORMS PLAZA EDGES

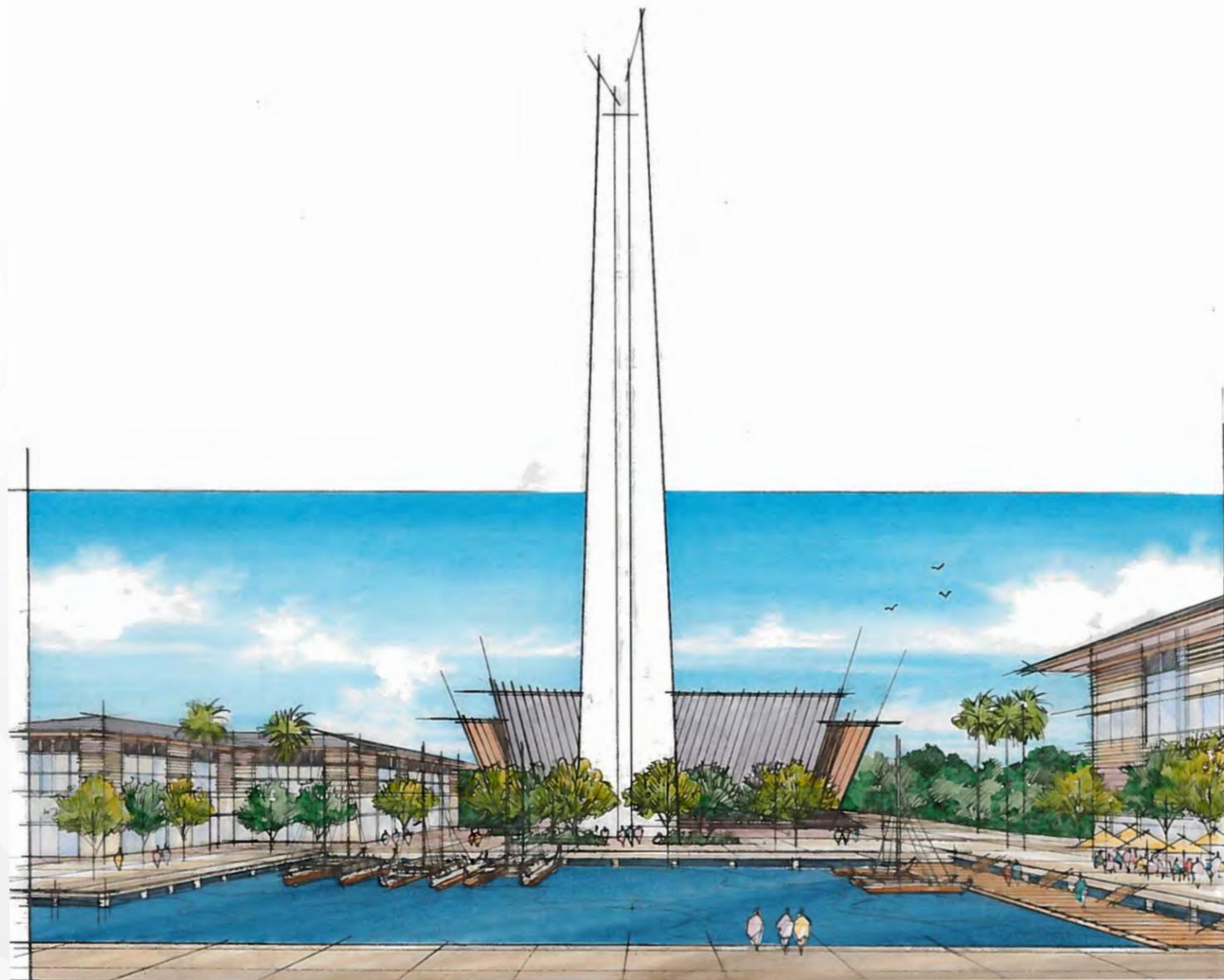
ACTIVE PLAZA ZONES FOR MAOLI PROGRAMMING

CONNECTION OPPORTUNITIES TO PARK AND NATURE

KĪPUKA, CULTURAL CENTER

GATHERING PLACES





WITH OBSERVATION TOWER



WITHOUT OBSERVATION TOWER



WITH OBSERVATION TOWER



WITHOUT OBSERVATION TOWER

PRELIMINARY FINANCIAL ASSESSMENT

**PRELIMINARY ESTIMATED SITE AGGREGATE SALES VALUES BASED ON SALES COMPARISON
SCENARIO 1**

Assuming As Is Use and Zoning, Free-Standing, With No Master Plan

Parcel I.D.	Area in Sq. Ft	Use	Mid-Range		High End of Range	
			Current Estimated Value per SF	Total Value	Current Estimated Value per SF	Total Value
A	164,000	Commercial	\$250	\$41,000,000	\$260	\$42,640,000
B	103,597	Commercial	\$200	\$20,700,000	\$210	\$21,755,370
C	(1) 73,996	Commercial	\$200	\$14,800,000	\$210	\$15,539,160
D	40,855	Commercial	Leased	\$7,700,000	Leased	\$8,100,000
E	95,919	Commercial	\$200	\$19,200,000	\$210	\$20,142,990
G/F	328,000	Industrial	\$120	\$39,400,000	\$130	\$42,640,000
I	130,000	Commercial	\$200	\$26,000,000	\$210	\$27,300,000
K	59,154	Commercial	Leased	\$5,400,000	Leased	\$5,700,000
L	229,561	Indust./Med.	\$125	\$28,700,000	\$130	\$29,842,956
Total	1,225,082					
		Aggregate Preliminary Values		\$202,900,000		\$213,660,476
			Rounded,	<u>\$203,000,000</u>		<u>\$214,000,000</u>

(1) Encumbered by KKFC lease agreement. Net square footage shown.

Source: The Hallstrom Group/CBRE.



Residential (400 ft)

Residential (400 ft)

Industrial

Commercial

Commercial

Commercial

Commercial - Leased

Industrial/Wellness

Commercial - Leased

Land Use Scenario 1A

NO MASTER PLAN with Residential

- Commercial
- Residential
- Cultural
- Wellness

**PRELIMINARY VALUATION ALLOWANCES BASED ON SALES COMPARISON
SCENARIO 1A**

**Financial Analysis of OHA Kakaako Makai Parcels
Kakaako, Honolulu, Hawaii
Assuming Market Zoning, Free-Standing, With No Master Plan**

Parcel I.D.	Area in Sq. Ft	Use	Mid-Range		High End of Range	
			Current Estimated Value per SF	Total Value	Current Estimated Value per SF	Total Value
A	164,000	Commercial	\$250	\$41,000,000	\$260	\$42,640,000
B	103,597	Commercial	\$200	\$20,700,000	\$210	\$21,755,370
C (1)	73,996	Commercial	\$200	\$14,800,000	\$210	\$15,539,160
D	40,855	Commercial	Leased	\$7,700,000	Leased	\$8,100,000
E (2)	95,919	Residential	\$290	\$27,800,000	\$300	\$28,775,700
G/F	328,000	Industrial	\$120	\$39,400,000	\$130	\$42,640,000
I (2)	130,000	Residential	\$275	\$35,800,000	\$290	\$37,700,000
K	59,154	Commercial	Leased	\$5,400,000	Leased	\$5,700,000
L	229,561	Indust./Med.	\$125	\$28,700,000	\$130	\$29,842,956
Total	1,225,082					
		Aggregate Preliminary Values		\$221,300,000		\$232,693,186
			Rounded,	\$221,000,000		\$233,000,000

(1) Encumbered by KKFC lease agreement. Net square footage shown.

(2) Assuming use change to residential and 400 foot height limit.

Source: The Hallstrom Group/CBRE.

Land Use Scenario 2A

MASTER PLAN - Marina with Residential



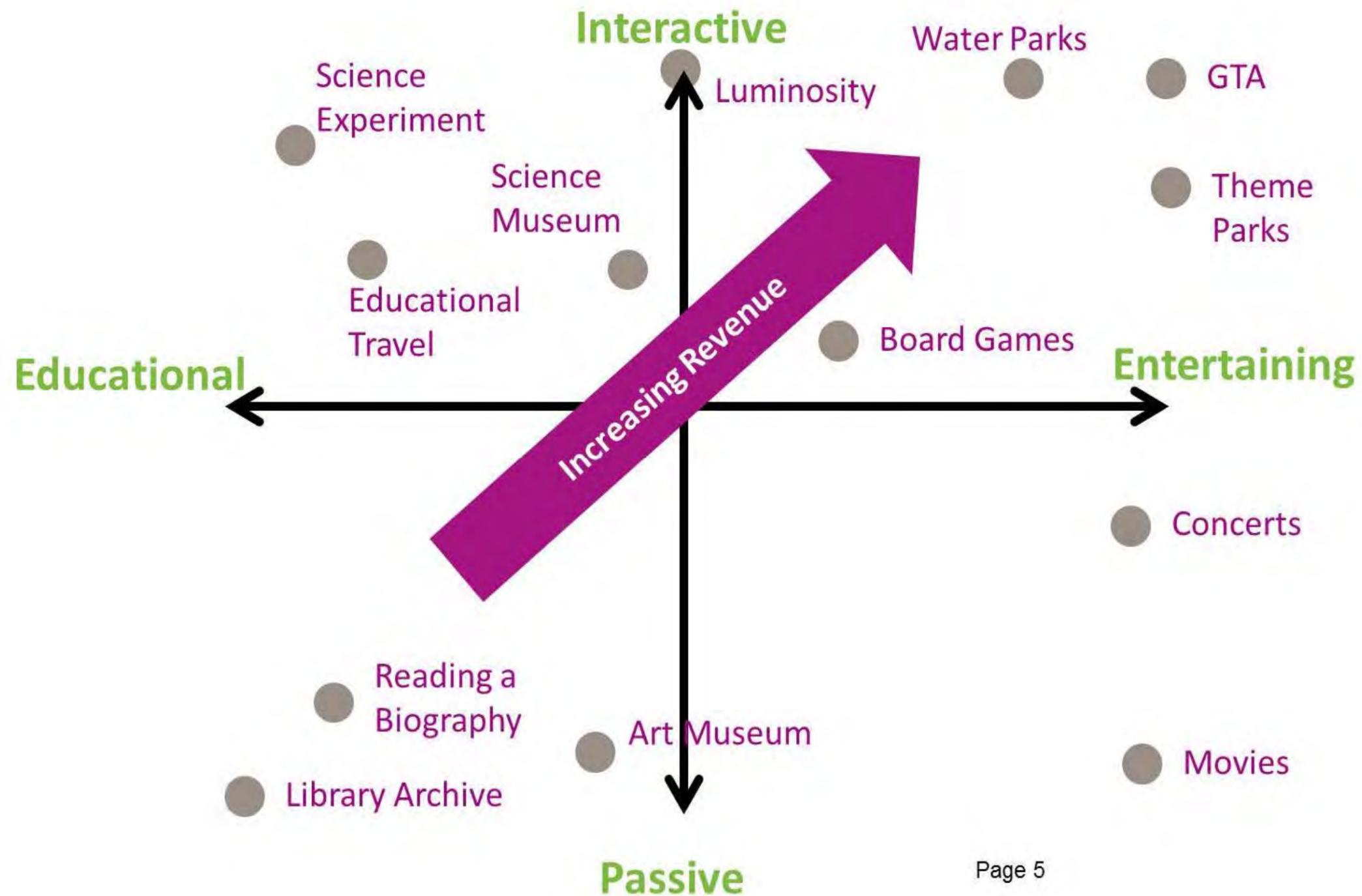
SITE F & G:

- » Attraction 1: Marina* (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation of waterfront
 - Significant cost/risk for entitlements & construction
 - Significant cultural value for ocean access
- » Attraction 2: Tower* (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation attraction and icon
- » Attraction 3: Cultural* (1.0 ac)
 - Reduction in value due to loss of land area
 - Increase in value due to creation of attraction

PRELIMINARY FINANCIAL ANALYSIS

- » In light of recent market activity, there have been sufficient timely transactions to support the Sales Comparison Approach to value, considered the most desirable appraisal methodology.
- » The primary strengths of the subject sites include their central Honolulu makai-oriented location, with some having oceanfrontage and some having Ala Moana Blvd. frontage.
- » The primary weaknesses of the subject sites are the limited development in Kakaako Makai, mixed transitional status of the larger neighborhood, limited exposure, and access traits. Further, there are potential soil mitigation and associated costs which are unknown at this time.
- » There have not been any oceanfront land sales or new ground leases in central Honolulu in more than two decades. Shoreline property typically demands a premium in Hawaii. We have been cautious regarding the premium for the subject sites in our initial, preliminary analysis.
- » “As Is” with their in-place zoning/use limitations, size and access, as free-standing, individually-sold parcels outside of a master planning concept, the aggregate sales value of the sites is likely between \$203 million and \$214 million. Above the \$200 million aggregate value at the time of their exchange to OHA.
- » if the only change to the “As Is” status of the Kakaako Makai sites is the ability to place residential development in towers up to 400 feet high on Sites E and I, as is allowable across Ala Moana Blvd., the aggregate sales value of the OHA holdings increases by up to \$19 million, reaching as high as \$233 million total, or up by 9 percent.
- » Aggregate sales values will increase by as much as 40 percent above “As Is” with the implementation of the envisioned master plan in accordance with the entitlements achieved and the level/type of amenities and features developed. Scenario 3A offers the greatest upward sales value potential.
- » It preliminarily appears the increase in aggregate sales value should be sufficient to fund the additional entitlement and site development costs associated with the respective plans, specifically the plaza/marina, while still providing OHA a return above the \$200 million baseline.
- » However, it is not known at this time whether or how much there will be in excess of \$200 million to support development of cultural facilities and their on-going operation.

Cultural Attraction Business Model



Observation Deck / Tower

Definition

- Observation experience with otherwise unavailable views of landscape
 - Can be stand alone tower or integrated into office tower
- Generally includes ground floor experience/exhibits and open air observation deck
- New trend to add thrill experiences (i.e. glass floor, TILT, etc.) and significant story telling



Key Operating Characteristics

Market Requirements	Large on-site blended tourist and resident market or very strong location in dense urban market
Visitor Profile	All ages, primarily tourists
Length of Stay	Under 1 hour
Size	Average over 800 feet in North America
Attendance	500,000 to over 1 million, resident market penetration rates of 2-3 percent, tourist market penetration 6 percent
Capital Investment	Depends on financial deal
Typical Location / Adjacent Uses	Urban, tourist destinations, second gate attractions
Business Model & Financial Characteristics	Significant revenue generation

Observation Deck/Tower Attraction Trends

Improving Views and
Modernizing Content



Thrill / Extreme
Experiences



Storytelling



Preliminary Financial Analysis: Business Model for Typical Cultural Facility

<u>Hypothetical Assumptions</u>	
Gross size	40,000 SF
Visitor experience area	30,000 SF
Some outdoor space	
<u>Potential Attendance Metrics</u>	
Attendance	4-6 visitors per visitor SF
Annual attendance	120,000 - 180,000 visitors
<u>Likely Business Model</u>	
Operating cost per gross SF	\$50 to \$75
Annual operating costs	\$2 to \$3 million
% earned revenue	40% - 60%
Annual earned revenue	\$1 - \$1.5 million
Required contributed income / Annual operating gap	\$1 - \$1.5 million
Ground lease percentage	8%
Land Value Required for Operations	\$10 - \$20 million

Preliminary Financial Analysis: Business Model for Branded Cultural Attraction

<u>Hypothetical Assumptions</u>	
Gross size	50,000 SF
Visitor experience area	40,000 SF
Some outdoor space	
<u>Potential Attendance Metrics</u>	
Attendance	10-15 visitors per exhibit SF
Annual attendance	400,000 - 500,000
<u>Likely Business Model</u>	
Operating cost per gross SF	\$75 - \$100
Annual operating costs	\$4 to \$5 million
% earned revenue	80% - 100%
Annual earned revenue	\$3.5 - \$4.5 million
Required contributed income / Annual operating gap	\$500,00 - \$1.5 million
Ground lease percentage	8%
Land Value Required for Operations	\$6 - \$18 million

Preliminary Financial Analysis: Development Cost for Cultural Attraction

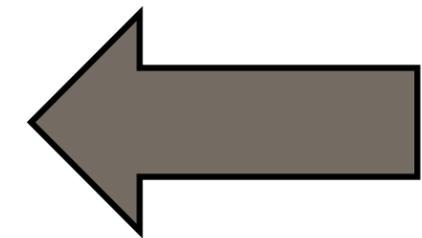
<u>Hypothetical Assumptions</u>	
Gross size	40,000 SF
Visitor experience area	30,000 SF
Some outdoor space	
<u>Development Cost per SF</u>	
Building	\$600 per SF
Visitor experience	\$500 per SF
<u>Total Development Cost</u>	
Building	\$24 million
Visitor experience	\$15 million
Total Development Cost	Approximately \$40 million

Next Steps: Detailed Financial Analysis

Costs – Creation of High Quality Signature Development

- Public amenities and infrastructure
- Opportunity cost of land used for public amenities
- Master developer versus sale of individual parcels
- Financing strategies

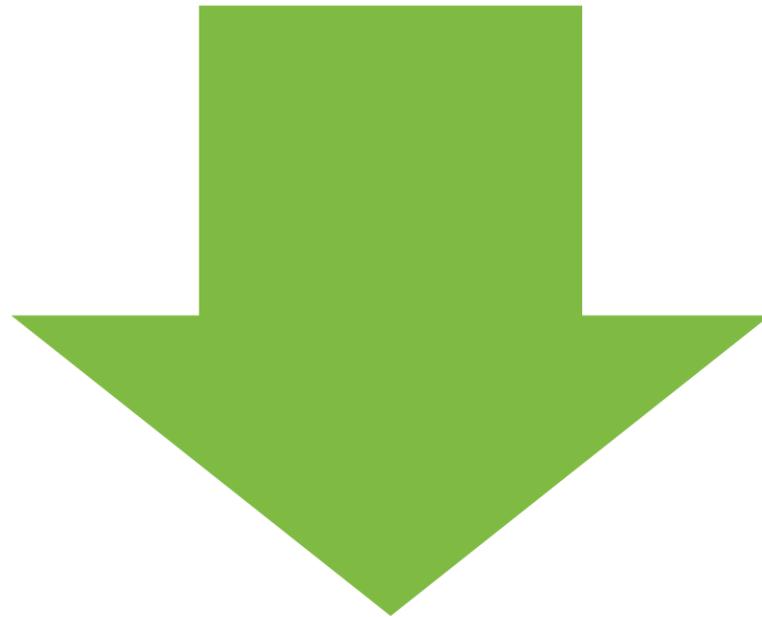
\$200 million



- Residual land value analysis
- Sensitivity testing of multiple iterations
- Financing strategy assumptions

Revenues – Generation of \$200 Million

- Sale and ground lease of real estate
- Enhanced values from masterplan and public amenities
- Cultural anchors can enhance value





Quarter 2 Update
may 28, 2015



KAKA'AKO MAKAI



KUHIKUI PU'UONE
COLLABORATIVE