

O



February 10, 2009

Mr. Scott R. Rodie
Vice President
Appraisals and Environmental Risk Management
BANK OF HAWAII
PO Box 3170
Honolulu, HI 96846-6000

Re: **Market Valuation of the Fee Simple
Real Property Interests in the
Unsold Inventory Within the
Residential Development Known As
KE KAILANI
Mauna Lani Resort, District of South Kohala
Island of Hawaii, State of Hawaii**

Dear Mr. Rodie:

At your request, we have prepared and present herewith our opinions, a narrative Self Contained appraisal report concerning the market valuation of the fee simple interest in the above-cited subject property. The date of value is January 22, 2009.

The subject property involves the unsold inventory in the luxury resort development known as **KE KAILANI**. The project was originally envisioned as a gated residential development featuring a combination of 39 vacant lots and 12+ luxury attached condominiums (known as Moani Villas). The project also features extensive frontage along the Mauna Lani South golf course and the sea (but no beach). Project amenities include a private beach club (The Grotto) and a recreation area with pavilion, tennis, volley ball, basketball and swimming pools (Hana Pono Park). All site improvements have been completed and include a gated entry with manned security station and water feature (Kipuka), finished lot grading, retaining wall and private interior roadways. Initial sales occurred in 2005.

All other amenities have been completed except the Hana Pono park which is only partially complete. The project is located along the southern boundary of the Mauna Lani resort with the adjoining Waikoloa resort. The subdivided vacant lots range in area between 15,797 and 57,868 square feet. Three of the lots front the ocean (sea cliff), while the majority of the remaining lots front the golf course.

The Developer is identified as Michael Fuchs Development (Hawaii) LLC.

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Only four of the villas were ever constructed. The four villas are located within two duplexes and feature two model types (A and C). All of the model types involve a 3-bed/3.5-bath attached design featuring two levels with square footages of 3,371 square feet of interior area. The units each contain a detached garage, a landscaped enclosed courtyard and a private swimming pool. Lot 16, which was formerly proposed for development of at least 12 Villas, has been preliminarily platted for the development of an additional 8 lots in place of Villas.

The unsold inventory is defined to be 32 vacant house lots (including 8 CPR lots) and 2 Villas, as of the reported date of value.

As noted, initial sales were in 2005. However, there has been only 15 lot sales and two Villas sales completed by the Developer as of the date of value. Hence, the project has under-performed expectations even in light of overall declining market conditions starting in 2007. More recently, rapidly declining economic conditions (which appear to the worse since the Great Depression) also have had an expected negative impact on project sales. At current absorption levels, the project may take as long as 10+ years to fully absorb. The purpose of this report is to report a market value estimate. The definition of market value presumes a hypothetical sale as of the date of value. As discussed in the Highest and Best Use section of this report, the bulk sale of the subject property interests would likely involve an investor. We do not believe such an extended rate of absorption would be acceptable to an investor given the nature and relatively small size of this project. Accordingly, a key presumption to our analyses is that a hypothetical investor can only acquire the subject in bulk at a given price (value) that will allow the investor to undertake a strategy which will allow an expedited sales absorption (investment holding) period and still generate a sufficient level of return.

The **purpose** of this report is to provide a fee simple market valuation opinion of the defined real property interest in the subject property. The market value opinion is herein defined as the bulk sale value of the identified subject property interest to a single purchaser. The effective date of valuation is January 22, 2009.

The **intended use** of this report is to provide the Client objective research and analysis, and value conclusions for assessing the collateral protection of a security interest in the specified real property as of a current date for on-going monitoring and internal decision-making purposes. The **intended users** of this report are Bank of Hawaii and other financial institutions involved in the current financing of the identified subject property interest.

LESHER CHEE STADLBAUER

Based on our research and analyses, the various fee simple market value of the identified subject property interests, as of January 22, 2009, was concluded as follows:

Property Interest	Interest	Value Conclusion
Discounted Bulk Sale (Market) Value	As Is	\$23,840,000

It should be noted that our value conclusions are limited by these additional extraordinary outstanding assumptions and limiting conditions.

- All information provided by the Developer was true and correct. Our findings and conclusions may be subject to change should additional information become available.
- Our findings and conclusions presume the subject property does not suffer from any unknown environmental, archaeological, soils, or subsurface conditions that may be detrimental to its marketability and development potential.
- Presently, the local, national and global economies were experiencing the most severe economic downturn since the Great Depression. The tourism based Hawaii economy also suffers and will likely continue to suffer. This has greatly exacerbated the already softening performance of the resort real estate market. Our valuation assumptions have attempted to model the impact of such conditions as well as to model potential appropriate actions in response to such conditions. A key factor in the economic downturn has been the widely reported lack of available credit. A key component to our analysis (including selection of developer profit and discount rate) is the presumption of continued availability of credit (at reasonable terms) to both bulk and individual retail purchasers of the subject property interests.
- As of our date of value, the national and global economy as well as the national and Hawaii real estate markets were in a highly fluid state. Market conditions have shifted dramatically and could potentially continue to shift over short periods in the future. While we consider our findings and conclusions to be well founded and reasonable as of the date of value, we caution the intended user to rely upon our findings accordingly given the environment of uncertainty in which our findings are being delivered. We have not included extensive reporting on national and global economic conditions within our report. It is presumed that a user of this report already has and maintains a strong familiarity with such conditions. Rather we have attempted to focus on the fallout of these conditions on the subject property interest.

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- Our analysis is not intended to be a forecast of future events but rather is intended to reflect how typical market participants view future market conditions as of the date of the report. We are not responsible for unforeseen changes in future market conditions.
- As of the date of value, Hana Pono Park had not been fully completed. We have assumed that the estimated costs to complete (estimated at \$3 million) would be borne by the hypothetical investor who would succeed the current Developer.
- As of the date of value, Lot 16 has been organized under a condominium property regime. As reported, only four of the proposed 12 Villas had been completed. We believe the highest and best use of the undeveloped portions of Lot 16 be sold as 8 additional house lots. These have already been informally plotted by the Developer. This would require either re-organization of the CPR to create CPR lots and or subdivision into standard lots. Based on our understanding of the subject property, we believe these lands can be readily organized as described at relatively minor costs. For the sake of this analysis, we have arrived at the individual lot areas of the 8 lots by dividing the overall land area of Lot 16 by 10 (8 lots and 2 duplex units). The ultimate area of these lots may be subject to change. Our findings are based on the hypothetical assumption that the lots can be individually conveyed and reflect their contemplated average lot size.
- We caution that the historic sales performance of the subject was likely heavily influenced by the current Developer. On a certain level, the subject project was never fully exposed to the market in terms of pricing and marketing. This has impacted our ability to optimally measure the subject property interest in terms of market acceptance.

The reported value conclusions are also limited by all of the *Assumptions and Limiting Conditions* and *Definitions and Terms* contained in the Addenda.

DEFINITION OF MARKET VALUE

Market Value means the most probable price, which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;

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4. Payment is made in terms of cash in U.S. dollars or terms of financial arrangements comparable thereto; and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale

Market Value "As Is" means an estimate of the market value of a property in the condition observed upon inspection and as if physically and legally exists without hypothetical conditions, assumptions, or qualifications as of the date of inspection.

Source: Federal Deposit Insurance Corporation under 12 CFR, Part 323-Appraisals, 323.2 Definitions (f).

Thank you for the privilege of assisting you in this valuation assignment. Should you have any questions or concerns regarding any aspect of this report, please do not hesitate to contact us.

LESHER CHEE STADLBAUER, INC.

Steven D. Chee, MAI
Principal

LESHER CHEE STADLBAUER

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Section I

PROPERTY OVERVIEW

EXECUTIVE SUMMARY



PROJECT NAME:	KE KAILANI
LOCATION:	Ke Kailani Drive and Hana Pono Loop, Mauna Lani Resort, District of South Kohala, Island and County of Hawaii, State of Hawaii
TAX MAP KEY:	Division 3, Zone 6, Section 8, Plat 36, Parcels 1, 2, 5, 11, 12, 13, 14, 16-3, 16-4, 16-5, 16-6, 16-42, 16-43, 16-44, 16-45, 17, 18, 19, 20, 26, 27, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40.
RIGHTS APPRAISED:	Fee Simple Real Property Interest
PRESENT USE/ SITE DESCRIPTION:	The subject property involves the unsold inventory in the luxury resort development known as KE KAILANI . The project was originally envisioned as a gated residential development featuring a combination of 39 vacant lots and 12+ luxury attached condominiums (known as Moani Villas). The project also features extensive frontage along the Mauna Lani South golf course and the sea (but no beach). Project amenities include a private beach club (The Grotto) and a recreation area with pavilion, tennis, volley ball, basketball and

swimming pools (Hana Pono Park). All site improvements have been completed and include a gated entry with manned security station and water feature (Kipuka), finished lot grading, retaining wall and private interior roadways. All other amenities have been completed except the Hana Pono park which is only partially complete. The project is located along the southern boundary of the Mauna Lani resort with the adjoining Waikoloa resort.

The subdivided vacant lots range in area between 15,797 and 57,868 square feet. Three of the lots front the ocean (sea cliff), while the majority of the remaining lots front the golf course.

Only four of the villas were ever constructed. The four villas are located within two duplexes and feature two model types (A and C). All of the model types involve a 3-bed/3.5-bath attached design featuring two levels with square footages of 3,371 square feet of interior area. The units each contain a detached garage, a landscaped enclosed courtyard and a private swimming pool. Lot 16, which was formerly proposed for development of at least 12 Villas, has been preliminarily plotted for the development of an additional 8 lots in place of Villas.

The unsold inventory is defined to be 32 vacant house lots (including 8 CPR lots) and 2 Villas, as of the reported date of value.

REPORT FORMAT:

Self-Contained Appraisal Report format consistent with the Uniform Standards of Professional Appraisal Practice (USPAP) Standards Rule 2-2(a).

PERTINENT DATES: January 22, 2009 (effective date of valuation)
February 10, 2009 (date of report preparation)

VALUATION CONCLUSIONS:

Market Value: **\$23,840,000**

The stated value conclusions are subject to the primary assumptions and limiting conditions set forth within the transmittal letter and valuation section of this appraisal.

RECORDED OWNERSHIP

**FEE SIMPLE OWNER/
DEVELOPER:**

Michael Fuchs Development (Hawaii), LLC

**EASEMENTS, RESTRICTIONS
AND RESERVATIONS:**

A discussion of recorded easements, restrictions, and reservations for the subject property is provided in the following subsection titled *Easements, Restrictions, and Reservations*.

STATE LAND USE

COMMISSION CLASSIFICATION: Urban

COUNTY ZONING:

RM-3.0 & RM-4.0, Multiple-Family Residential District

FLOOD ZONING:

The subject parcel appears to be located in an area designated Flood Zone "X" (unshaded), as shown on Flood Map Panel No. 1551660267C (dated September 16, 1988).

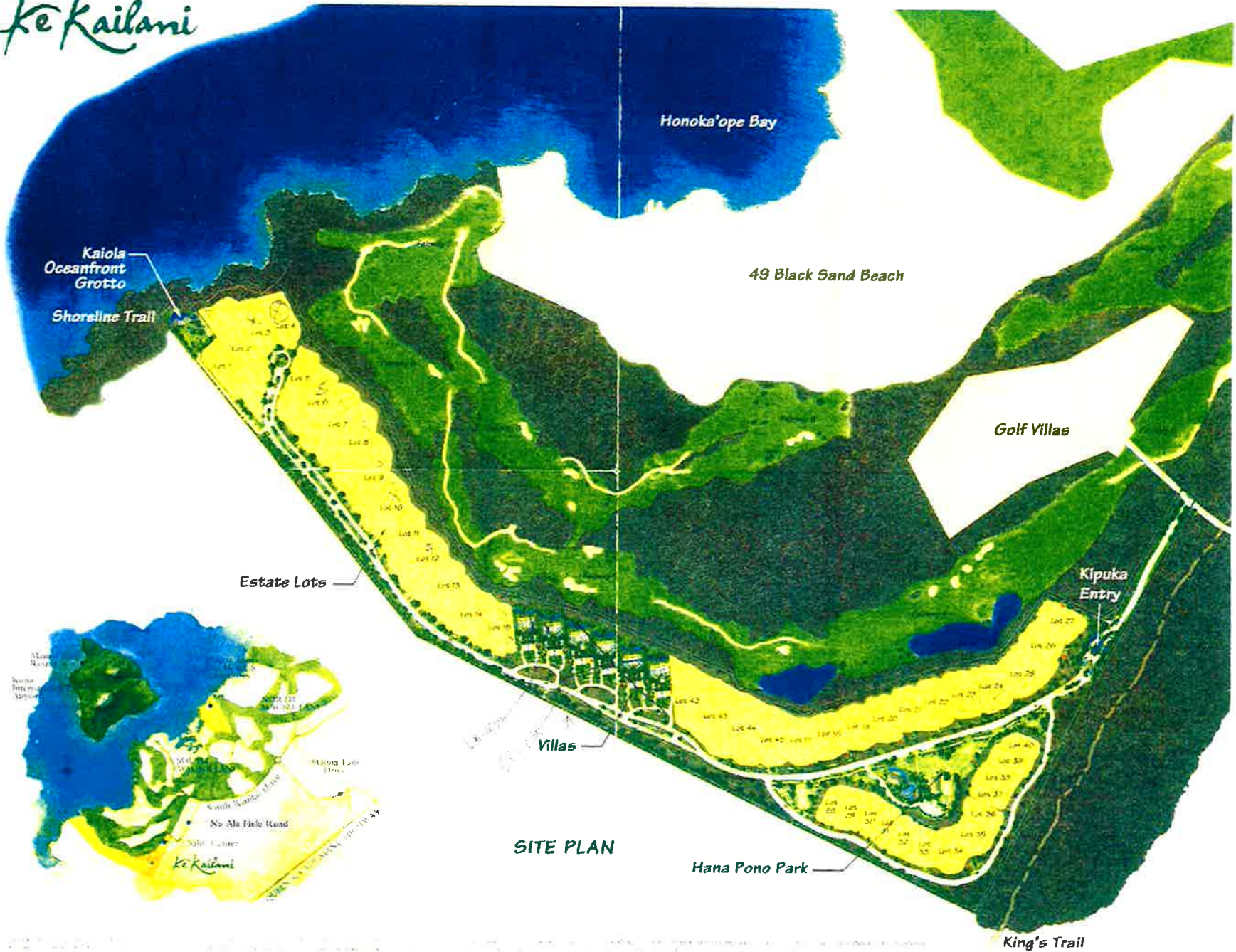
CENSUS TRACT NUMBER:

217.01

UTILITIES:

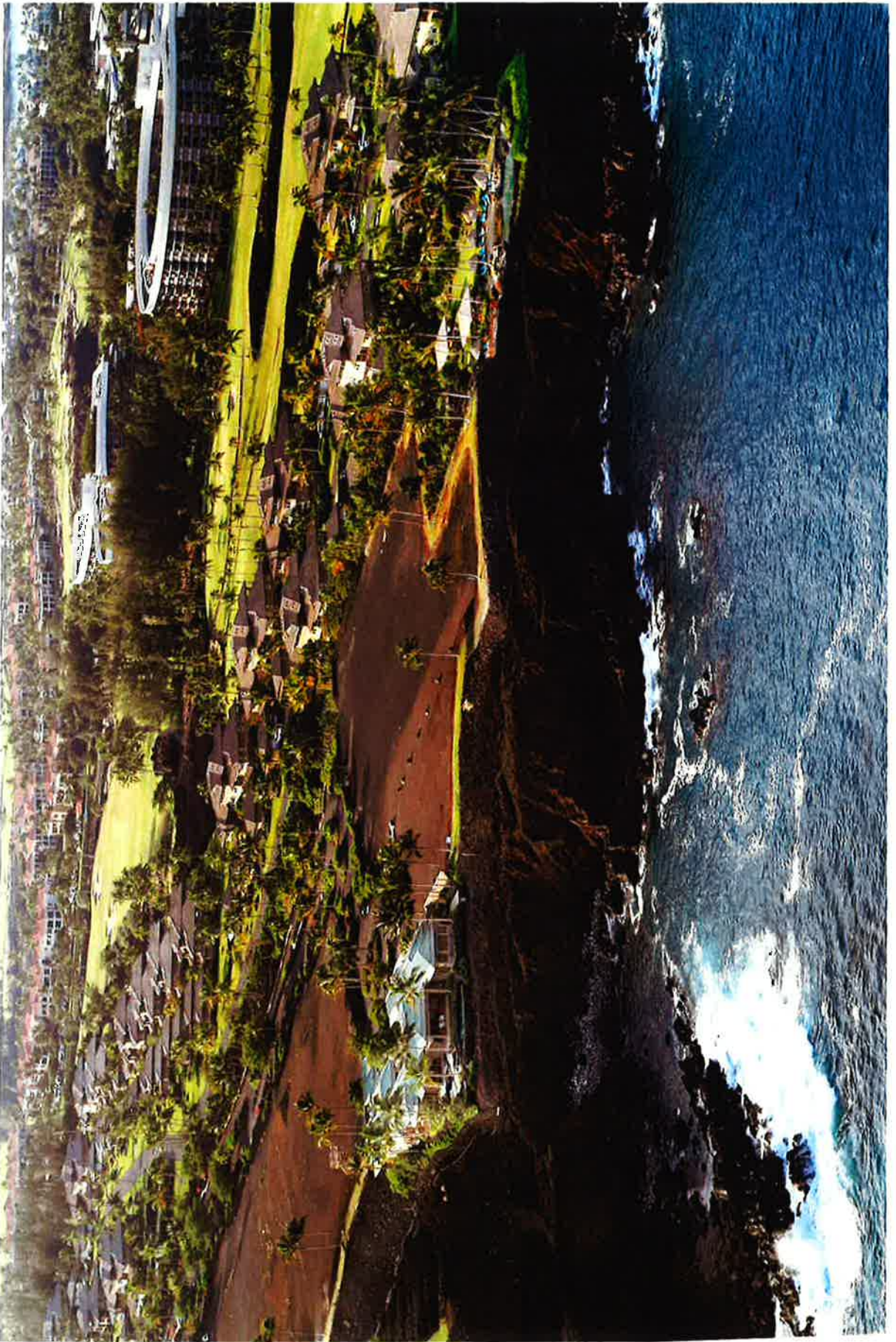
A detailed discussion of the planned utility services for the subject project is provided within the *Utilities* subsection.

Ke Kailani



SITE PLAN

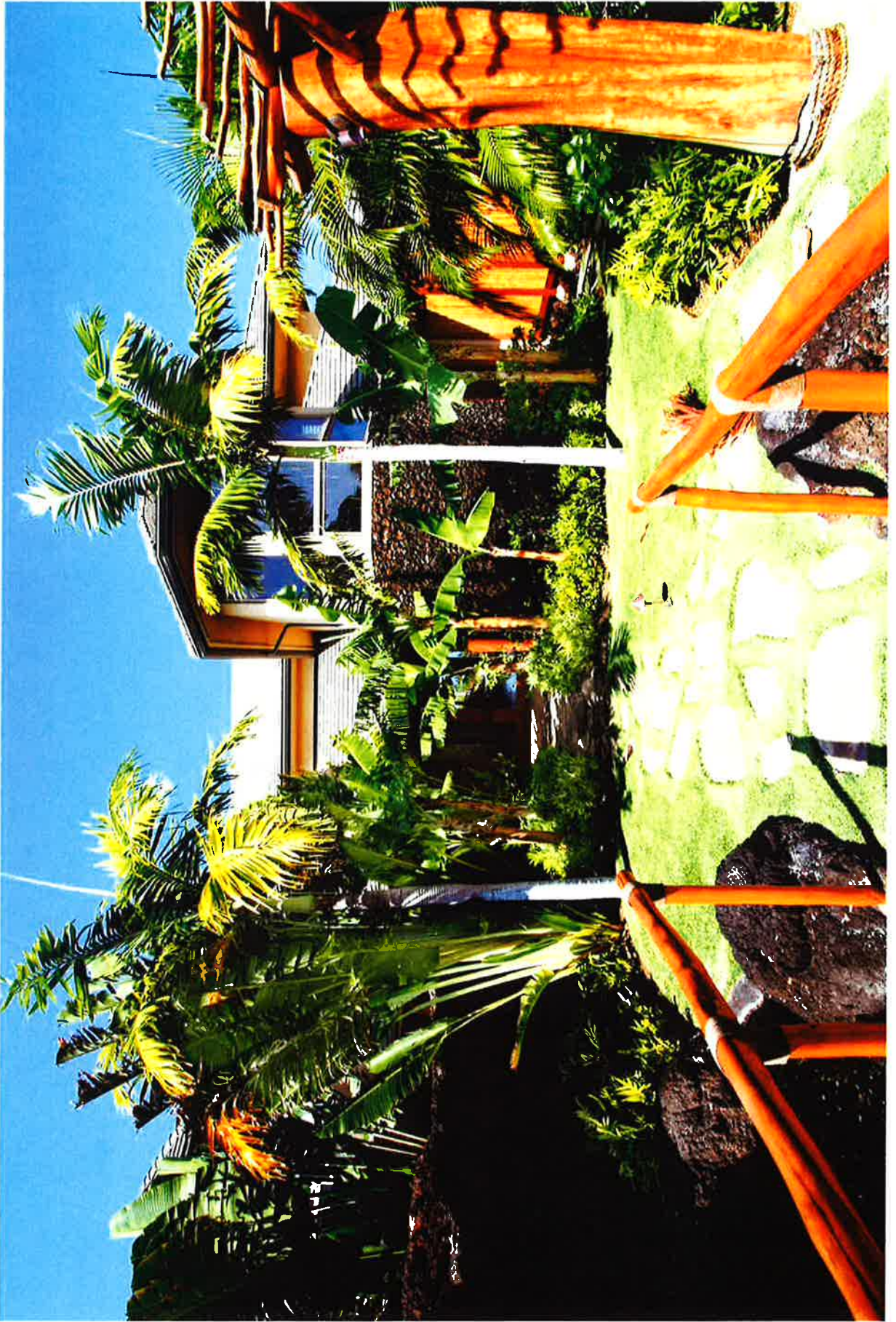
King's Trail

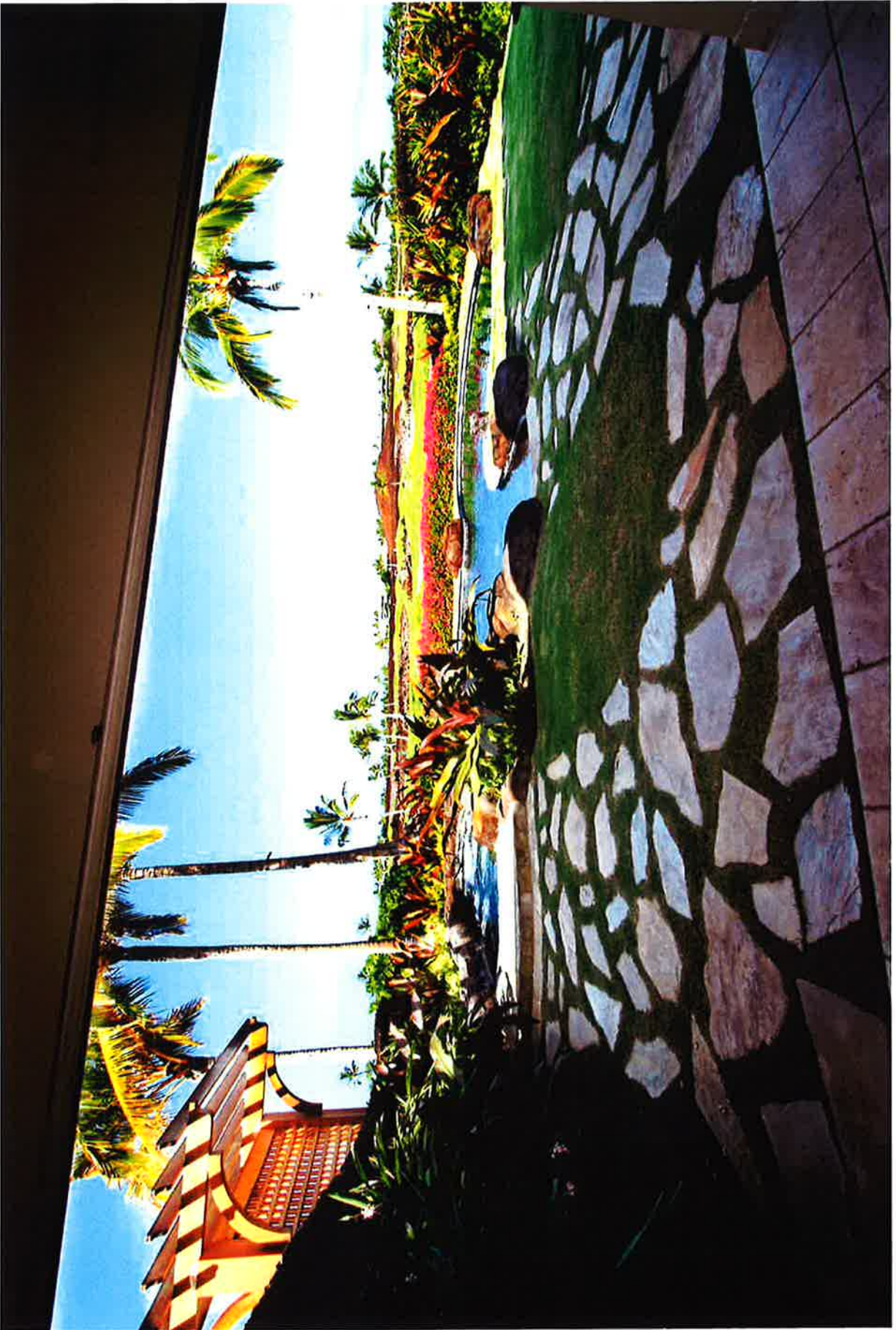




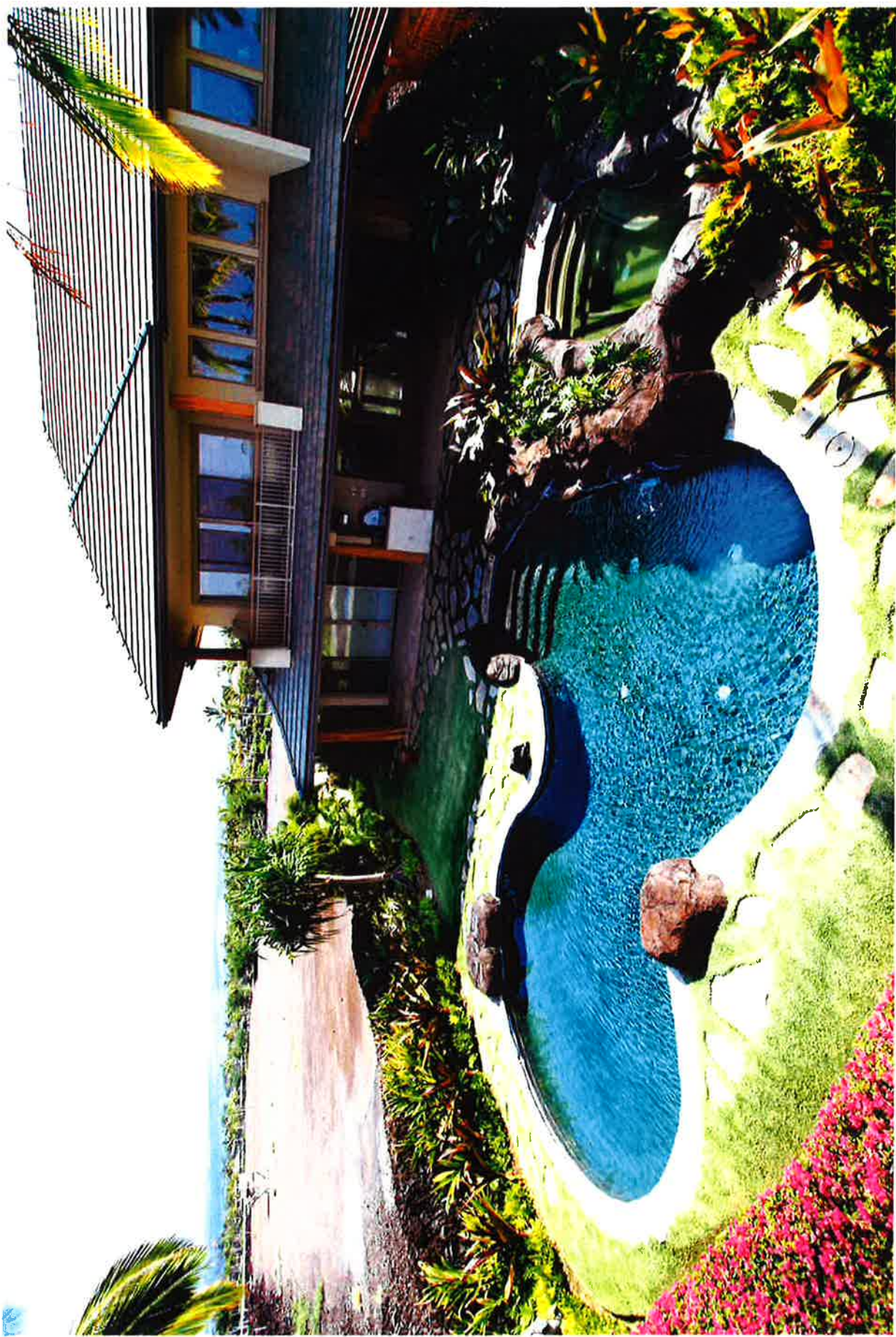
















REPORT OVERVIEW

PURPOSE AND INTENDED USE OF THIS REPORT

The **purpose** of this report is to provide a fee simple market valuation opinion of the defined real property interest in the subject property. The market value opinion is herein defined as the bulk sale value of the identified subject property interest to a single purchaser. The effective date of valuation is January 22, 2009.

The **intended use** of this report is to provide the Client objective research and analysis, and value conclusions for assessing the collateral protection of a security interest in the specified real property as of a current date for on-going monitoring and internal decision-making purposes. The **intended users** of this report are Bank of Hawaii and other financial institutions involved in the current financing of the identified subject property interest.

DEFINITIONS AND TERMINOLOGY

Throughout this report, the reader will encounter various technical words or phrases necessary to the appraiser for the proper presentation of material and conclusions. Presented within the *ADDENDA* are those terms most commonly used in the report, together with a brief explanation.

APPRAISAL REPORT FORMAT

The appraisal process was reported as a Self-Contained Appraisal report, which is intended to comply with the reporting criteria set forth by Standard Rule 2-2(a) of USPAP. This appraisal was also performed under Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) as amended.

SCOPE OF THIS APPRAISAL REPORT

The date of this report is January 22, 2009, which reflects the date of our site visit.

The scope of this report includes the use of all applicable steps of the appraisal process. These steps include the following: definition of the appraisal problem; site and improvement analysis; highest and best use analysis; market data selection; verification and analysis; application of selected approaches to value; and final value estimates.

In the course of completing this appraisal, a site visit was conducted on January 22, 2009. Our site visit did not include an interior inspection of Villa Unit 1C, which we understand was exactly the same as Unit 2C (which was viewed). Various property information was provided by the Client, Developer (Ke Kailani Development, LLC) and

subject sales agents (Ke Kailani Realty, LLC). Also, information was obtained from the website for the subject project: www.kekailani.com.

Our assignment includes the collection, analyses, and evaluation of specific data pertaining to the subject property and competitive market. We have researched sources including, but not limited to, Hawaii County Real Property Tax Office, various government agencies, developers, real estate agents, property managers and property owners in the collection of data.

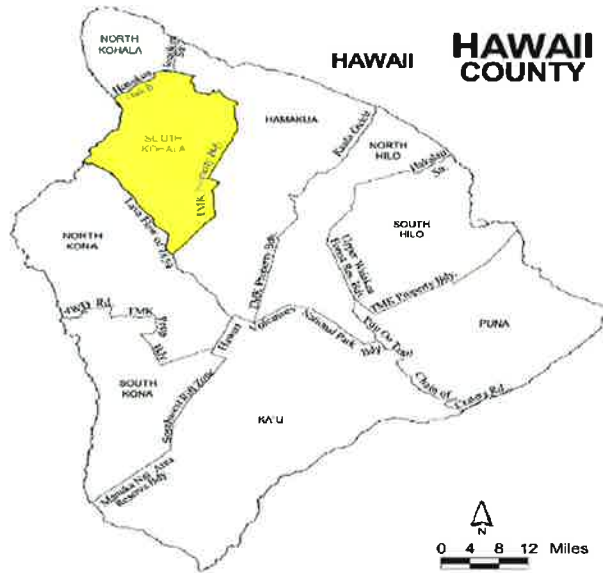
General market data was extracted from various publications including the *Honolulu Advertiser*, *Honolulu Star Bulletin*, *Pacific Business News*, and *West Hawaii Today*. Specific market data was also extracted from various Internet sites including but not limited to hawaiiinformation.com, loopnet.com, hcentral.com, hawaiipropertytax.com, and govhawaii.com. In our valuation of the subject property, all three approaches to value were considered. An explanation of the valuation process and methodology utilized in the valuation of the various subject property components are explained in the following *VALUATION SECTION* of this report.

REGIONAL AND NEIGHBORHOOD DESCRIPTIONS

SOUTH KOHALA DISTRICT DESCRIPTION

LOCATION

The subject property is located in the **South Kohala** district on the Island of Hawaii, which is commonly referred to as the “Big Island”. South Kohala and the neighboring North Kohala district represents the Island’s northernmost region and is often referred to as simply the Kohala District.



Geographically, the District of South Kohala comprises the northwestern corner of the Island of Hawaii and extends from Waikoloa (southwest) to the leeward side of the slopes of the Kohala Mountain Range (northwest) to Waipio Valley (northeast) to Pohakuloa (southeast). South Kohala can be discussed in terms of its coastal and upcounty or mauka portions. From the coastal areas, the rolling topography of rocky grasslands and barren lava fields gradually slope up towards the lower slopes of Mauna Kea summit.

THOROUGHFARES

Mileage Chart		
Mauna Lani Resort to:	Miles	Minutes
Kona International Airport	20	25
Kailua/Kona	27	35
Hualalai/Kukui Resorts	15	20
Mauna Kea Resort	4	8
Waikoloa Beach Resort	2.5	5
Waikoloa Village	8	15
Waimea/Kamuela	24	30

Primary traffic arteries in South Kohala include Queen Kaahumanu Highway, Hawaii Belt Road, Waikoloa Road, and Kawaihae Road. Queen Kaahumanu Highway provides a main coastal route between Kawaihae Harbor (located approximately two miles east of the subject) and West Hawaii’s central commercial district, Kailua-Kona. Prior to the highway’s completion in 1973, travel between the two points required a journey on the winding Kohala Mountain Road. Today, the nearly 33 mile journey requires a 35-minute drive. Hawaii Belt Road provides an alternative route from the Waimea area to North Kona (approximately 40 mile drive) and travels essentially parallel to Queen Kaahumanu Highway. Waikoloa Road travels in an east/west direction and connects the Mauna Lani and Waikoloa areas with Hawaii Belt

Road. Further north lies Kawaihae Road, an east/west route that connects the Kawaihae Harbor area to Waimea.

LAND SIZE/USE

According to the county data book, the South Kohala district contains approximately 176,440 acres of land; of which approximately 140,399 acres (79.5%) is zoned "agricultural." The next two largest zoning classifications are "no zone", (consisting of national parks, forest reserves, etc.) with 15,807 acres, and "open", with 12,594 acres. Together these zoning classifications represent approximately 95.7% of the total area and contribute to the overall open and rural characteristic of the area.

RESORTS

King Kamehameha the Great was born in South Kohala and went on to unite the islands of Hawaii under his rule. Today, the semi-arid climate boasts moderate temperatures (ranging between 80 to 85 degrees) and light annual rainfalls (averaging less than ten inches per year). Along with its tropical climate, the area features several of the best sandy beaches on the island. Anaehoomalu Bay, located near the Waikoloa resort, is perhaps the best known beach and enjoys wide sandy crescent shores, calm waters, and an ideal tropical setting.

The combination of South Kohala's rich history and tropical climate naturally lends itself to a number of world class resorts that developed along the coast line over the last 30 years. Today, the coastal region of South Kohala is also known as the "Gold Coast." The blending of past and present creates a unique sense of place. Master-planned resorts dot the Gold Coast with landscapes created in harmony with remnants of an ancient civilization. The Mauna Kea resort was initially developed in the 1960s and continues to be the most exclusive resort in South Kohala. The Mauna Lani resort was developed over the 1970s and 1980s and also has an exclusive reputation. The Waikoloa resort was developed primarily over the 1980s and is known as South Kohala's family resort.

Today, historic sites intermingle with golf courses, while hotels overlook restored fishponds. The resorts along the coastline are largely manmade oases' sculpted out of lava beds; one can still identify various old lava flows that have been bisected by Queen Kaahumanu Highway (Route 19). The Gold Coast features a high number of repeat visitors, some who have made the Coast their second home. Each of the resort areas offers residential neighborhoods and enclaves of condominiums and houses. Hotels in South Kohala include (from north to south): the Mauna Kea Beach Hotel, Hapuna Beach Prince Hotel, The Fairmont Orchid Hawaii, Mauna Lani Bay Hotel and Bungalows, Hilton Waikoloa Village, Waikoloa Beach Marriott, Kona Village Resort (North Kona), and the Four Seasons Resort Hualalai (North Kona). Combined, these properties represent the greatest concentration of luxury hotels in the State.

RANCHING INDUSTRY

The upcountry portion of the South Kohala District is and has historically been primarily known for its ranching industry and “paniolo” or Hawaiian cowboy/old west culture it spawned. Capitalizing on the charm and desirability of this area, various agricultural subdivisions/gentleman ranch developments have been built throughout South Kohala. These upscale developments typically feature smaller agricultural lots marketed as large home sites. Within these private developments, which typically have a ranch theme, numerous amenities including riding trails and other recreation activities are available. Parker Ranch, one of the largest privately owned ranches in the United States, is also located in South Kohala.

INDUSTRIAL DEVELOPMENT

Information provided by the county’s land use plan indicates that there are 291 acres of industrial zoned land in South Kohala. Two main areas contain most of the industrial activity: Waimea and Kawaihae Harbor. Industrial areas located in Waimea are linked to agriculture, warehousing, and dairy operations, while industrial areas around Kawaihae Harbor are primarily storage facilities. The Kawaihae Harbor area is developing into a port facility for West Hawaii. In addition to Waimea and Kawaihae Harbor, the West Hawaii Concrete quarry and processing facility is located in mauka Waikoloa. The General Plan Land Use Pattern Allocation Guide Map designates this facility and lands in the immediate area for industrial use.

COMMERCIAL DEVELOPMENT

Commercial activity is centered in Waimea, Waikoloa Village, specialty centers within the South Kohala Resorts with lesser development in Kawaihae. Major projects in Waimea include Parker Ranch Shopping Center, Parker Square, and Waimea Shopping Center. Waikoloa Village includes a neighborhood shopping center known as the Waikoloa Highland Shopping Center. Primary specialty resort retail centers include the Shops at Mauna Lani; King’s Shops; and the new Queen’s Marketplace.

RESIDENTIAL DEVELOPMENT

Housing construction and subdivisions of land are most active in two areas: the eastern side of Waimea and in Waikoloa Village. Waikoloa Village contains a sizable amount of undeveloped, residential-zoned land that will eventually contribute significantly to the district’s housing inventory. There is an estimated *existing* inventory of approximately 4,962 units (inclusive of second home sites, condominiums, multi-family, and vacation rentals). Furthermore, approximately 10,278 units are proposed for the Kohala Coast in addition to the existing residential inventory; however, due to the recent economic

hardships and general uncertainty regarding the U.S. economy, we anticipate developers to drawback from proposed developments.

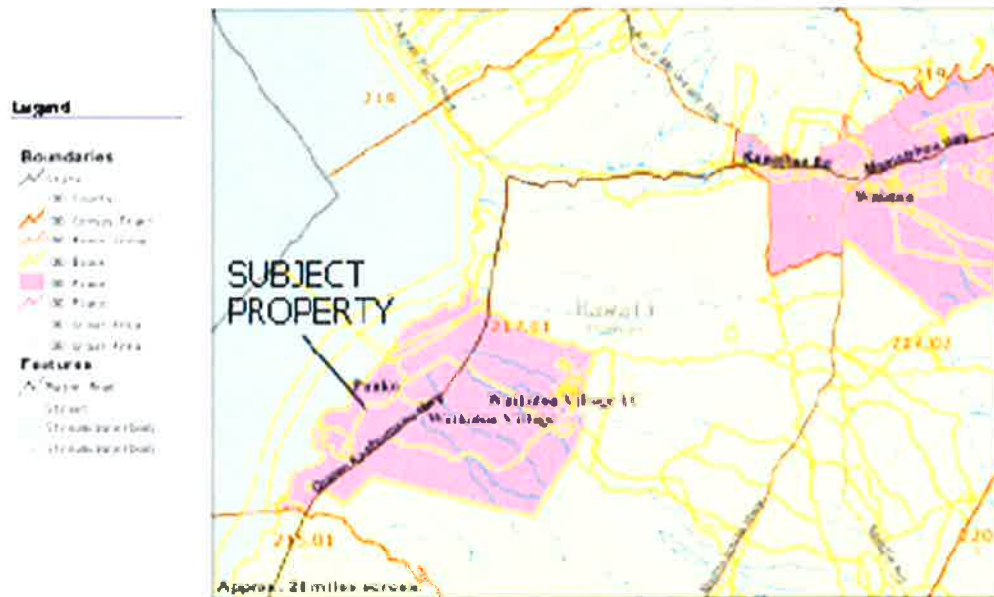
Outside of Waikoloa Village and Waimea, the majority of residential development since the early part of this decade has occurred within the resort areas of Waikoloa, Mauna Lani and Mauna Kea. The majority of new development has involved attached multi-family condominiums. It is believed the inventory of this product type roughly doubled since the late 1990s. In addition to attached condominiums, the other project type to have entered this market involve luxury developments such as Koloa (Waikoloa), Pauoa Beach Club, Ke Kailani (Mauna Lani), Kauna'oa and Wai'ula'ula (Mauna Kea). These projects typically involve a mix of vacant lots and luxury condominiums and feature private club amenities.

While technically outside of South Kohala, the other primary source of growth in resort residential development over the past 10 to 15 years has occurred in the portion of North Kona near the airport. New developments include Kukio (including Manini'owali and Ka'upulehu phases) and Hualalai resorts. These developments have little to no lodging components and function more as private resort communities. These developments cater to a more global, ultra wealthy target market as compared to the traditional South Kohala resorts. The Kohanaiki development, which will feature 500 lots and private beach club and golf course facilities will enter this market in the next several years.

In addition, the Kona Kai Ola, a \$2.2 billion resort development project in Kealahou (North Kona) on the Big Island of Hawaii was proposed for development on a 530 acre master plan site. This development was proposed to include retail, timeshares, a hotel, parks and a marina developed by an Atlanta-based company, Jacoby Development Inc. The Department of Land and Natural Resources and Department of Hawaiian Home Lands are the land owners leasing the vacant land to Jacoby Development. Unfortunately, in a letter to the land board chairwoman, Jacoby Development gave formal notice to exercise its right to terminate the development agreement.

DEMOGRAPHICS

A demographic survey was provided by CCIM's Site To Do Business (CCIM STDB). CCIM's STDB demographic surveys are based on data provided by various sources, including the U.S. Bureau of the Census, U.S. Bureau of Labor Statistics, Health Care Financing Administration of Social Security, and Internal Revenue Service. More information concerning their sources of data and methodology for their forecasts are available at their website: www.ccim.com. Consistent with fair lending practices, we have not identified race characteristics.



The South Kohala District is defined by both naturally occurring geographic features (as labeled) and the county’s TMK boundary to the east following Saddle Road. The district is divided into two census tracts: 217.01 located between the Pacific Ocean and Mamalahoa Highway and 217.02 located between the highway and Saddle Road. Census tract 217.01 contains the beach community of Puako Beach, the Waikoloa Resort, Mauna Lani Resort and the highland golf community Waikoloa Village. Data features within the study incorporate a variety of characteristics including: population, households, income, and median age.

The following chart lists certain prevalent characteristics of the population residing in Census Tract 217.01 during the year 2008. Island wide demographic data is also provided for comparison sake.

2008 Demographic Data		
Category	217.01	Hawaii County
Population	8,691	183,508
Households	3,233	66,571
Mean Household Size	2.69	2.71
Owner-occupied HHs ¹	1,785	44,261
Renter-occupied HHs ¹	1,448	22,310
Median Household Income	\$61,297	\$49,045
Mean Household Income	\$79,605	\$65,593
Per Capita Income	\$29,630	\$24,127
Median Age	37.0	40.4

The population and households found within South Kohala’s 217.01 census tract represent approximately 4.7% and 4.9%, respectively, of the island-wide total. The mean household size for the South Kohala district is similar to the population of the entire Island of Hawaii, (2.69 persons per household). The number of owner-occupied households as a

percentage is lower within the census tract (55%) when compared to the County-wide percentage of 66%. The Island as a whole exhibits a preference for ownership of homes (66%) versus renting (34%). Census tract 217.01 includes households with

significantly higher median and mean household income levels and a younger median age than the island-wide data.

In addition to reporting historical demographic information, the CCIM STDB reports also include a 2013 forecast. The following chart exhibits the 2000, 2008, and forecasted 2013 demographic data for South Kohala’s census tract 217.01.

Demographic Trends - South Kohala District			
2000, 2008 & 2013			
Category	2000	2008	2013²
Population	6,015	8,691	10,423
Households	2,241	3,233	3,886
Mean Household Size	2.68	2.69	2.68
Owner-occupied HHs ¹	1,190	1,785	2,069
Renter-occupied HHs ¹	1,051	1,448	1,817
Median Household	\$51,461	\$61,297	\$68,307
Mean Household	\$66,775	\$79,605	\$89,422
Per Capita Income	\$24,703	\$29,630	\$33,355
Median Age	35.7	37.0	37.5

¹HHs=Households

²Forecasted

Source CCIM STDB

Historical data for the selected area displays a growing population which increased approximately 44.5% from 2000 to 2008 and is projected to grow an additional 19.9% from 2008 to 2013. The number of households has also increased, with a 44.3% increase from 2000 to 2008 and a projected increase of 20.2% from 2008 to 2013. The mean household size was 2.68 persons per household in 2000, which increased nominally in 2008 and is projected to drop nominally in 2013. All three income categories increased from 2000 to 2008, with a 19.1% increase in median household income, a 19.2% increase in mean household income, and a 19.9% increase in per capita income. All three income categories are projected to increase by 2013. Median age increased by 1.3 years from 2000 to 2008 and is projected to decrease an additional 0.5 years from 2008 to 2013.

MAUNA LANI RESORT AREA DESCRIPTION



The subject property is located within the Mauna Lani Resort on the Island of Hawaii’s western shore. The 3,200 acre resort, located approximately 19 miles north of the Kailua-Kona airport, is situated within the 1.75 mile stretch between Queen Kaahumanu Highway and the coast. Mauna Lani’s land use consists primarily of two luxury hotels (Mauna Lani Bay and Fairmont Orchid); three miles of shoreline; time-share projects; two championship, award winning 18-hole golf courses; a Racquet Club; Beach Club; Spa; and single family homes. Like many resort areas in Hawaii, Mauna Lani is popular as a vacation or second-home destination. As an area that caters significantly to vacationers, Mauna Lani features a wide variety of land and water-based activities including: golf, tennis, biking, kayaking, cruising, sailing, and fishing. The nearest resorts to Mauna Lani are Mauna Kea Resort to the north (4 miles) and Hilton Waikoloa to the south (immediately adjacent).

A map of the Mauna Lani Resort is provided following.



Source: mauilanirealty.com

HOTELS

Two luxury beachfront resorts overlook Mauna Lani Resort's coastline. The first property to open, currently known as the Mauna Lani Bay Hotel & Bungalows (350 rooms), was built in 1983. The Fairmont Orchid (539 rooms) was the second resort hotel to open in 1990.



The Mauna Lani Bay Hotel and Bungalows
Source: maunalani.com



The Fairmont Orchid
Source: expedia.com

The Mauna Lani Bay and Bungalows hotel, which is located on 29 acres of oceanfront grounds, features 335 rooms, 10 suites and five deluxe bungalows. The 4,000 square foot bungalows offer guests the ultimate pampered retreat with a personal butler and private chef. Hotel amenities include five restaurants, two lounges, a full service spa

with 25,000 square feet of indoor treatment rooms and 15,000 of outdoor treatment areas with nine thatched huts.

The Fairmont Orchid represents a AAA 4-star rated hotel with 539 hotel rooms amongst two 6-story towers linked by an open grand foyer overlooking the bay. This property is spread amongst a 32-acre site. The Orchid has the capacities to accommodate larger meeting groups with approximately 76,000 square feet of indoor exhibition space and 42,000 square feet of outdoor space. Hotel amenities include a full service spa, Spa Without Walls, a 10-court K-Swiss tennis academy, a 10,000 square foot oceanfront swimming pool, four restaurants, and six lounges.

RESIDENTIAL

Today, Mauna Lani's residential component is comprised of numerous condominium and single-family communities. Completed condominiums include Mauna Lani Terrace, Mauna Lani Point, The Islands at Mauna Lani, The Villages at Mauna Lani, and The Fairways at Mauna Lani. Completed single-family homes and home sites include 49 Black Sand Beach, The Estates of Mauna Lani, The Cape at Mauna Lani, Pauoa Beach Resort, Pauoa Beach Estates, Pauoa Beach Na Hale, and the Champion Ridge at Mauna Lani. There are also numerous projects in development, as discussed in greater detail in the *MARKET OVERVIEW SECTION* of this report.

AMENITIES

The Mauna Lani Resort enjoys two world-class golf courses: the Francis H. I'i. Brown Golf Courses, North and South. The north and south courses have been placed among the world's finest and have received numerous Gold Medal Awards from GOLF Magazine. The original 18 holes were opened in 1981. In 1991, Mauna Lani felt another 18 holes were needed and split the existing course into two nines and added nine new holes to each side. The South Course, known as the former home to the annual Senior Skins Game from 1990-2000, features an over-the-water 15th hole, which has become one of the most photographed golf holes in the world. The North Course is built on an older lava bed than the South Course and features rolling terrain, kiawe forests, and a 230-acre protected archaeological district along its northern boundary.

The other major amenities in the resort are the Mauna Lani Beach Club (private beach club open limited to members who own realty in the resort), tennis club and spa facility.

Much of the shopping needs for residents and visitors of Mauna Lani have been taken care of by retail centers in Waikoloa and Mauna Kea. However, a site just off the entry round-a-bout to Mauna Lani is the Shops at Mauna Lani. This 89,137 square-foot strip retail center will provide goods and services primarily for the needs of transient visitors.

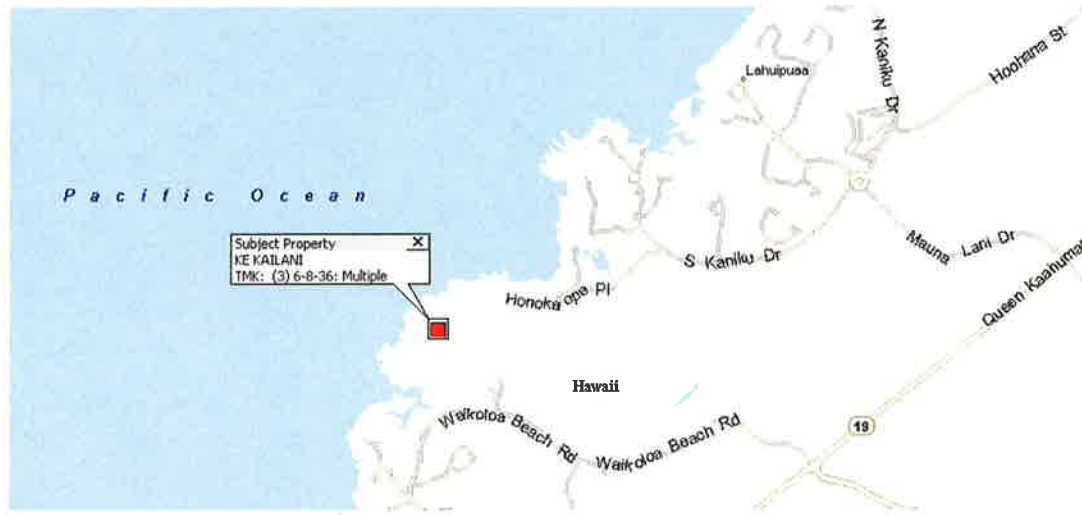
An aerial photograph identifying the subject site and immediately surrounding developments within the Mauna Lani Resort is provided following.



Source: Google Maps; annotations by Leshler Chee Stadlbauer

IMMEDIATE SUBJECT NEIGHBORHOOD DESCRIPTION

The subject property is located towards the southern side of the Mauna Lani Resort at its southern boundary with Waikoloa Resort. A *Subject Area Map* exhibiting the location of the subject property is provided.



Source: Microsoft Streets and Trips

The subject site is bound on the east side by The King's Trail. The King's Trail, also known as King's Highway or the Mamalahoa Trail, is a rugged lava road built between 1836 and 1855 which extends around most of the Big Island. Across the King's Trail further to the east are mostly vacant lands owned by Mauna Lani Resort (Operation). Located to the southeast of the subject site is the Halii Kai multi-family project in the Waikoloa Resort. Located to the north is the Francis H. I'i Brown South Golf Course.

LAND USE CONTROLS

STATE LAND USE COMMISSION CLASSIFICATION

The State Land Use law was passed in 1961 to control and plan land use at the State level. The State Land Use Commission's task is to classify the various islands in the State of Hawaii into four major districts. These districts are listed as such:

1	URBAN
2	AGRICULTURAL
3	RURAL
4	CONSERVATION

The subject property is designated to be in an **Urban District** by the State Land Use Commission, as verified by the County of Hawaii Planning Department. Urban Districts are defined as lands in urban use, with reserve areas to accommodate an estimated ten-year growth. These areas are characterized by a concentration of people, structures, streets, and other related land uses. This district is regulated and administered by the counties.

According to Chapter 15 of the Land Use Commission Rules, standards for Urban Districts include:

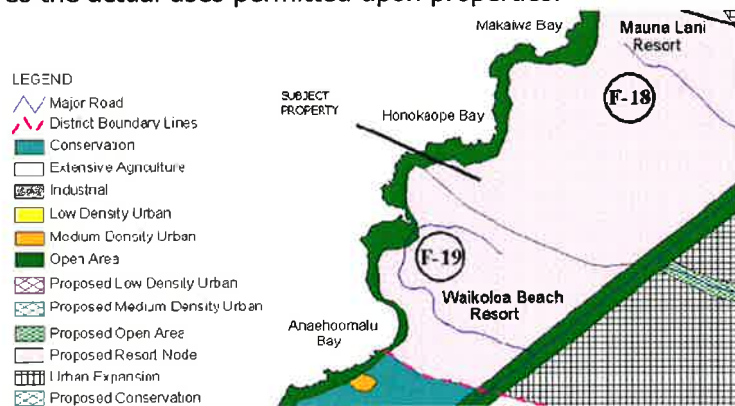
- (1) It shall include lands characterized by "city-like" concentrations of people, structures, streets, urban level of services and other related land uses;
- (2) It shall take into consideration the following specific factors:
 - (A) Proximity to centers of trading and employment except where the development would generate new centers of trading and employment;
 - (B) Availability of basic services such as schools, parks, wastewater systems, solid waste disposal, drainage, water, transportation systems, public utilities, and police and fire protection; and
 - (C) Sufficient reserve areas for foreseeable urban growth;
- (3) It shall include lands with satisfactory topography, drainage, and reasonably free from the danger of any flood, tsunami, unstable soil condition, and other adverse environmental effects;
- (4) Land contiguous with existing urban areas shall be given more consideration than non-contiguous land, and particularly when indicated for future urban use on state or county general plans;
- (5) It shall include lands in appropriate locations for new urban concentrations and shall give consideration to areas of urban growth as shown on the state and county general plans;
- (6) It may include lands which do not conform to the standards in paragraph (1) to (5):
 - (A) When surrounded by or adjacent to existing urban development; and

- (B) Only when those lands represent a minor portion of this district;
- (7) It shall not include lands, the urbanization of which will contribute toward scattered spot urban development, necessitating unreasonable investment in public infrastructure or support services; and
- (8) It may include lands with a general slope of twenty per cent or more if the commission finds that those lands are desirable and suitable for urban purposes and that the design and construction controls, as adopted by any federal, state, or county agency, are adequate to protect the public health, welfare and safety, and the public's interests in the aesthetic quality of the landscape.

COUNTY OF HAWAII GENERAL PLAN

The County of Hawaii’s 1989 General Plan is the policy document for the long range comprehensive development of the Island of Hawaii. The purposes of the General Plan is to: guide the pattern of future development in this County based on long-term goals; identify the visions, values, and priorities important to the people of this County; provide the framework for regulatory decisions; capital improvement priorities, acquisition strategies, and other pertinent government programs within the County organization and coordinated with State and Federal programs; improve the physical environment of the County as a setting for human activities; promote and safeguard the public interest and the interest of the County as a whole; facilitate the democratic determination of community policies concerning the utilization of its natural, man-made, and human resources; effect political and technical coordination in community improvement and development; and inject long-range considerations into the determination of short-range actions and implementation.

According to the General Plan’s Land Use Pattern Allocation Guide Map No. 3, the subject property appears to be located within an area designated as Resort and Open. Resort Node areas include a mix of visitor-related uses such as hotels, condominium-hotels (condominiums developed and/or operated as hotels), single family and multiple family residential units, golf courses and other typical resort recreational facilities, resort commercial complexes and other support services. The Planning Department indicated that although the General Plan provides for a long-term vision of land use, the county zoning drives the actual uses permitted upon properties.



COUNTY OF HAWAII ZONING

The subject property is zoned RM-3.0 (Parcels 1 & 2) and RM-4.0 (Remaining parcels), Multiple-Family Residential District under Division 3 Section 25-5-(30-38) of the County of Hawaii Zoning Code, as verified with the County of Hawaii Planning Department. This district provides for medium density residential use. A summary of the RM, Multiple-Family Residential Districts is provided following:

SUMMARY OF RM-3.0 ZONING DEVELOPMENT STANDARDS

PERMITTED USES:

The following types of uses are permitted in the RM district: adult day care homes; bed and breakfast establishments (as permitted under section 25-4-7); boarding facilities, rooming or lodging houses; cemeteries and mausoleums (as permitted under chapter 6, article 1 of the code); commercial or personal service uses, on a small scale, as approved by the director, provided that the total gross floor area does not exceed one thousand two hundred square feet and a maximum of five employees; community buildings (as permitted under section 25-4-11); crop production; dwellings, double-family or duplex; dwellings, multiple-family; dwellings, single-family; family child care homes; group living facilities; home occupations (as permitted under section 25-4-13); meeting facilities; model homes (as permitted under section 25-4-13); neighborhood parks, playgrounds, tennis courts, swimming pools, and similar neighborhood recreational areas and uses; public uses and structures (as permitted under section 25-4-11); temporary real estate offices (as permitted under section 25-4-8); time share units situated in any of the following: a) areas designated as resort under the general land use pattern allocation guide (LUPAG) map, b) areas determined by the director to be within resort areas identified by the general plan land use element, except for retreat resort areas, c) areas determined for such use by the council, by resolution; and utility substations (as permitted under section 25-4-11).

The following uses may be permitted in the RM district, provided that a use permit is issued for each use: care homes; churches, temples and synagogues; crematoriums; day care centers; golf courses and related golf course uses, including golf driving ranges, golf maintenance buildings and golf club houses; hospitals, sanitariums, old age, convalescent, nursing and rest homes; major outdoor amusement and recreation facilities; mortuaries; schools;

telecommunication antennas and towers; and yacht harbors and boating facilities;

Buildings and uses normally considered directly accessory to the uses permitted in this section shall also be pertained in the RM district.

- MAXIMUM BUILDING HEIGHT:** 45 Feet
- MINIMUM BUILDING SITE AREA:** 7,500 Square Feet
- MINIMUM BUILDING SITE AVERAGE WIDTH:** 60 Feet
- MINIMUM YARDS:** Front and Rear Yards – 20 Feet
Side Yards – 8 Feet for a one-story building, plus an additional two feet for each additional story.
- MAXIMUM DENSITY:** 3,000 Square Feet of land areas per dwelling unit or separate rentable unit.
- LANDSCAPING:** Minimum of 20% of the total land area of any building site in the RM district. Parking areas shall not be included within the area required for landscaping on any building site.
- OTHER REGULATIONS:** A) There may be more than one main building site in the RM district. B) Distance between main buildings on the same building site in the RM district shall be at least fifteen feet. C) Plan approval shall be required for all new buildings and additions to existing buildings in the RM district. D) Exceptions to the regulations for the RM district regarding heights, building site areas, building site average widths and yards, may be approved by the director within a planned unit development.

SUMMARY RM-4 MULTIPLE-FAMILY RESIDENTIAL DISTRICTS

- PERMITTED USES:** Adult day care homes, bed and breakfast establishments (as permitted under section 25-4-7), boarding facilities, cemeteries and mausoleums, commercial or personal (subject to restrictions), community buildings (as permitted under section 25-4-11, crop production, dwellings, double family or duplex, dwellings, single family, family child care homes, group living facilities, meeting facilities. Times share units are permitted however must have appropriate clearances by the planning commission.

Churches, hospitals, nursing homes are permitted

		however must have appropriate clearances by the planning commission.
MINIMUM BUILDING SITE AREA:		7,500 square feet
MINIMUM BUILDING SITE AVERAGE WIDTH:		60 feet
YARDS:		
FRONT AND REAR:		20 feet
SIDE:		8 feet for a one story building, plus an additional 2 feet for each additional story.
MAXIMUM HEIGHT(FEET):		45 feet
MAXIMUM DENSITY:		4,000 square feet of land area per dwelling unit or separate rentable unit
LANDSCAPING:		Shall be provided on a minimum of twenty percent of the total land area of any building site. Parking areas shall not be included within the area required for landscaping on any building site.
OTHER REGULATIONS:		(a) There may be more than one main building on any building site. (b) Distance between main buildings on the same building site shall be at least fifteen feet. (c) Plan approval shall be required for all new buildings and additions to existing buildings. (d) Exceptions to regulations regarding heights, building site areas, building site average widths and yards, may be approved by the director within a planned unit development.

ANALYSIS

The subject property appears to conform to the above requirements. As such, the subject parcels appear to represent legally created, conforming zoning lots under its existing zoning designation. Single-family and duplex dwellings are permitted uses under the RM-3.0 and RM-4.0 zoning

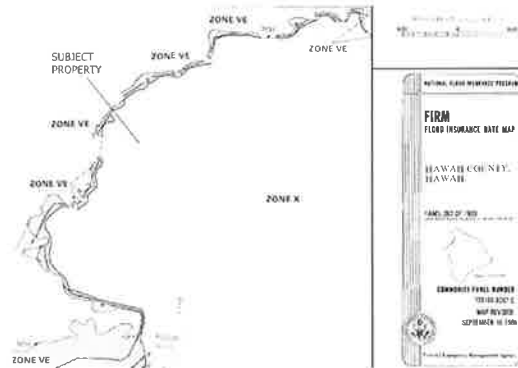
SPECIAL MANAGEMENT AREA (SMA)

As verified by the County of Hawaii Planning Department, the entire subject property is located in a special management area subject to regulation by the County of Hawaii, established by Chapter 205A, Hawaii Revised Statutes, as amended by Acts 176, 188, 200, and 126, Session Laws of Hawaii 1975, 1977, 1979, and 1982, respectively. The purpose of the SMA is to enable the State of Hawaii “to preserve, protect, and where possible, to restore the natural resources of the coastal zone of Hawaii”. Therefore, special controls on development within an area along the shoreline are necessary to avoid permanent loss of valuable resources and the foreclosure of management options, and to insure that adequate public access is provided to public-owned or used beaches, recreation areas, and natural reserves, by dedication or other means.

For properties situated within an SMA, certain additional permits for development are required. The process is governed by the County of Hawaii and creates an added layer of government approvals that must be obtained for a proposed development.

FLOOD HAZARD DISTRICT

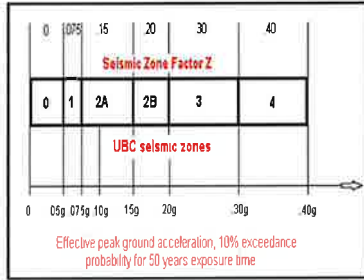
The National Flood Insurance Program has designated certain areas on all islands in terms of the flood potential in these areas. The program recognized that within certain areas of various islands, these areas may be subject to periodic inundation by flooding and/or tsunami activity which may result in the loss of life and property. The purpose of establishing Flood Hazard Districts is to protect life and property while reducing the public cost of flood control, rescue, and relief efforts, thereby promoting the safety, health, convenience, and general welfare of the community.



The Flood Hazard Districts are delineated on Flood Boundary and Floodway Maps and Flood Insurance Rate Maps, which, along with any amendments by the Federal Emergency Management Agency, are on file with the State of Hawaii, Department of Land and Natural Resources, Water and Land Development Division.

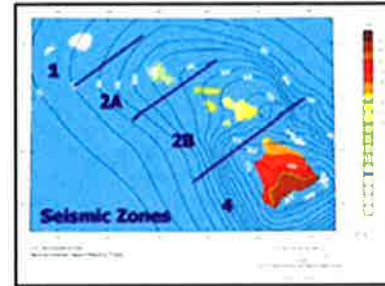
As confirmed with the County of Hawaii Planning Department, the subject property is located in Flood Zone “X” (unshaded) on Flood Insurance Rate Map Panel No. 1551660267C, effective September 16, 1988. Flood Zone “X” (unshaded) describes areas determined to be outside the 500-year flood plain. The subject’s location is approximated on the map.

EARTHQUAKE SEISMIC ZONES



According to the United States Geological Survey (USGS), seismic hazards are classified under a system based on the expected strength of ground shaking and the probability of the shaking actually occurring within a specified time. The results are included in the Uniform Building Code (UBC) seismic provisions, which contain six seismic zones, ranging from 0 to 4 (the higher the number the greater

the chance of severe shaking in a 50-year interval). According to the 1997 Hawaii's Seismic Zone Assignments map (annotated by Leshler Chee Stadlbauer) provided following, the Island of Hawaii (location of subject property) is located within seismic zone 4. This zone identifies areas with a 30 to 40% chance of severe shaking in a 50-year interval.

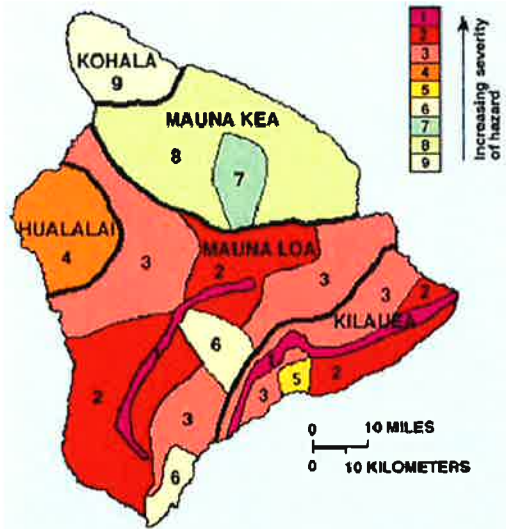


Tsunami EVACUATION ZONE

The subject property does not appear to be located within a Tsunami Evacuation Zone according to the Hawaii County Civil Defense Agency's Evacuation Zone Maps.

LAVA FLOW HAZARD ZONE

According to the United States Geological Survey (USGS), the county of Hawaii is divided into zones that are ranked from 1 through 9 based on the probability of coverage by lava flows. In decreasing risk assessment, Zone 1 is considered to have the greatest hazard while zone 9 carries the least amount. Other direct hazards from eruptions, such as tephra fallout and ground cracking and settling, are not specifically considered on this map; however, these hazards also tend to be greatest in the areas of highest hazard from lava flows. Hazard zones from lava flows are based chiefly on the location and frequency of both historic and prehistoric eruptions. Historic eruptions include those for which there are written records, beginning in the early 1800's, and those that are known from the oral traditions



of the Hawaiians. The knowledge of prehistoric eruptions is based on geologic mapping and dating of the old flows of each volcano. The hazard zones also take into account the larger topographic features of the volcanoes that will affect the distribution of lava flows. Any hazard assessment is based on the assumption that future eruptions will be similar to those in the past.

According to the USGS, the northern part of the Big Island is made up of two volcanoes: Mauna Kea and Kohala. Kohala is the oldest volcano on the island and is estimated to have last erupted about 60,000 years ago. Although it is impossible to know if this volcano is extinct or only dormant, the volcanic hazard there is extremely low. Mauna Kea has erupted several times in the last 10,000 years, most recently about 4,500 years ago. This volcano is considered dormant but not extinct. The summit and upper slopes of Mauna Kea comprise Zone 7 on the lava flow hazard map. Lava covered about 20 percent of this zone in the last 10,000 years. Zone 8 includes the lower slopes of Mauna Kea. Most of this area has not been affected by lava flows for the past 10,000 years. Zone 3 includes areas that are less hazardous than Zone 2 because of greater distance from recently active vents and/or topography makes it less likely that flows will cover these areas. According to County of Hawaii Planning Department, the subject property is located in Lava Flow Hazard Zone 3. One to five percent of Zone 3's area was covered with lava since 1800, and 15 to 75 percent of the area was covered in the last 750 years.

HAWAII AND NATIONAL REGISTER OF HISTORICAL PLACES

A review of the Hawaii and National Register of Historical Places did not list the subject property tax map parcel as being an identifiable historic place.

PROPERTY DESCRIPTION

LEGAL DESCRIPTION (FOR APPRAISAL PURPOSES)

The following legal description was excerpted from *SCHEDULE C* of the Preliminary Title Report for Lot 1 by Title Guaranty of Hawaii, Inc., dated on July 25, 2008.

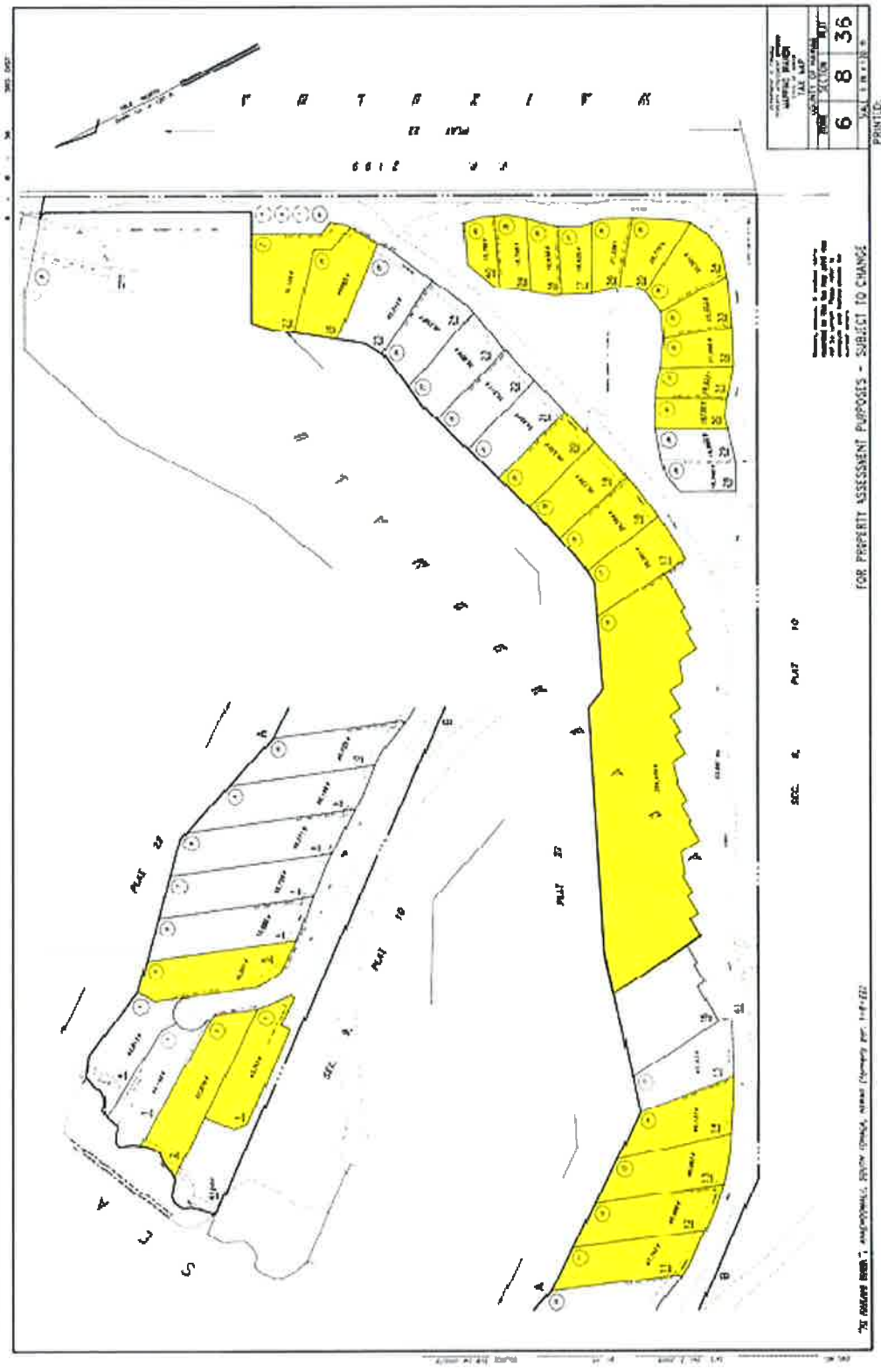
All of that certain parcel of land (being portion of the land(s) described in and covered by Royal Patent 7523, Land Commission Award 4452, Apana 4 to H. Kalama) situate, lying and being at Anaehoomalu, District of South Kohala, Island and County of Hawaii, State of Hawaii, being LOT 1 of "KE KAILANI SUBDIVISION", same being a portion of Lot 1 of Mauna Lani Resort - South Course Subdivision No. 4, as shown on File Plan No. 2347, and thus bounded and described as per survey dated July 14, 2005, approved by the Planning Department of the County of Hawaii on August 30, 2005 (SUB 04-000079), revised October 24, 2005, to-wit:

Beginning at the southeasterly corner of this parcel of land, along Lot 41 of Ke Kailani, being a portion of Lot 1 of Mauna Lani Resort - South Course Subdivision No. 4 (File Plan 2347), the coordinates of said point of beginning referred to Government Survey Triangulation Station "PUU HINAI"...

TAX MAP KEY DESIGNATION

The subject property lots (highlighted in yellow in the map shown below) has been assigned the following tax map key designations: Division 3, Zone 6, Section 8, Plat 036, Parcels 1, 2, 5, 11, 12, 13, 14, 16-3, 16-4, 16-5, 16-6, 16-42, 16-43, 16-44, 16-45, 17, 18, 19, 20, 26, 27, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40.

Lot 16 has been organized within a 12 unit condominium property regime (CPR) with the intention of developing 12 villas. There was an undetermined amount of additional land area to accommodate more villas or lots. However, this portion of Lot 16 is currently unplotted.



CENSUS TRACT NUMBER

The subject property is located in **Census Tract No. 217.01** as exhibited on the 2000 Census Tracts Map for the Island of Hawaii, prepared by the State of Hawaii's Department of Business, Economic Development and Tourism.

UTILITIES

All utilities including electricity, sanitary sewer, water & telephone services are available to the Ke Kailani development site.

COUNTY ASSESSED VALUATIONS

Assessed values for real property taxation purposes are estimated annually on January 1st of each calendar year. The County of Hawaii assesses real property at 100% of the assessor's estimate of market value (this is the case with all counties in the State of Hawaii). According to the County of Hawaii Real Property Tax Division, Tax Map Key: Division 3, Zone 6, Section 8, Plat 36, various parcels was assigned the following *fee simple* land and improvement valuations on the provided schedule:

KE KAILANI				
ASSESSED VALUES 2008				
Parcel No.	Land	Improvements	Total	2008 Est. Taxes
1	\$ 3,639,200	\$0	\$ 3,639,200	\$ 29,477.52
2	\$ 5,675,000	\$0	\$ 5,675,000	\$ 45,967.50
5	\$ 1,793,600	\$0	\$ 1,793,600	\$ 14,528.16
11	\$ 1,629,100	\$0	\$ 1,629,100	\$ 13,195.71
12	\$ 1,503,600	\$0	\$ 1,503,600	\$ 12,179.16
13	\$ 1,361,800	\$0	\$ 1,361,800	\$ 11,030.58
14	\$ 1,312,100	\$0	\$ 1,312,100	\$ 10,628.01
16	\$ 4,144,000	\$7,068,400	\$ 11,212,400	\$ 90,801.00
17	\$ 1,251,900	\$0	\$ 1,251,900	\$ 10,140.39
18	\$ 1,216,700	\$0	\$ 1,216,700	\$ 9,855.27
19	\$ 1,211,600	\$0	\$ 1,211,600	\$ 9,813.96
20	\$ 1,191,100	\$0	\$ 1,191,100	\$ 9,647.91
26	\$ 1,322,900	\$0	\$ 1,322,900	\$ 10,715.49
27	\$ 1,387,300	\$0	\$ 1,387,300	\$ 11,237.13
30	\$ 692,800	\$0	\$ 692,800	\$ 5,611.68
31	\$ 703,300	\$0	\$ 703,300	\$ 5,696.73
32	\$ 713,700	\$0	\$ 713,700	\$ 5,780.97
33	\$ 732,600	\$0	\$ 732,600	\$ 5,934.06
34	\$ 814,000	\$0	\$ 814,000	\$ 6,593.40
35	\$ 763,600	\$0	\$ 763,600	\$ 6,185.16
36	\$ 715,800	\$0	\$ 715,800	\$ 5,797.98
37	\$ 692,000	\$0	\$ 692,000	\$ 5,605.20
38	\$ 692,000	\$0	\$ 692,000	\$ 5,605.20
39	\$ 701,800	\$0	\$ 701,800	\$ 5,684.58
40	\$ 667,000	\$0	\$ 667,000	\$ 5,402.70
TOTAL		\$7,068,400	\$ 43,596,900	\$353,115

Current assessments (2008) for the subject property reflect a total assessed value of \$50,665,300. Note: Assessed values for Parcel 16 excludes land and building assessments for Apt. #1A and #2A.

REAL PROPERTY TAXES

While assessments reflect a calendar year basis, property tax rates are established by the City Council on a July 1 to June 30 fiscal year. Ultimate tax payments are payable on a bi-annual August and February schedule. Accordingly, the first property tax

payment that reflects the current year fiscal tax rate will be the August payment. Real property taxes for the subject property are based on its Apartment Use Classification (Pitt 200). The July 1, 2008 to June 31, 2009, fiscal year tax rate for residential properties is \$8.10 per \$1,000 (mill rate \$0.0081 of net assessed land and improvement value).

TITLE DATA

SIMPLE FEE OWNER: Michael Fuchs Development (Hawaii) LLC

The subject development site was acquired on June 10, 2002 by Michael Fuchs Development (Hawaii) LLC from Tokyu Corporation for \$15,500,000, Document No. 2002-101498. The project began marketing in 2005, and as of the effective appraisal date, a total of 15 vacant homesites have been sold. In addition, two Villa units have been sold with two units remaining. Recent sales, current listings and recent past offers of finished lots and Villas are summarized in the *VALUATION* Section of the report.

We are aware that as of the date of value, the current owner was in active negotiations with one or more buyers who were interested in acquiring portions of the unsold inventory in bulk acquisitions. As of the date of value, we were unaware of any bona fide offers that could be reported or analyzed. No other changes in title relative to the fee simple interest have occurred within three years preceding the date of value.

Lot 3, which was ultimately excluded as a subject property interest, was subject to a sales contract for \$4,950,000, as of the date of value.

EASEMENTS, SETBACKS AND RESTRICTIONS

The subject unsold inventory is encumbered by the terms of the documents titled Community Rules of Ke Kailani, Declaration of Protective Covenants, Conditions and Restrictions for Ke Kailani, By Laws of the Ke Kailani Community Association and CC&Rs of the Mauna Lani Resort. The intent of these restrictions is generally good neighbor type rules that enhance and maintain property values. Our review of the documents did not note any particular restrictions that would impair the desirability of owning a single family home or Villa from the perspective of an individual owner.

The easements and restrictions recorded with the subject property have no adverse impact on the remaining lots and Villas.

PROJECT DESCRIPTION

SITE DESCRIPTION

The overall Ke Kailani development site reflects a long narrow shaped lot located off of the ocean between Honokaope Bay to the north and Waialua Bay to the south. The contours of the site are influenced by the resort's property boundary with Waikoloa, the sea and fairways of the Mauna Lani South golf course. The subject's topography gently slopes from the east toward the ocean shore to the west. The subject property is located along the southwestern portion of the Maui Lani Resort between the Mauna Lani South golf course and the Waikoloa Resort. The site is bound on the south by Waikoloa Beach Drive and the Halii Kai at Waikoloa multi-family condominium project, the east by the King's Highway Foot Trail, and the Maui Lani South Golf Course is adjacent to the subject's northern boundary. The oceanfront portion of the site comprises a portion of a peninsula forming the southern boundary of Honokaope Bay.



Source: Google Maps with annotations by Leshler Chee Stadlbauer

The overall Ke Kailani development site features approximately 61 plus acres featuring an irregular shape and mostly level topography. The site features elevations of varying degrees from approximately 49 to 62 feet above mean sea level. The undeveloped lots have graded level with a gravel/crushed lava surface. As of the date of the site visit, there is a sales office located on Lot 27 at the northeast corner of the site near the gated entry. Also, several viewing platforms are located on Lot 16-4 as well as Lot 3 which exhibit the second-story views that the dwellings built on these lots will possess. Lots 16-1 and 16-2 are developed with the four existing Villas units. Lots 4 and 25 are

also improved with single family dwellings. These lots are outside of the scope of this report. An Aerial Photo exhibiting the approximate boundaries of the subject property is provided preceding.

Ke Kailani is accessible from the end of Honokaope Place, a .75-mile bi-directional roadway. Honokaope Place extends off of the southern portion of South Kaniku Drive which is a 1.5-mile bi-directional roadway that extends southwest from the Mauna Lani Resort entry round-a-bout. South Kaniku Drive is paved but does not feature overhead lighting, curbs, or gutters.

FINISHED LOTS

In aggregate, the subject site reflects 40 parcels numbered from 1 through 40. Lot 16 has a total area of 354,435 square feet and has been subsequently organized under a CPR with the intention of building attached Villas. The scope of this report includes the remaining (unsold) vacant lots of Ke Kailani including Lots 1, 2, 5, 11, 12, 13, 14, 17, 18, 19, 20, 26, 27, 16-3, 16-4, 16-5, 16-6, 16-42, 16-43, 16-44 and 16-45, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39 and 40. As of the date of value, there are two unsold Villa units. The oceanfront lots within the project have traditionally been referred to as "Tier 1" lots. There is only a single unsold Tier 1 lot. There are two unsold lots classified as "Tier 2", which are immediately adjacent to the Tier 1 lots and have good ocean views. The remaining lots that front the golf course were referred to as "Tier 3" lots. The majority of the unsold inventory involves Tier 3 lots. Finally, there are 11 lots located off of the golf course and adjacent to Hana Pono Park which are referred to as the Triangle lots.



Source: www.kekailani.com annotations by Leshler Chee Stadlbauer

A summary of the unsold lots is provided following. The lots typically feature regular parcel shapes and level topographies. The Tier 1, 2 and 3 lots typically are rectangular shape to maximize the number of lots fronting the golf course and ocean.

As discussed, the undeveloped portion of Lot 16 has been preliminary plotted into eight additional house lots. However, these lots have not been formally plotted. However, we were provided by a preliminary plotting by the Developer and a condominium map for purposes of establishing the general location of the lots. Hence the size of the lots in which we have based our analysis, reflect a simple average (based on the overall lot area divided by 10 lots) of 35,444 square feet.

SUMMARY OF UNSOLD LOTS KE KAILANI				
LOT NO.	TAX MAP KEY (DIVISION 3)	TIER	SQUARE FOOTAGE	EXPOSURE
1	3-6-8-36: 01	2	43,783	Ocean (Par.)
2	3-6-8-36: 02	1	57,868	Ocean
5	3-6-8-36: 05	2	49,501	Ocean/Golf
11	3-6-8-36: 11	3	47,742	Golf
12	3-6-8-36: 12	3	48,488	Golf
13	3-6-8-36: 13	3	48,083	Golf
14	3-6-8-36: 14	3	44,137	Golf
16-3	3-6-8-36: 16-3	3	35,444	Golf
16-4	3-6-8-36: 16-4	3	35,444	Golf
16-5	3-6-8-36: 16-5	3	35,444	Golf
16-6	3-6-8-36: 16-6	3	35,444	Golf
16-42	3-6-8-36: 16-42	3	35,444	Golf
16-43	3-6-8-36: 16-43	3	35,444	Golf
16-44	3-6-8-36: 16-44	3	35,444	Golf
16-45	3-6-8-36: 16-45	3	35,444	Golf
17	3-6-8-36: 17	3	39,361	Golf
18	3-6-8-36: 18	3	36,564	Golf
19	3-6-8-36: 19	3	36,156	Golf
20	3-6-8-36: 20	3	34,530	Golf
26	3-6-8-36: 26	3	44,995	Golf
27	3-6-8-36: 27	3	50,105	Golf
30	3-6-8-36: 30	Triangle	18,730	Park
31	3-6-8-36: 31	Triangle	19,922	Park
32	3-6-8-36: 32	Triangle	21,099	Park
33	3-6-8-36: 33	Triangle	23,254	Park
34	3-6-8-36: 34	Triangle	32,501	Park
35	3-6-8-36: 35	Triangle	26,770	Park
36	3-6-8-36: 36	Triangle	21,338	Park
37	3-6-8-36: 37	Triangle	18,635	Park
38	3-6-8-36: 38	Triangle	18,636	Park
39	3-6-8-36: 39	Triangle	19,748	Park
40	3-6-8-36: 40	Triangle	15,798	Park

AMENITIES

Ke Kailani also features the Beach Grotto oceanfront recreation area which comprises resort lounge areas, pavilion, infinity swimming pool, keiki pool, two spas, locker rooms and full kitchen, locker room and BBQ facilities. The Grotto has direct ocean frontage off of Lot 1 and boasts panoramic ocean views. An additional amenity to the Ke Kailani project is the Hana Pono Park which is situated within the Triangle Lots portion of the site. Hana Pono Park is a 5.5-acre private park and when complete will feature volleyball, tennis and basketball courts, swimming pools a recreation lawn and several recreation buildings. As of our site visit, only the shell of the recreation buildings had been completed.

The following subject site photos were taken on the January 22, 2009 site visit. Descriptions of the photographs are noted to the immediate right of the photo.



View of a Triangle lot on the south eastern portion of the subject property. Camera is facing in a northwesterly direction.



View of roadway of the Triangle Lots on the eastern boundary of the subject site. A part of Triangle Lot 37 can be seen in the left portion of the photo.



View of a Triangle Lot, camera facing in a southwesterly direction. The Haliu Kai multi-family project can be seen in the background.



View of Triangle Lots, camera facing in a northeasterly direction.



View of the subject roadway exiting the Triangle Lot area. Tier 3 Lots can be seen to the left of photograph.



View of a portion of Hana Pono park area centered within the Triangle Lots. Camera situated in an easterly direction.



View of Tier 3 Lot 20, Mauna Lani South Golf Course can be seen in the background, camera facing northwest.



Photo taken from Lot 19 depicting a view of the water feature in the Mauna Lani Golf Course.



View of Lot 16-45, camera situated in a northwesterly direction.



View of Lots 16-4 and 16-5, Golf Course view in the background. Camera is facing in a northerly direction.



Photograph of golf course and ocean views taken from Lot 16-5. Camera facing in a western direction.



Additional photograph taken from Lot 16-5 with Villas in the background. Camera is facing in a southwesterly direction.



View of Halii Kai condominiums taken from same lot. Camera is facing in a southerly direction.



View of Lot 1, with ocean views. Grotto can be seen in the background, camera is facing west.



View of Lot 2 with unobstructed ocean views. Camera facing west.



View of coastline taken from Lot 2, camera is facing in a northeasterly direction.

In addition to the Hana Pono Park that provides sports activity courts as well as swimming pools, Ke Kailani features the Oceanfront Grotto. The Grotto is located adjacent to Lot 1 and is accessed by a gated roadway on the western portion of Lot 1. Owners within Ke Kailani have exclusive use of the grotto which offers a large lawn area, covered dining and entertainment areas, an infinity pool, keiki pool, spas, locker rooms and kitchen facilities.



View of Grotto's sandy infinity pool, camera facing in a northwesterly direction.



View of the infinity pool, picnic areas and ocean in the background.



View of infinity pool & ocean, camera situated in a northerly direction.



View of water fall feature, camera facing east.



Photo of pool area with lounge chairs, camera facing west.



View of covered entertainment area, camera situated in a southwesterly direction.



View of rocky shoreline, photograph taken from viewing deck accessible from the Beach Grotto.



Additional view of shoreline and ocean.



View of kitchen and locker room facilities hidden within the lava rocks.

VILLAS



Photograph source: www.kekailani.com

The following description of the improvements is based on developer renderings, the developer's condominium public report and our site visit on January 22, 2009.

The subject property contains two existing duplexes located on Lots 16-1 and 16-2. Total building area for each structure is 9,696 square feet, 4,848 square feet for each unit. Each duplex contains two Villas. The Villas feature a two-story attached design and contain a foyer, two master suites each with a master bath and separate lanais, kitchen, great room (with vaulted ceiling), living and dining areas. In addition, each of the 4 units is conveyed with a detached two car garage, detached guest suite, landscaped entry courtyard with water feature and private pool.

The two unsold subject units involve Model C units (Units #1C and #2C) located on the mauka side of their respective duplex structures. Selected renderings of the Villas floor plans have been provided.

**INTERIOR DESCRIPTION -
SUMMARY OF THE VILLA UNITS**

As indicated, the subject project essentially involves one model type, with reverse floor plan on attached side. The units are accessible via gated entries adjacent to the garage. Standard features in the subject units are listed following by major room type.

The following information regarding the interior finishes/appointments for the subject units was obtained from the site inspection, provided sales brochure and our conversations with the subject Developer.

Kitchen:

- ◆ Alan Wong designed kitchen
- ◆ Granite Countertops, Island & Backsplash
- ◆ Sub-Zero refrigerator, under-counter refrigerator & wine cooler
- ◆ Wolf stainless steel cook top (on the Island)
- ◆ Wolf commercial stainless steel range
- ◆ Custom Wood Cabinetry
- ◆ Bosch dishwasher
- ◆ Franke Europro double sink

Bathrooms:

- ◆ High quality plumbing fixtures
- ◆ Soaking tubs

**Living Rooms/
Bedrooms:**

- ◆ High quality carpeting

Amenities:

- ◆ Central A/C System
- ◆ Insulated exterior walls

- ◆ Laundry room with full size washer/dryer & laundry sink
- ◆ Finished lanais with outside hooded BBQ
- ◆ Energy saving dual-pane vinyl windows with wood windowsills
- ◆ Window coverings
- ◆ Ceiling fans in all bedrooms & lanais
- ◆ Raised-panel interior doors
- ◆ Pre-wiring for internet access, satellite television, telephone and security

AMENITIES

Each Villa unit will also include private amenities.

Amenities:

- ◆ Private yard area with lush landscaping featuring lighting, bridge, a waterfall (upgrade), swimming pool and spa;
- ◆ Private gated entrance;
- ◆ Outdoor private shower off of first floor master bath;
- ◆ BBQ area;

As noted earlier, the Villas provide an interior living area of 3,371 square feet, covered lanais totaling 814 square feet, a garage/storage area of 642 square feet and a utility room of 21 square feet for a total square footage of 4,848 square feet. Floor plans for the Villas are provided following. Full page versions are provided in the Addenda.

