THE HALLSTROM GROUP INC.
REAL ESTATE
CONSULTANTS
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May 31, 2006

Mr. Chester Koga, AICP
Project Manager
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420 Waiakamilo Road, Ste. 411
Honolulu, Hawaii 96817

Market Study, Economic Impact Analysis and Public Costs/Benefits Assessment of the Proposed Waikoloa Highlands Subdivision Waikoloa Village, South Kohala, Hawaii

Dear Mr. Koga:

At your request, we have completed a defined-scope market study, economic impact analysis and public costs/benefits assessment of the Waikoloa Highlands master plan, a 398-lot rural subdivision proposed for a 700 acre site located southeasterly adjacent to the existing Waikoloa Village core, approximately 22 miles northeast of Kona International Airport, South Kohala, Hawaii. The project will offer homesites ranging from about 25,000 square feet to two acres, as well as parks/open space, archeological preserves, landscaped parkways and pedestrian/bike paths.

The subject property, identified on State of Hawaii Tax Maps as Third Division Tax Map Key 6-8-2, Parcel 16 and 6-8-3, Parcel 32, has a gently to moderately sloping, rolling terrain, and extends along the southerly frontage of Waikoloa Road, just east of Puu Melia Street. It is at the circa 900 to 1200 foot elevation, some seven miles upslope from Queen Kaahumanu Highway and the shoreline resort communities.

The focus of our assignment was embodied in seven tasks:

1. To quantify the demand for single family residential inventory (lots and house/lot packages) in the subject area and the competitive West Hawaii market using a variety of demographic, economic and other analytical techniques.

2. To identify the existing inventory in the effective market areas, and their construction, pricing, marketing and absorption histories.

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3. To identify current and long-term proposed competitive residential inventory additions, with concern given to timing, likelihood of actualization, anticipated characteristics and other relevant traits.

4. To assess the appropriateness of the subject holding for the proposed use and ascertain whether it has sufficient attributes to obtain a competitive market share.

5. To identify the most probable purchasers for the subject inventory and estimate the speed of product absorption.

6. To estimate the direct and indirect, on and off-site benefits flowing to the local economy as a result of undertaking the subject development, including job and wage creation, business profits, discretionary expenditures, resident/de facto populations, and public school attendance.

7. To quantify the impact of the project on the public purse over time in regards to primary revenues generated (real property, income, and excise taxes) and costs of providing governmental services from actual and per capita perspectives.

The function of our assignment was to provide market data, analysis of market supply/demand factors, projections of economic outcomes, and an informed opinion of the anticipated level of market success the subject inventory can expect to achieve and contribute to the larger community, for use in the entitlement petitioning process, other land use regulatory submittals and internal decision making.

The pertinent results from our study are contained in the following summary report, focusing on tabular presentation with brief narrative conclusions.

In completing this assignment, we visited the subject property, environs, and competitive projects in the study area; interviewed developers, brokers and other parties regarding current sales and market conditions; utilized published and on-line databases; reviewed governmental land use designations, entitlements and policies in the region; and, identified proposed competitive developments and their attributes.

This study was prepared for the Vitoil Corporation and the RM Towill Corporation, with Chester Koga being the primary client contact. The purpose of this assignment is to provide market analysis and conclusions regarding the proposed subject development for use in land use entitlement petitions for the property, and for internal planning purposes. The effective date of the study is April 29, 2006.

All conclusions presented herein are subject to the identified limiting conditions, assumptions and certifications of The Hallstrom Group, Inc., in addition to any others set forth in the text or tables. All work has been completed in conformance with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, and the Uniform Standards of Professional Appraisal Practice (USPAP).

Based on our investigation and analysis we conclude:

- The residential housing market continues in a demand cycle throughout the state and in the Waikoloa Village and West Hawaii study areas, despite a recent drop from the record activity achieved in 2005. Absorption remains high, product is still relatively scarce, and prices are near all-time levels.

- An estimated 5,600 dwelling units (mid-point) will be required in Waikoloa Village during the next two decades. Fewer than 3,700 units are currently proposed apart from Waikoloa Highlands; less than two-thirds the total necessary to adequately service the sector.

- The property is well-suited for the proposed subdivision and will achieve market acceptance by providing larger lots in a less intense, high quality, well-located, rural residential subdivision; providing currently unavailable purchase opportunities for residents and second-home buyers in the village. The subject product-type, while not offered in the existing community core, has been long-envisioned for the Waikoloa area.

- Complete market absorption of the 398 rural house lots will require an estimated four to six years from the commencement of presale offerings.

- The construction of Waikoloa Highlands and its on-going use and maintenance will create some 2,296 on- and off-site, direct "worker years" of employment on the Big Island during the first decade of its construction and use, with wages of circa $113.1 million. On a stabilized basis, home and unit maintenance will support about 40 full-time equivalent on-site jobs and contribute to another 16 off-site, with total wages of $1.6 million annually.

- The average daily de facto population at build-out of the project is projected at 1,068 persons, including 907 full-time residents, with total annual discretionary expenditures by owners and guests of $39.0 million per year. Total resident household income is forecast (in 2006 dollars) at a stabilized $47.8 million annually. Public school enrollment is calculated at a maximum of 233 students. The project will infuse $340.3 million in development and construction capital and $7.2 million in annual business operations into the West Hawaii economy.

- The State of Hawaii will receive $41.5 million in primary tax receipts during the first decade of subject development and operation, and a stabilized amount of $4.4 million annually. The county of Hawaii will receive $24.4 million during the first ten years of the project, and $3.5 million per year thereafter. In no year does the state or county suffer a revenue shortfall (costs exceeding receipts) relative to the project.

We appreciate the opportunity to be of service in regards to this holding. Please contact us if further detail or discussion in the matter covered herein is required.

Respectfully submitted,

THE HALLSTROM GROUP, INC

James E. Hallstrom, Jr., MAI, CRE

/as

Market Study, Economic Impact Analysis and Public Costs/Benefits Assessment of the Proposed

WAIKOLOA HIGHLANDS

to be located at Waikoloa Village, South Kohala, Hawaii

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May 2006

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ASSIGNMENT AND SUMMARY OF CONCLUSIONS

Assignment

Waikoloa Highlands will be a rural residential subdivision containing 398 single family house lots ranging in size from about one-half to over two acres. It is southeasterly adjacent to the existing Waikoloa Village core.

The purpose of our assignment was to analyze the proposed subject project in light of competitive, regional, prevailing and base forecast economic/market conditions in order to answer four foundational study questions:

1. Is there sufficient market demand to absorb the 398 lots of the subdivision during a reasonable exposure period given village growth trends, the availability of competing developments and statewide/regional economic trends?

2. From a market perspective, will the subject project be a favorable use of the site relative to governmental land planning objectives, accepted master plan design characteristics, and the area environs?

3. What will be the general/specific and direct/indirect economic impacts on the Big Island resulting from the undertaking of the subject development through capital investments, jobs, wages, business revenues and profits, de facto population characteristics, and resident/guest discretionary expenditures?

4. What will be the impact on the state and county "public purse" from the project in regards to costs of services required versus increased tax/fee receipts?

These issues were addressed through a comprehensive research and inquiry process utilizing data from market investigation, governmental agencies, various Hawaii-based media, industry spokespersons/ sources, on-line databases, and published public and private documents.

The pertinent results of our assignment are highlighted in this narrative report. Our study findings are divided into seven chapters as follows:

-- **Study Conclusions**
-- **The Subject Property and Proposed Development**
-- **Environs – West Hawaii, South Kohala and Waikoloa**
-- **The Waikoloa Village Single Family Residential Market**
-- **Subject Site Appropriateness and Absorption Conclusions**
-- **Economic Impact Analysis**
-- **Public Cost/Benefit Assessment**

For this analysis, we have been provided with Waikoloa Highlands conceptual master plans, project descriptions, timetables and other analytical data prepared by the owner/developer and RM Towil. Additional source information regarding the subject was taken from the files of our past studies regarding the effective market areas.

Study Conclusions

Based on our inspection of the subject site, its environs and analysis of the historic and forecast Waikoloa Village real estate market, we have reached the following conclusions about the proposed Waikoloa Highlands subdivision:

The Waikoloa Village Residential Market

Waikoloa Village has been the focal point of residential growth in the South Kohala District over the past two decades; a trend that is anticipated to continue into the long term. Over the last 20-plus years, about half the new residential units in the District were built in the village. And, given the scarcity of zoned lands and infrastructure limitations elsewhere, around 60 percent of non-resort housing development in South Kohala is projected to be located there over the next twenty years.

Based on federal census, state population forecasts, county planning projections, the availability of services, entitled lands, and market indicators, we have forecast the number of new residences that will be required in the village to meet anticipated demand through 2025 at from 4,188 to 7,038 total units; with a mid-point of 5,613. In addition to the acute need for resident housing opportunities, which the village has helped meet, the total demand figures also account for the rapidly increasing non-resident buyer segment which strongly moved into the village upper-end lot and home market during the recent up-cycle. The formula additionally provides for a nominal vacancy allowance to facilitate household movement, units under repair and short-term fluctuations.

Single-family homes and lots, such as proposed at Waikoloa Highlands, will comprise some 89 percent of the total market. Multi-family sites are becoming increasingly scarce in the village.

An estimated 27.7 percent of the demand to 2025 will be for homes/units having a 2006 equivalent sales price of $750,000 or more; the envisioned subject target range. And, they will constitute 30 percent of the market by the end of the study period. Purchase opportunities for the lower segments will be limited, but it is probable that some/many will either "stretch" into the focal range or become renters for investor-owned homes in the subdivision.

Annualized gross sales data for Waikoloa Village homes and house lots from 2001 through 2006 (est.) depicts a dramatic upsurge in both segments, with total "sales volume" and "average sales prices" up several-fold. Although there has been a measurable downturn from the hyper-levels which peaked during 2005; activity and prices remain well-above past norms. The "sag" is primarily from appreciating prices and interest rates combining to make purchase more difficult for some local households and less attractive to the investor segment.

However, overall demand remains high, with many "new home" projects throughout West Hawaii still requiring lotteries for each inventory release (just fewer participants), with all of the higher-quality product (better view, larger lot) being immediately snapped up. The foundational trends in the full-time resident and second-home owner segments remain favorable, and are expected to expand within the village over the mid to long-term.

Apart from the subject's 398 lots (which will become single family homes over time), there are only some 3,681 units firmly proposed/moving forward at this time; fewer than the 4,000 to 7,000+ needed in the community over the coming two decades.

We conclude our analyses provide strong market support for the proposed Waikoloa Highlands subdivision.

Subject Appropriateness and Absorption Estimates

The 700 acre subject parcel, a large holding fronting Waikoloa Road southeasterly upslope of Waikoloa Village, is a highly appropriate and favorably competitive location for the proposed Waikoloa Highlands rural subdivision. The physical, functional, scope, and amenity characteristics of the property are desirable from a market perspective, and will enhance the salability of the finished single family lot inventory.

Primary contributing factors to this conclusion include:

- Waikoloa Village has evolved into a major, comprehensive, moderate to marginally upscale, suburban community (with growing second-home owner and investor components) that is planned to be the focal point of South Kohala residential development over the coming decades. The village has achieved its long-awaited full acceptance in the market, and is primed for growth.

- The subject property is a natural village expansion site being on the only access road, nearby the main entrance to the existing community. The westerly (makai) growth of the village core is underway at Wehilani and Sunset Ridge; to the north will be Waikoloa Heights; with, the subject lands representing the primary development opportunity to the southeast.

- Though a widening spectrum of village product diversity has been envisioned for many years, the existing single family inventory of some 2,000 homes remains in its original "cookie cutter" stage; with virtually all houses and lots falling into a rather tight product range. Normal maturation of the community will require providing additional alternatives outside the in-place sector; with larger lots and less intense, more-amenitied development being of prime interest to prospective purchasers.

- The holding has access to necessary utility and roadway systems to support subdivision of the subject property.

- The parcel is of sufficient size, shape, view panoramas, and terrain to support a competitive/residential project.

We have quantified absorption rates using three techniques, all of which point to a reasonable sell-out period of four to six years for the 398 subject lots.

The gross analysis method indicates there are insufficient competitive single family "units" (lots and lots/homes) apart from the subject to meet demand regardless of other factors. The residual method demonstrates that the proposed competing developments could all achieve a reasonable absorption level and there would still be remaining timely demand for the subject product. And the market shares method indicates the Waikoloa Highlands lots would be absorbed in a relatively rapid manner based on their competitive penetration in the market.

Economic Impact of the Subject Development(1)

The project will generate some $340.3 million in direct, new capital investment and spending into the Big Island economy during a ten-year modeling period depicting the build-out of the subdivisions. This will create an estimated $47.7 million in profits for local contractors and suppliers. On a stabilized basis after completion, some 56 maintenance/renovation/repair workers and other on- and off-site positions will earn $1.6 million in wages each year, and resident/guest users of the project will spend $38.9 million annually in the local economy.

A total of 1,640 worker/years of direct on-site employment will be created during the 10-year construction and operation study timeframe, along with an additional 656 worker/years in associated and indirect off-site employment. The total wages paid during the initial decade of development and use will be $113.1 million.

The full-time resident population at the subject is estimated to reach 907 persons, with a maximum of 233 children in public schools. Second-home owners and guests are expected to add a daily average of 161 persons to the community, resulting in a de facto population of 1,068 persons for the project at build-out. The total household income of full-time residents is forecast to reach a stabilized level of $47.8 million per year.

The expenditure of employee wages, business profits, and resident/guest discretionary funds into the Big Island market will enhance hundreds of additional off-site, secondary/indirect jobs on the island, and generate several million dollars in additional wages.

The total direct, local economic impact to the county of Hawaii (dollars flowing into the island market) is estimated to be $409.3

(1) All dollar amounts contained in this report are based on constant, uninflated 2006 dollars.

million during the initial decade construction and operation study period, and stabilize at $47.7 million annually thereafter. As these dollars move through the island market, they will have a multiplier effect increasing the economic impact of the Waikoloa Highlands subdivision to the Big Island during its first 10 years to some $818.6 million.

Public Cost/Benefit of the Subject Development

The county of Hawaii will receive $24.4 million in real property tax receipts from the project over the 10-year modeling period, and an estimated $3.5 million per year thereafter. The county government operating costs associated with serving the subject, using a per capita basis, will total $7.8 million for the initial decade timeframe, and be some $1.6 million on a stabilized basis. The county will enjoy a net revenue benefit (taxes less costs), totaling $16.6 million during the first 10 years of construction and use, and $1.9 million each year after build-out.

The State of Hawaii will also show a positive net revenue benefit from Waikoloa Highlands under the conservative per capita perspective. The total gross tax revenues flowing to the state during the 10-year modeling period will reach $41.5 million from income and gross excise taxes, and will stabilize at $4.4 million annually following build-out. State costs associated with the project on a per capita basis will be $16.7 million during the projection timeframe and $3.4 million per year subsequently. The state will experience a net profit of $24.9 million in the 10 years and a stabilized benefit of $1.0 million annually after build-out.

In no year does either the county or the state suffer a revenue shortfall due to the subject project.

THE SUBJECT PROPERTY AND PROPOSED DEVELOPMENT

Land

The 700 acre subject tract is an irregularly-shaped, multi-lobed expansive holding stretching along, and extending from, the southerly frontage of upper Waikoloa Road; just upslope from the existing Waikoloa Village community, approximately 22 miles northeast of Kona International Airport. The property, identified on State of Hawaii Tax Maps as Third Division Tax Map Key 6-8-2, Parcel 16 and 6-8-3, Parcel 32, runs from approximately 900 feet above sea level, along Puu Melia Road (its makai boundary), to circa the 1200 foot elevation along its mauka border.

The site has a maximum north/south width of some 8,800 feet and mauka/makai dimension of 8,000 feet, with some 11,500 lineal feet of frontage along winding Waikoloa Road. The overall slope is moderate and relatively consistent, with the terrain being slightly undulating to rolling hills.

At present, the land use designations of the subject are predominantly agricultural-oriented. The State Land Use Map designates portions of the site as being within the Urban and Agricultural Districts. The county of Hawaii General Plan identifies the property for Agriculture uses, and the county zoning overlay includes RA-1 and Open classifications. The in-place classifications would permit a limited agricultural subdivision with minimum lot sizes of one acre.

Primary access to the holding is from Waikoloa Road, a two-laned macadam-surfaced street which is the only access into the Waikoloa Village community. The thoroughfare extends some 13 miles from Queen Kaahumanu Highway near the coastline to Mamalahoa (Hawaii Belt) Highway at circa the 2000 foot elevation.

Secondary access is available from Puu Melia Road, which extends south from Waikoloa Road at the main intersection (with turn pockets) providing entrance to the village, which lies northerly of Waikoloa Road. The junction of Waikoloa and Puu Melia Roads forms the northeastern corner of the subject property.

Many points on the holding offer panoramic makai views over the shoreline resort developments to the ocean; considered the most desirable attribute for house lots in the area. Expansive mauka views are also available from most subject areas, incorporating the Kohala mountains, Hualalai, and the upper slopes of Mauna Kea.

The property has mostly rocky soil, with some loamy pockets. It is generally covered with grasses, scattered shrubs and some small trees. It is vacant and unimproved except for some wire perimeter fencing and graded access tracks.

Apart from a small realty office building on the southwest corner of its intersection with Puu Melai Road, there is no development along either side of Waikoloa Road in the area of the subject. Nor is there any immediately mauka, makai, or south of the property. Waikoloa Village extends in a northerly/makai direction from the Puu Melai/Waikoloa intersection less than a quarter mile from the subject.

Much of the land in the subject "neighborhood" is still owned by the Waikoloa Land/Development Company; the original master developers of the 30,000-acre Waikoloa plan. However, there are on-going attempts to sell much of the remaining lands in either bulk or as separate sites.

Proposed Development

Waikoloa Highlands will be a rural large-lot subdivision containing a total of 398 single family house lots ranging in size from circa 25,000 square feet to two-plus acres. The project will also contain significant open space corridors, a trail system, landscaped entry/drives and buffers spread throughout the community.

The subject project will have the lowest densities ever offered in Waikoloa Village for single family inventory at an average of only 1.76 lots per acre of the bulk holding. This will promote a needed evolution in the existing "cookie cutter" community, which currently has lots and homes only within a relatively narrow range of product types, and help the village achieve its long-envisioned status of appealing to a broad range of West Hawaii purchasers.

The subdivision is intended to attract buyers from resident, investor and second-home purchaser groups. The latter two segments have significantly expanded as a percentage of village purchasers in the recent upcycle; the result of diversification in the market, limited inventory, and the ultra-pricing structure of the resort inventory.

The main entrances to the subdivision will be from Waikoloa Road, approximately 4,000 and 9,500 feet mauka of its intersection with Puu Melia Road; from which secondary access will be provided. The main drive extends from one entrance through three of the four "nodes" comprising the project to the other entrance.

The lots are double-loaded off the interior roadway system which includes side-streets and cul de sacs. Over half of the lots will "back" to green belts, open space corridors or adjoining vacant lands. Views will range from limited/territorial to expansive/ocean; with those along the mauka frontages of the open spaces and/or steeper terrain having the best panorama potentials.

The spread of lot sizes and shapes are fairly standard throughout the subdivision, with most being (near) rectangular and between 30,000 and 45,000 square feet. Those on the perimeter or having atypical topography tend towards larger size and more varied shape.

Overall, the proposed subject development embodies modern rural subdivision planning concepts from a market perspective and contains the fundamental characteristics necessary for its product to be competitive in the regional market.

ENVIRONS

The subject holding is situated within the Waikoloa ahupua'a nearby Waikoloa Village, a primary residential community in South Kohala which is situated upland approximately seven miles inland from queen Kaahumanu Highway and eight miles from the coastline.

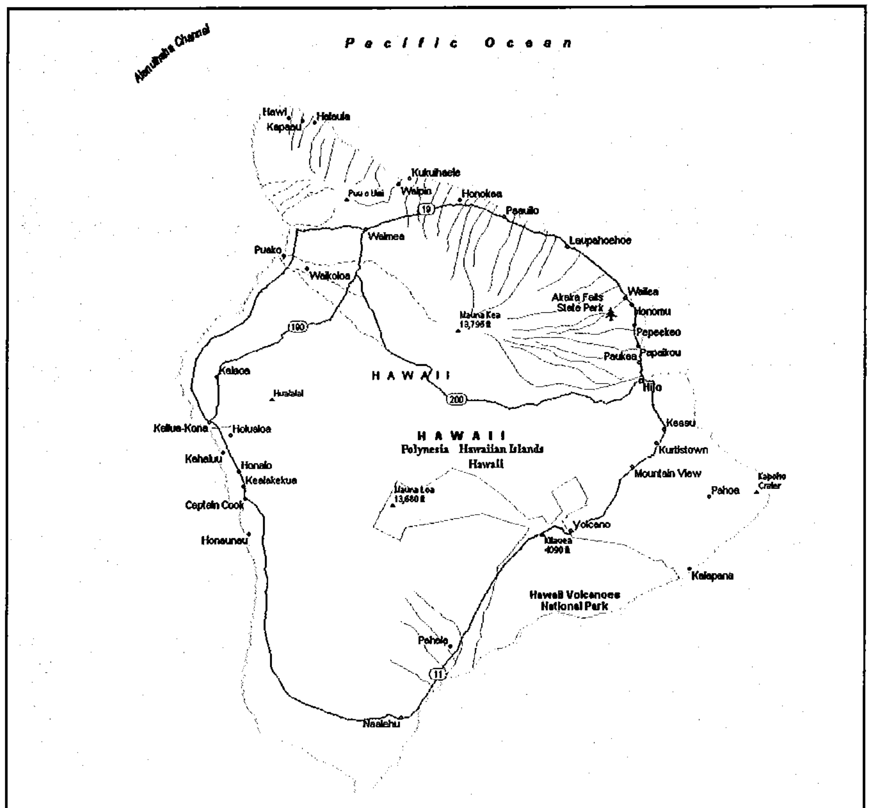
The purpose of this section is to provide a reasonably detailed overview of the subject environs, moving from the general to more specific. The review opens with the county of Hawaii, then moves to a discussion of West Hawaii, then the South Kohala District, and finally Waikoloa Village.

This information and analysis provides a foundation for the much more specific and macro and micro market study which follows.

We note, this less time sensitive overview utilizes data compiled through year-end 2004. Complete figures for full year 2005 had not all been released by state and county agencies as of the study date. We would not anticipate the 2005 data to have a meaningful impact on this general, long-range environs description.

Hawaii County Description

The county of Hawaii consists of the island of Hawaii (Big Island), the southernmost major island in the Hawaiian chain. Hawaii County is the second most populous of the four counties that make up the State of Hawaii, with the 2004 census update figures estimating a resident population of 161,480, representing just over 12.5 percent of the total state population. By far the largest island in the chain, land area of Hawaii is 4,038 square miles.



The island is characterized by many small towns dispersed along the coastline. The island has been divided into nine districts--Puna District, the North and South Hilo Districts, Hamakua District, North and South Kohala Districts, North and South Kona Districts, and Ka'u District.

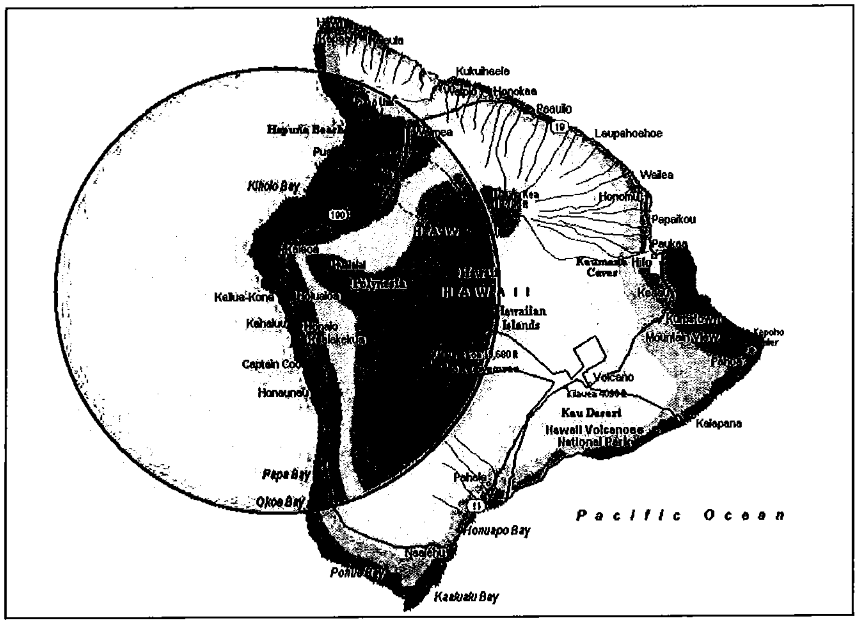
Two volcanic mountain peaks, the 13,796-foot Mauna Kea and the 13,679-foot Mauna Loa, dominate the central portion of the island. Three other major volcanic emergences combine with Mauna Kea and Mauna Loa to form the island of Hawaii. The Kohala Volcano, which is more commonly referred to as Kohala Mountain, is the oldest volcanic land mass on the island that forms the extreme northern portion of Hawaii. Hualalai, in the west, is located northeast of Kailua-Kona. The final volcanic presence is Kilauea Crater, with its associated and yet active East Rift Zone at the far southeastern end of the island.

Hilo, located along the eastern coast, is the principal population, administrative, and civic center on the island. Other population centers include Kailua-Kona on the island's west coast and Waimea situated inland within the northern saddle between Mauna Kea and the Kohala Mountain.

West Hawaii Region

The West Hawaii Region consists of North and South Kohala as well as North and South Kona Districts. The principal towns that service this region are Kailua-Kona, North Kona; Waimea, South Kohala; Captain Cook, South Kona; and Hawi, North Kohala. The principal core area of the region is comprised of North Kona and South Kohala. The coastline of these two districts are known for their numerous high-end destination resort properties, including Mauna Kea Beach Resort, Mauna Lani Resort, Waikoloa Beach Resort, Kona Village/Hualalai Resort, Kukio, and Keauhou Resort.

The subject property is situated within the South Kohala district, a leader in the region, trailing only North Kona in overall importance among the four districts comprising West Hawaii. The following section describes this general market area for the proposed subject inventory. The circle on the subsequent map defines the larger study region.

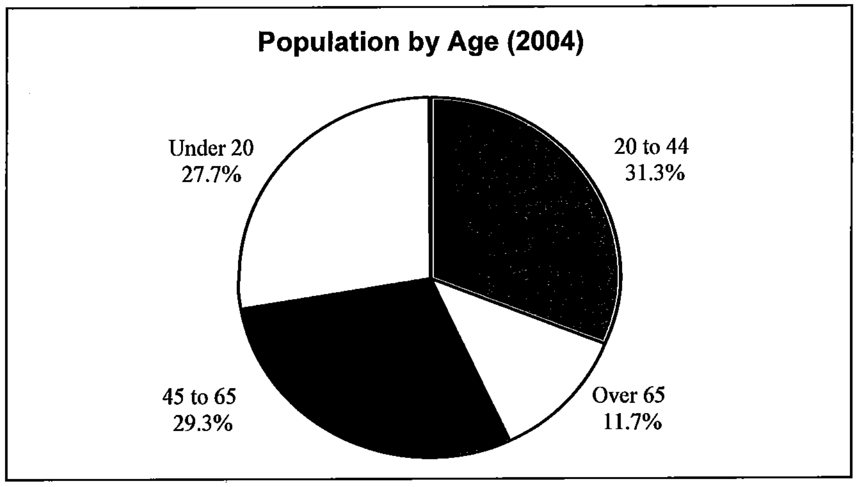


Key Demographic Factors

	West Hawaii	Hawaii County
Total Population (2004)	51,718	161,480
Male	50%	50.0%
Female	50%	50.0%
Median Age	38.7	38.1
2004 Households (HH)	19,288	58,557
Estimate 2009 HH (11%)	21,541	65,112
Average HH Size	2.7	2.7
1990-2000 HH Growth	35.2%	27.8%
Median Income	$50,953	$42,558
Per Capita Income	$25,222	$20,525
Average HH Income	$67,632	$55,871
Vacant Housing Units	21.6%	15.4%

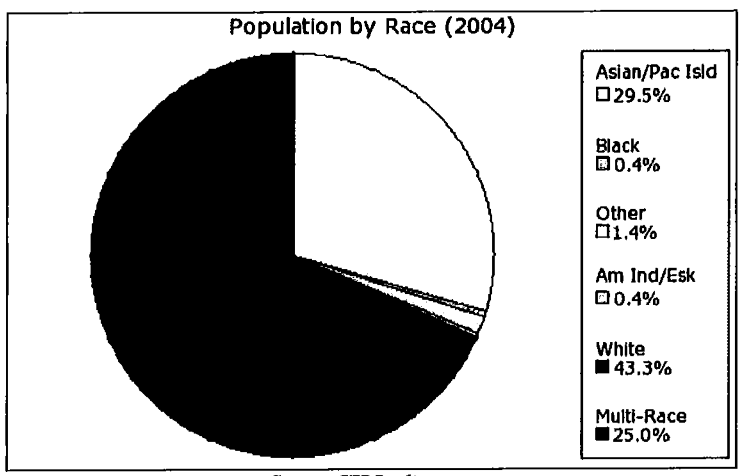
Source: STDBonline.com

The general subject market is well-established and expanding community which comprises about 30 percent of the county population. A decade of development in west Hawaii has resulted in the significant household growth reported in 2000, which outpaced the overall county and is expected to expand by 11 percent by 2009. There is a variety of mixed ages and races as seen in the graphs below.



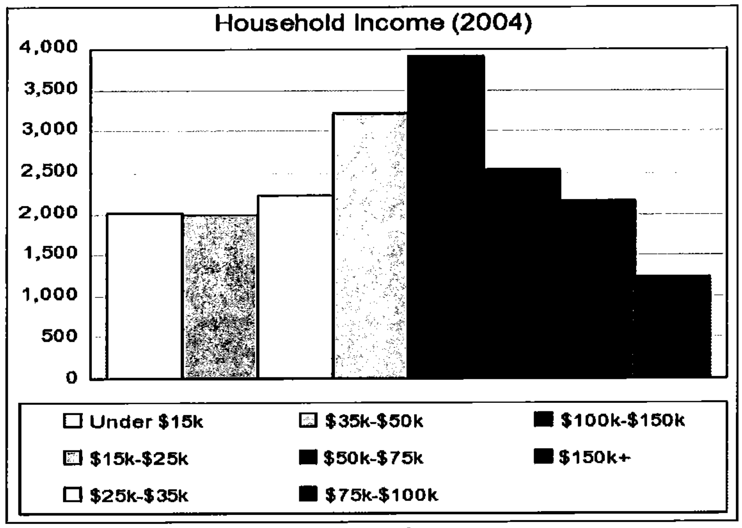
Half of all adults are married, 28 percent never married and five percent are divorced. Approximately 36 percent of households include children.

Education levels range from graduate degrees to kindergarten. The majority of the population, 57 percent, has attended some college, with 34 percent of the population achieving an Associates Degree or higher.



Source: STDBonline.com

As stated previously, the average household's mean income in 2004 is $67,632 in the West Hawaii study area, and $55,871 in Hawaii County.



Source: STDBonline.com

Spending Profile

Average Household Expenditure	West Hawaii	Hawaii County
2004	$52,659	$46,168
2009	$56,687	$49,656
Change	7.7%	7.6%
Average Retail Expenditure		
2004	$21,916	$19,186
2009	$23,584	$20,630
Change	7.6%	7.5%

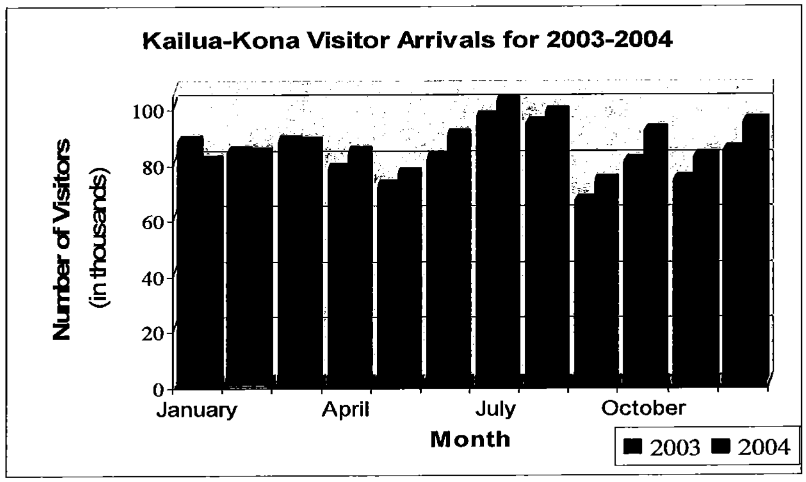
Source: STDBonline.com

In the immediate market area, the average household annually spent circa $11,000 on transportation (21.2 percent), $9,000 on shelter (17.1 percent), $8,700 on food and beverages (16.7 percent) and $5,200 on food at home (9.9 percent). Other expenditures included rental costs, health care, mortgage interest, apparel and entertainment. The local demographics depicted support a viable commercial opportunity.

Visitor Industry

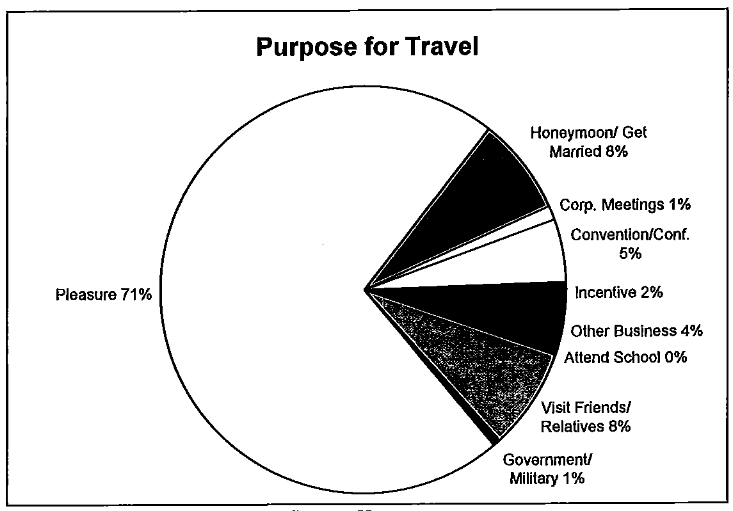
2004 Visitor Data	West Hawaii	Hawaii County
Total Visitors	1,035,114	1,278,713
Visitor Days	6,655,783	8,401,144
Average Party Size	2.13	2.10
Length of Stay	6.43	6.57

Source: DBEDT



Source: Hawaii.gov

Visitors spent an average of $141 per day in the west Hawaii area, of which approximately $48 went to restaurants and shopping centers.



Source: Hawaii.gov

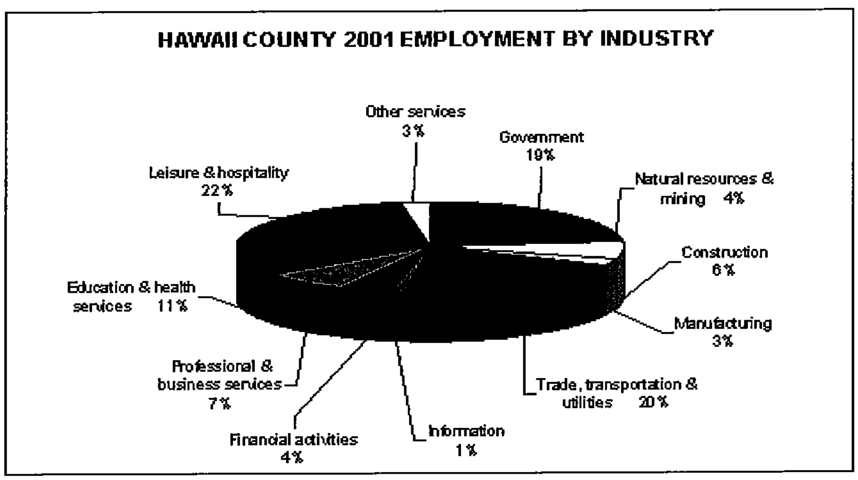
Key Economic Indicators of the State

Economic indicators point to a recovering economy led by the state's largest sector, the visitor industry. Short-term inflation is expected to be in control, while personal income will rise at moderate rates. Overall, the outlook for the state is positive in terms of total output and job creation.

Economic Indicators	2003	2004	2005	2006	2007	2008
	(Actual)		Forecast			
Total population (thousands)	1,249	1,263	1,278	1,292	1,306	1,319
Visitor arrivals (thousands)	6,442	6,988 1/	7,228	7,427	7,612	7,787
Visitor days (thousands)	59,228	63,921 1/	66,173	67,538	68,948	70,412
Visitor expenditures (million dollars)	10,055	10,726 1/	11,200	11,764	12,290	12,830
Honolulu CPI-U (1982-84=100)	184.5	190.6	196.7	202.4	207.9	213.3
Personal income (million dollars)	38,470	40,766 1/	43,212	45,632	48,004	50,405
Real personal income ($1996 million)	35,593	36,510 1/	37,500	38,484	39,414	40,345
Total wage & salary jobs (thousands)	574.4	589.2	599.8	607.6	615.5	622.9
Gross state product (million dollars)	46,638 1/	49,343 1/	52,106	54,816	57,556	60,319
Real gross state product ($1996 million)	39,831 1/	41,114 1/	42,399	43,601	44,751	45,890
Gross state product deflator (1996=100)	117.1 1/	120.0 1/	122.9	125.7	128.6	131.4
	Annual Percentage Change					
Total population	1.2	1.1	1.2	1.1	1.1	1.1
Visitor arrivals	-0.2	8.5 1/	3.4	2.8	2.5	2.3
Visitor days	0.5	7.9 1/	3.5	2.1	2.1	2.1
Visitor expenditures	4.6	6.7 1/	4.4	5.0	4.5	4.4
Honolulu CPI-U	2.3	3.3	3.2	2.9	2.7	2.6
Personal income	4.7	6.0 1/	6.0	5.6	5.2	5.0
Real personal income	2.3	2.6 1/	2.7	2.6	2.4	2.4
Total wage & salary jobs	1.9	2.6	1.8	1.3	1.3	1.2
Gross state product	6.0 1/	5.8 1/	5.6	5.2	5.0	4.8
Real gross state product	3.8 1/	3.2 1/	3.1	2.8	2.6	2.5
Gross state product deflator	2.1 1/	2.5 1/	2.4	2.3	2.3	2.2

1/ Preliminary.
Source: Hawaii State Department of Business, Economic Development & Tourism, February 23, 2005.

Employment Outlook By Industry



Source: Covered Employment & Wages, Research & Statistics Office, HI State Dept. of Labor & Industrial Relations.

Leisure and hospitality is the leading source of employment at 22 percent in Hawaii County. This is also the leading industry in the state. Retail trade and transportation follow closely behind at approximately 20 percent. Other industries such as government (19 percent) and education (11 percent) are also top industries. The other quarter of the work force consists of construction, which is on the rise, business and other services.

Monthly Job Count (in thousands)
Hawaii County

				Change From	
	04/05	**03/05**	**04/04**	**1 Mo. Ago**	**1 Yr. Ago**
Total Nonfarm	60.8	60.7	58.7	0.16%	3.58%
Natural Res., Mining & Constr.	4.7	4.6	4.4	2.17%	6.82%
Manufacturing	1.5	1.5	1.4	0.00%	7.14%
Trade, Transportation, Util.	13	12.9	12.7	0.78%	2.36%
Information	0.6	0.6	0.6	0.00%	0.00%
Financial Activities	2.5	2.5	2.5	0.00%	0.00%
Professional & Business Svcs	4.3	4.5	4.3	-4.44%	0.00%
Educational & Health Svcs	6.9	6.7	6.4	2.99%	7.81%
Leisure & Hospitality	13.8	13.9	13.3	-0.72%	3.76%
Other Services	1.7	1.7	1.7	0.00%	0.00%
Government	11.7	11.7	11.5	0.00%	1.74%

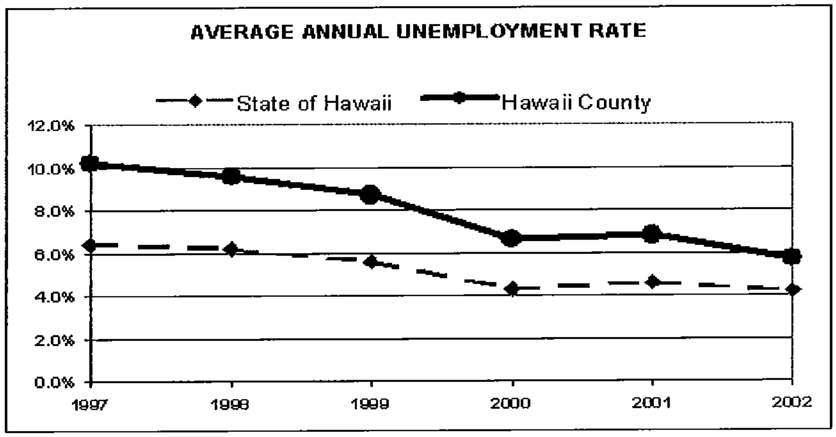
Totals may not add due to rounding.

Source .hiwi.org

Unemployment Rate

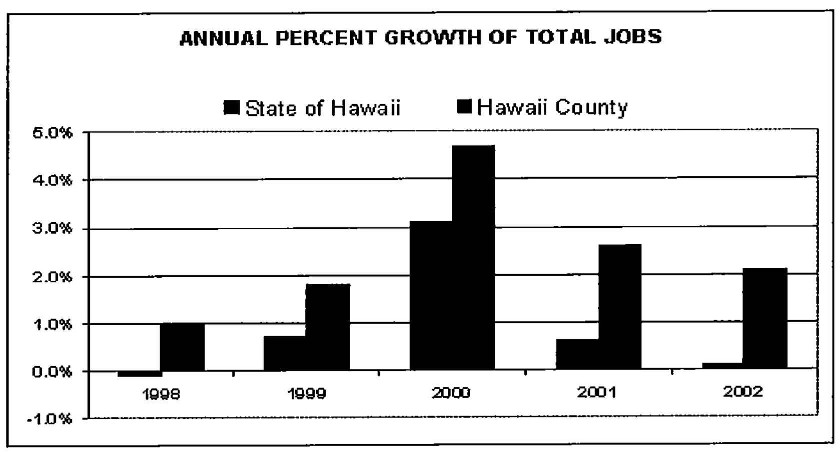
	April 05	March 05	April 04
Hawaii County	3.4	3.2	3.9
State	2.8	2.6	3.2
U. S.	4.9	5.4	5.4

Source: http://www.hiwi.org/



Source: 1) Local Area Unemployment Statistics, Research & Statistics Office, HI State Dept. of Labor & Industrial Relations; 2) Current Population Survey, Bureau of Labor Statistics, US Dept. of Labor.

Employment in the state continues to outpace the national average and reported the lowest unemployment rate in the nation in 2004. Hawaii County unemployment rates are slightly higher than the state average, but continue to be well under the national level. As seen below, the number of jobs in Hawaii County has been on the rise, and the gap between the state levels of unemployment has narrowed since 1998.



Source: Current Employment Statistics, Research & Statistics Office, HI State Dept. of Labor & Industrial Relations.

The South Kohala District

Stretching from sea level to a height of 7,000 feet, the South Kohala District encompasses a majority of the west and northwestern slopes of Mauna Kea and the Kohala Mountains in the north-central portion of the island of Hawaii. The 2000 Census estimated South Kohala's population at 13,131, an increase of 43.7 percent over the intervening ten-year period. These figures indicate a growth of 185 percent between 1980 and 2000 or an average growth rate of 5.38 percent per annum.

The district of South Kohala has two distinct physical environments--the upper elevation areas (2,000 to 7,000 feet above sea level), centered in Waimea, and characterized by grass-matted rolling hills with cooler temperatures and emphasis on agricultural and residential land uses; and the coastal plain stretching from the shoreline up-slope to Waikoloa Village, which is typified as an arid region with kiawe trees, sparse vegetation, and scattered resort-oriented development.

The coastal areas have an average temperature range of 73 to 90 degrees, with less than ten inches of rainfall per year. Temperatures decrease and rainfall increases at higher elevation levels, with Waimea receiving 40-plus inches of rain per year, and having an average temperature range of 62 to 67 degrees.

The watershed of the area is similarly divided. The Waimea Village watershed extends to the Kohala Mountains, which have high rainfall figures. Intermittent streams from this range flow into the Waimea area where they then turn westerly and dissipate into the permeable lava flows of Mauna Kea, which run down the arid western slope to the Kawaihae-Anaehoomalu shoreline. This area has few defined channels and infrequent stream flows. The Waimea region is generally more susceptible to flooding than the lower slopes and coastal plain; however, high intensity storms periodically flood Mamalahoa Highway from Kawaihae to Puako, with the beachfront areas subject to inundation. The entire coastline of South Kohala is susceptible to tsunami (tidal wave) action.

The primary economic activities in the area are cattle ranching, diversified agriculture, and the rapidly expanding tourism industry. Cattle interests utilize a majority of the district's acreage, with pastures located along the upper slopes of Mauna Kea stretching seaward. The largest holding in the area is Parker Ranch, with approximately 230,000 acres of grazing land supporting roughly 45-50,000 head of cattle.

Additional farming is centered around Waimea, considered one of the Big Island's most productive areas. Cabbage, celery, lettuce, and other vegetables are grown in abundance, as well as melons and floral products. Experimentation using other diversified crops is widespread. The state maintains an agricultural research facility in the Lalamilo Agricultural Subdivision near the Waimea Airport. The agricultural industry is viewed as a potential economic growth sector for the mauka or upcountry areas of the district; however, the competition for resources and land, brought about by tourism and residential development, the inconsistency of historic supply and demand levels for agricultural products in the state, and the lack of sufficient inexpensive water supply, hampers the general large-scale expansion of farming.

According to state officials, there are approximately 1,800 acres currently cultivated in the Waimea area. This represents just over one-half of the potential for arable production farming in the region.

Commercial activity in South Kohala is centered in Waimea and Waikoloa Village with lesser development in Kawaihae and within the resorts. Major projects in Waimea include the Parker Ranch Shopping Center, Parker Square, the Waimea Shopping Center (completed December 1989), and numerous strip-commercial developments along the main highways servicing the town. In Waikoloa Village, the Waikoloa Highlands Center, a 70,300-square-foot neighborhood shopping center and office complex, was completed in July 1990.

Kawaihae is the third largest community in the district (following Waimea and Waikoloa Village). The residentially oriented village has limited commercial facilities, with the interisland port of Kawaihae and an adjacent industrial park being the major industrial land use in the district and focal point in this small community.

The two major transportation facilities in the district are the deep-water port at Kawaihae and an interisland commuter airport at Waimea. A secondary, minimally used commuter helipad/airstrip serving the Waikoloa Beach and Mauna Lani Resorts was opened in 1984 along Queen Kaahumanu Highway near the vacation areas.

Public and private facilities located in South Kohala include the Lucy Henriques Medical Center in Waimea (private), fire stations near Puako on Queen Kaahumanu Highway and in Waimea, additionally several public and private schools service the area. The North Hawaii Community Hospital is currently under construction and is located adjacent to the Lucy Henriques medical center.

Recreation in the district is geared toward public and private facilities along the coast, maximizing the recreational potential of the ocean. The limited number of other quality beach facilities in the county places a premium on South Kohala's available parks, particularly Hapuna Beach State Park, considered one of the finest in the state. State and county parks are found at various elevations throughout the district with several hunting preserves in the upper elevations.

Tourism, which is rapidly becoming the primary employer and economic force in the district, is geared toward the highly desirable warm, dry climate prevalent at lower elevations along the coast.

Waikoloa Village

The residential/resort community of Waikoloa Village is located approximately eight miles inland and upslope from the oceanfront development. The 2000 US Census indicated that the village had a resident population of 4,806 up 113.8 percent over the 1990 population of 2,248. The village consists of approximately 2,795 acres with zoning in place for thousands of home sites and multi-family units, commercial center, schools, parks, and recreational amenities. About one-third of the potential residential product master planned for the village has been constructed to date.

Waikoloa Village was first conceived and developed by Boise Cascade. Residential development commenced with the 1972 opening of the Waikoloa Village Golf Course. The Waikoloa area first became readily accessible with completion of Queen Kaahumanu Highway in the early 1970s. The residential community has developed incrementally over the past 30-plus years.

Today, Waikoloa Village is centered around its 18-hole Robert Trent Jones, Jr. golf course with clubhouse and swimming pool. The village also contains tennis courts, riding stables, community park, and shopping center. The community's several residential subdivisions include some 1,600 residential lots with over 1,350 completed homes. There are 15 multi-family parcels with 11 projects totaling 1,040 completed residential units.

THE WAIKOLOA VILLAGE RESIDENTIAL MARKET

Our analysis of the Waikoloa Village residential market is divided between two perspectives:

- Macro Analysis -- Assessing the overall, long-term demand and supply trends in the competitive sector; and

- Micro Analysis -- Focusing on the current demand/supply levels in the subject segment.

The study opens with a brief overview of residential development in the primary study area followed by an analysis quantifying the demand for additional housing units in Waikoloa Village based on population, market factors, and real estate trends. Existing and proposed inventory supply is then identified in regards to number of units, development timing and product type. To the extent mid to long-term demand exceeds supply in the study area, the general (or macro) climate for the proposed subject subdivision is favorable.

The second part of the study reviews recent/current market activity in the region, including the status of the market cycle, availability of inventory, pricing and appreciation levels, and exposure time required for sale. This aids in determining whether sufficient near to mid-term demand exists relative to potential supply to support a new project and successfully absorb the subject product. If the market cycle is generally up, new and available units are being absorbed, and inventory is fairly limited, the micro conditions are favorable for the Waikoloa Highlands subdivision.

Waikoloa Village was master-planned in the late 1960s to become a "new" suburban support community providing needed housing for local residents working in the shoreline resorts. Long-term projections called for upwards of 8,000 to 10,000 housing units spread over some 3,000 acres.

After an initial spurt of interest, the population grew rather slowly for the first two decades, stymied by sluggish resort construction, the availability of desirable housing elsewhere in West Hawaii, and the lack of supporting commercial uses in the village. By 1985, there were just some 2,000 residents and about 800 total units in the community.

Major changes began emerging in the late 1980s which have resulted in a tripling of both full-time/de facto populations and in the number of housing units in Waikoloa. These factors are expected to generate similarly extensive growth in the community over the coming 20 years.

Six primary driving forces in the past 15 years that are behind the evident evolution of the residential market in the village have been:

1. The surge in economic expansion along Queen Kaahumanu Highway between Kailua-Kona and Kawaihae has been unprecedented. The resorts have achieved an exceptionally high market status and aggressively pursued development, resulting in increasing numbers of operational, construction, retail/service and maintenance jobs. Plus, the industrial parks near the airport have become a focus of commercial activity in West Hawaii.

2. Traffic congestion throughout the region has meaningfully worsened making commuting from outside the Kailua-Kona/Kawaihae (QK Hwy) Corridor to the employment and services inside increasingly difficult. Waikoloa Village, which was considered "isolated" a generation ago, has had its "proximity" enhanced by land use and traffic conditions. The village is now readily viewed as a viable alternative housing location by a ever-broadening segment of the market.

3. West Hawaii has long had a tight housing market, which became increasing so through the 1990s and into this century due to the insufficiency of zoned and serviced building sites in the face of rapidly expanding demand. The "scarcity" has resulted in rapidly appreciating prices and limited purchase opportunities during the extended upcycle (often resulting in lotteries for new offerings). Waikoloa Village is one of the major "reservoirs" of zoned, serviced lands in the region.

4. A 74,000 square foot shopping center (45 tenants and 300 parking stalls) was opened in Waikoloa Village in 1991. This filled a crucial need for community residents who were previously limited to a small "general store" for all commercial goods or had to drive upwards of 25 miles round trip to go to a true grocery. Moreso than any other single improvement, the

center transformed the village into a reasonable resident housing location.

5. Sales prices and rents in Waikoloa remain below that of comparable residential product in either Waimea or Kailua-Kona. Similar new single family homes in Waimea sell for circa $50,000 to $100,000 more than in Waikoloa, and in central Kona for up to $150,000 more. Given the high price of homes in the region, and the difficulty many local families have in qualifying for market-level mortgages, this creates a critical advantage for village inventory.

6. Second-home (vacation) purchasers have moved strongly into mauka residential projects throughout West Hawaii during the current upcycle; mimicking trends previously seen on Maui. Waikoloa Village offers a favorable climate, superior views, a championship golf course, proximity to the coastal resorts, and competitive pricing; attributes which are highly desired among the moderate to lower end of the vacation unit buying segment.

As a result of these forces within a vibrant regional market, Waikoloa Village was the location for more than half the total number of new residential homes/units constructed in South Kohala since 1990, and now has a resident population estimated at 6,300 persons with a total housing inventory of 2,400 units.

As the cited favorable factors will continue to funnel demand into the village over the mid to long-term, and it remains the largest reservoir of developable residential holdings in the District, it is expected to more than double in size again over the coming twenty-plus years. From 50 to 70 percent of the resident population growth in South Kohala is expected to occur in the subject community.

Macro Analysis

Projecting the probable mid to long-term regional demand for the subject residential product ("rural" single family home sites) is a three-step process:

1. <u>Quantification of Waikoloa Village Housing Unit Demand</u> -- Estimating the need for additional housing units in the study area based on population, demographic, vacancy and income characteristics.

2. Identification of Current and Proposed Projects -- Overview of recent/in-sales and proposed/potential residential development in the study area units in regards to unit types and sales activity.

3. Indicated Conclusions -- Correlation of quantified market demand and supply indicators.

We have assumed the subject lots would be appropriately priced at general market levels consistent with the scale for other new single family product in the study area and attract a spectrum of buyer types.

Quantification of Waikoloa Village Housing Unit Demand

We have projected the demand for residential units in Waikoloa Village area using standardized formulae employing population forecasts, household size trends, and other market-based factors as follows:

RP/AHS = TRUR X (1 + (VA + NRPA)) = TMUD

Where:

RP is the Resident Population
AHS is the Average Household Size
TRUR is the Total Resident Units Required
VA is a Vacancy Allowance
NRPA is a Non-Resident Purchaser Allowance
TMUD is a Total Market Unit Demand

Each of the variables in the formula is based on historic statistics compiled by the Federal Home Loan Bank, U.S. Census Bureau, State of Hawaii DBEDT, County Planning Department, other recognized governmental sources, and researched market data.

These past and current indicators were translated into estimates based on temperate trending interpretations moving forward from existing conditions. Our emphasis was on producing forecasts in sync with the historic data. We have not assumed there will emerge any meaningful market evolutions overriding prevailing demographics and tendencies; such as either anti or unbridled growth extremes, West Hawaii becoming a major retirement locale, or large-scale adjustments in resident lifestyles.

In this regard, our forecasts are representative of moderate future housing requirements for the study area, and could be understated if there is a "spike" in trends towards smaller household sizes, a greater influx of non-resident purchasers into the market, or a more pronounced pro-development governmental perspective.

The "Total Market Unit Demand" conclusions resulting from equation application are intended to quantify the total number of residential housing units which will be needed in Waikoloa Village over the 20-year projection period (2006 through 2025) in order to manifest a reasonably stable market with all purchaser/tenant demand segments adequately served.

Currently, the village housing market is in a slightly to moderately undersupplied condition. This is demonstrated both via housing demand models and the absorption of recently offered product.

While there has been, and continues to be, large inventory additions to the community, it is still experiencing low vacancy rates, high market interest, and rapidly appreciating prices over the last several years. Additionally, greater numbers of second-home owners have been purchasing in the study area "residential" sector.

The Waikoloa Village housing market is not as dysfunctional as found in other neighbor island locations, wherein major numbers of new units are immediately required, but it will be under continuing stress over the near and into the long-term as the focal point for residential construction in the South Kohala District.

Established governmental policy is to address the West Hawaii regional housing unit shortage via appropriate development of existing urban and urban-expansion areas at as rapid a pace as the infrastructure and community will bear. Waikoloa Village is one such focal development location.

The factors comprising our housing demand equation can be summarized as follows:

> Resident Population (RP) -- This variable utilizes population and distribution forecasts made by the state, county and ourselves for the island and/or study area. The DBEDT 2030 series of forecasts calls for the Big Island's resident population to increase by more than 35 percent and nearly 60,000 persons

over the coming quarter of a century (1.21 percent compounded annual growth rate), with the daily tourist population to be up by more than half and 10,554 additional daily visitors (1.91 percent annually).

The County of Hawaii General Plan resident projections through 2020 are somewhat more aggressive than state figures; forecasting a range of 213,452 to 237,323 persons by the end of next decade versus 203,050 by the state. The county various modeling estimates equate to a compounded annual growth rate range of 1.53 to 2.25 percent from today's totals.

The county is similar to the state in regards to tourism growth, with their models projecting a one to three percent compounded annual growth in total visitor arrivals through 2020.

The General Plan also indicates that Waikoloa Village has been and will continue to be a focal point of the new residential construction necessary in South Kohala to serve the increasing population. Excerpts include:

> Since the previous general plan was adopted, "Slightly more than half of the newly created parcels in the district occurred at Waikoloa". And,
>
> "Waikoloa Village contains a sizable amount of undeveloped, residential-zoned lands that will eventually contribute significantly to the district's housing inventory"

The current (Spring 2006) resident population of Waikoloa Village is an estimated 6,300 persons; a gain of some 4,052 persons and a compounded annual growth rate of 7.1 percent since 1990.

At present, there are circa 16,000 residents in South Kohala, a figure the county projected in 2000 would reach between 23,947 and 26,625 by 2020. Given the strong population growth of the past five years of about 3,000 persons, it is likely the actual count in 15 years will be at or beyond the upper-end of the forecast range.

Therefore, in making our study area population forecasts we have tested District-wide growth rates commensurate with the County General Plan "Series B" (considered to be "Minimum") and at a "market based" rate that is minorly above the "Series C" models (considered "Maximum").

Our forecasts also assume that upwards of 60 percent of the increase in South Kohala full-time residents during the projection period will take place in Waikoloa Village; a marginally higher figure than in recent years due to the scarcity of developable lands elsewhere in the district.

We estimate the resident population of Waikoloa Village will expand to between 14,000 and 18,000 persons by the year 2025; more than double the current level, but at a lesser percentile growth rate than has been experienced in recent years.

Average Household Size (AHS) -- This factor was calculated using the data as provided by the above-cited sources and census figures. Extrapolating the 2000 US census indicators for the study area, we have estimated the current AHS in the study area is at about 2.80 persons. This is slightly above the island-wide level of 2.75 persons per household recorded in the last census, a function of the high proportion of single family homes (versus lower occupancy multi-family units), and the large number of middle-income families (which tend towards having more children and multi-generation households) in the village.

Most Hawaii-oriented sociologists contend the movement to smaller household sizes will continue into the future; forecasting longer life-spans, the influx of single persons attracted to the climate and employment opportunities, increasing numbers of retirees, and the tendency towards fewer children. However, given the current and expected demographics of the subject community, we do not believe the decline will be as significant in Waikoloa as elsewhere on the island.

We project the average household size in the study area will stabilize by the Year 2025 at between 2.67 and 2.72 persons; still slightly above most Big Island locales.

We note, this is a rather conservative assumption, and if the decline in household sizes more closely mirrors the state and county trends, a greater number of housing units will be necessary to meet demand.

Total Resident Units Required (TRUR) -- This figure is arrived at by dividing the subject area resident population (RP) by the average household size (AHS). It is indicative of the minimum number of residences which would be required to meet basic resident housing needs, assuming there were no vacant units, none uninhabitable due to on-going repair or deleterious conditions, and none occupied by non-resident persons.

For a market to be considered stable (and nominally operative) without spiking appreciation rates while maintaining quality lifestyle opportunities, allowances for such factors must be made.

Vacancy Allowance (VA) – Governmental agencies are on record during the past 20 years calling the state and West Hawaii among the tightest residential markets in the nation, expressing fears of a deteriorating economy and community structure unless major steps are taken over the long-term to address the shortage. While major gains in addressing this need have been made during the recent up-cycle, the undersupply condition is still acute, and a primary reason West Hawaii housing prices are so high.

According to HUD, the Urban Institute, and other sources, a "healthy" market has a minimum vacancy level of five to six-plus percent of the total number of units in the inventory. This allows for uninhabitable units, units under repair, seasonal fluctuations, a transitional housing margin, a degree of mobility potential, and the ability to service periodic unanticipated population increases. A "slack" in unit occupancy also serves as a margin to cushion against hyper-appreciation during strong demand periods.

Given the history of the West Hawaii housing market and its inability to keep an acceptable vacancy pool available, we believe it will be exceptionally difficult for the desirable vacancy allowance of more than five percent to be achieved in the study area during the foreseeable future.

In our demand formula, we have therefore tested vacancy rate allowances of three and five percent of the Total Resident Units Required figure; at and below the minimum allowance considered healthy for a mainland market, but likely the best which could ever be achieved in West Hawaii.

<u>Non-Resident Purchaser Allowance</u> (NRPA) -- While many non-resident purchasers of non-resort housing units in the islands seek to rent them to residents in an effort to minimize debt service obligations, an increasing number are buying West Hawaii residential units for personal (family and friends) second-home use, business reasons, or for transient rentals

These units are not available to meet resident housing demands and are effectively withdrawn from the inventory pool. An allowance must be made for these units in the general community; which are not to be confused with those specifically intended for tourist-oriented second home ownership and transient rentals (i.e., within a resort-classified area).

On the neighbor islands and in Waikiki, there are many units in complexes or subdivisions <u>designed for general residential use</u>, which are owned by non-residents that often sit vacant the vast majority of the time and provide no help in servicing local household needs.

Virtually no open market subdivision or project built on the neighbor islands in the past decade has not had a second-home ownership component. In newer West Hawaii developments. It ranges from about five percent in Waimea to slightly more than half in some Kailua-Kona projects.

While some developments have attempted to minimize the impact of second home and investor owners via owner/occupancy requirements or through lottery offerings, they still represent an increasingly major segment of the primary and general market residential sectors which must be allowed for in coming years. Otherwise, their demand, which is much less price sensitive than a local family, will gradually push more and more resident households out of the market.

The impact of these buyers on the market must be taken into consideration when projecting a region's housing unit needs, given the widespread interest in Hawaii real estate and typically greater financial resources of non-resident buyers. Failure to adequately account for their demand places extreme stress on island towns.

Apart from limited interest in the original development period during the early 70s, Waikoloa Village did not have a substantial second-home buyer component until the late 1990s; and it has mushroomed since. In the newer subdivisions, second-home/vacation purchasers have represented from circa 15 to 40-plus percent of total buyers.

This trend is expected to continue expanding over the coming decades as the Waikoloa community becomes an even more established buying alternative for the second-home segment, and the high prices of the luxury-class oceanfront resorts forces more of these purchasers into residential neighborhoods.

At present, between 10 and 20 percent of the housing units in Waikoloa Village are owned by non-resident buyers, we forecast this number will steadily increase over the projection period. We have therefore utilized a NRPA which grows to a stabilized level of 25 percent to 35 percent of quantified resident user demand in the "minimum" and "maximum" projection models, respectively.

Total Market Unit Demand (TMUD) -- The solution to our demand formula is quantified by adding the Vacancy Allowance (VA) and Non-Resident Purchaser Allowance (NRPA) to the Total Resident Units Required (TRUR) figure. The result is the total number of units which will be needed in Waikoloa Village in order to meet all reasonable market demand segments.

The application of the housing demand formula to the subject community using our conservative/minimum and optimistic/maximum forecasts are shown on Table 1. Extrapolation of 2000 census figures indicates there are some 2,400 existing housing units in the village as of the 2006 study date.

TABLE 1

QUANTIFICATION OF HOUSING UNIT DEMAND FOR THE WAIKOLOA VILLAGE STUDY AREA 2006 to 2025
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii
Includes Waikoloa Village Only

	2006	2010	2015	2020	2025	Additional Units Required by 2025 (1)
Scenario One: Minimum Projections Using County "Series B" (Moderate) Population Projections and Conservative Allowance Factors						
Resident Population	6,300	8,300	10,100	12,000	14,000	
Average Household Size	2.80	2.78	2.76	2.74	2.72	
Total Resident Units Required	2,250	2,986	3,659	4,380	5,147	
Vacancy Allowance (3% of resident unit demand)	68	90	110	131	154	
Non-Resident Purchaser Allowance (From 10% rising to 25% of resident unit demand)	225	448	732	1,095	1,287	
TOTAL MARKET UNIT DEMAND	2,543	3,523	4,501	5,606	6,588	4,188
Scenario Two: Maximum Projections Using Market-Based (High) Population Projections and Optimistic Allowance Factors						
Resident Population	6,300	8,900	12,000	15,000	18,000	
Average Household Size	2.80	2.77	2.74	2.70	2.67	
Total Resident Units Required	2,250	3,213	4,380	5,556	6,742	
Vacancy Allowance (5% of resident unit demand)	113	161	219	278	337	
Non-Resident Purchaser Allowance (From 20% rising to 35% of resident unit demand)	450	803	1,314	1,944	2,360	
TOTAL MARKET UNIT DEMAND	2,813	4,177	5,912	7,778	9,438	7,038

CONCLUDED HOUSING UNIT DEMAND RANGE

	Existing	2006-2010	2011-2015	2016-2020	2021-2025	Totals
MINIMUM DEMAND						
Periodic	143	981	978	1,105	982	4,188
Cumulative	143	1,123	2,101	3,206	4,188	
Average Annual Demand (2)		225	196	221	196	
MAXIMUM DEMAND						
Periodic	413	1,364	1,736	1,865	1,660	7,038
Cumulative	413	1,777	3,512	5,378	7,038	
Average Annual Demand (2)		355	347	373	332	
MID-POINT DEMAND						
Periodic	278	1,172	1,357	1,485	1,321	5,613
Cumulative	278	1,450	2,807	4,292	5,613	
Average Annual Demand (2)		290	271	297	264	

(1) There are an estimated 2,400 housing units in Waikoloa Village as of year-end 2005
(2) Existing (or latent) demand is assumed absorbed by 2010.

Source: Various and The Hallstrom Group, Inc.

Based on our analysis, the actualization of a healthy and stable housing market in Waikoloa Village will require the construction of about 4,188 to 7,038 additional housing units in the community by the Year 2025. The mid-point demand would be for 5,613 units, or more than twice the in-place inventory.

Conversion of this estimate of gross demand into pricing equivalents was completed using available data from the U.S. Census, Big Island Board of Realtors, statistical analysis and the U.S. Dept. of HUD.

Table 2 illustrates the striation of Waikoloa Village regional housing requirements through 2025 into probable percentile demand by sales prices at current dollar levels. The figures correlate both historic/actual buying trends and theoretical "affordability" quotients derived using government pricing criteria.

Given anticipated subject lot prices and current home building costs, the eventual "finished homes" comprising the subject inventory will meet the "affordability" levels for approximately 27.7 percent of the prospective buyers in the village over the next two decades. This segment, priced at $750,000 and up, equates to a demand for between 1,160 and 1,952 total new units by 2025, and will be 30 percent of the total market by the end of the projection period.

To date, there is very little of such priced inventory (above $750,000). The subject and proposed Waikoloa Heights development plan on offerings in this range.

Table 3 displays the calculations of housing price affordability for Big island residents based on HUD/state/county and conventional financing guidelines.

Using the governmental criteria, households in the "Low Income" grouping, earning 80 percent or less of the island median income, can afford a sales price, or rental equivalent, of $196,800 (rounded) or less. "Low to Moderate Income" households, earning 80 to 120 percent of median income, can afford home prices up to $246,000. And, "Moderate-Gap Group (or "low market") Income" households can afford prices up to $358,400. Above this level, prices are considered "market".

Using conventional financing criteria, the affordable housing prices for the respective groups increase by about 15 to 18 percent.

TABLE 2

STRIATED PROJECTIONS OF HOUSING UNIT DEMAND
BY SELLING PRICE IN WAIKOLOA VILLAGE 2006 TO 2025
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii
Includes Waikoloa Village Only

Period	Periodic Demand (1) 2006 to 2010	2011 to 2015	2016 to 2020	2021 to 2025	Total Demand 2006-2025
1. Minimum Demand					
Less Than $250,000	**281**	**205**	**188**	**137**	**811**
Percent of Total Demand	25.00%	21.00%	17.00%	14.00%	19.38%
$250,000 to $500,000	**314**	**274**	**309**	**275**	**1,173**
Percent of Total Demand	28.00%	28.00%	28.00%	28.00%	28.00%
$500,000 to $750,000	**247**	**235**	**287**	**275**	**1,044**
Percent of Total Demand	22.00%	24.00%	26.00%	28.00%	24.93%
$750,000 to $1,000,000	**213**	**196**	**232**	**216**	**857**
Percent of Total Demand	19.00%	20.00%	21.00%	22.00%	20.46%
Over $1,000,000	**67**	**68**	**88**	**79**	**303**
Percent of Total Demand	6.00%	7.00%	8.00%	8.00%	7.23%
Total Market Demand	**1,123**	**978**	**1,105**	**982**	**4,188**
	100.00%	100.00%	100.00%	100.00%	100.00%
2. Maximum Demand					
Less Than $250,000	**444**	**365**	**317**	**232**	**1,358**
Percent of Total Demand	25.00%	21.00%	17.00%	14.00%	19.30%
$250,000 to $500,000	**498**	**486**	**522**	**465**	**1,971**
Percent of Total Demand	28.00%	28.00%	28.00%	28.00%	28.00%
$500,000 to $750,000	**391**	**417**	**485**	**465**	**1,757**
Percent of Total Demand	22.00%	24.00%	26.00%	28.00%	24.97%
$750,000 to $1,000,000	**338**	**347**	**392**	**365**	**1,442**
Percent of Total Demand	19.00%	20.00%	21.00%	22.00%	20.48%
Over $1,000,000	**107**	**122**	**149**	**133**	**510**
Percent of Total Demand	6.00%	7.00%	8.00%	8.00%	7.25%
Total Market Demand	**1,777**	**1,736**	**1,865**	**1,660**	**7,038**
	100.00%	100.00%	100.00%	100.00%	100.00%

Note: Estimates based on combination of resident household income analysis, median prices being paid for inventory, and evident trends in the Waikoloa Village residential market.

(1) Assumes existing latent demand is absorbed by 2010.

Source: Various and The Hallstrom Group, Inc.

TABLE 3

ESTIMATE OF HOUSING PRICE AFFORDABILITY FOR WEST HAWAII RESIDENTS
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii

1. Based on General HUD/State/Hawaii County Criteria

Grouping	Low Income	Low-Moderate Income	Moderate-Gap Group Income
Household Income as a Percent of County Median	**80% or less**	**80% to 100%**	**100% to 140%**
Gross Household Monthly Income	$4,220	$5,275	$7,385
Maximum Allowable Housing Expense (1)	$1,393	$1,741	$2,437
Less Tax and Insurance Reserve	($150)	($175)	($200)
Less Mortgage Insurance Payment	($50)	($75)	($100)
Net Amount Available for Debt Service	$1,193	$1,491	$2,137
Maximum Mortgage Amount (2)	$186,948	$233,646	$340,518
Down payment at 5% of Sales Price	$9,839	$12,297	$17,922
Total Affordable Purchase Price	**$196,787**	**$245,943**	**$358,440**

2. Based on Conventional Financing Criteria

Grouping	Low Income	Low-Moderate Income	Moderate-Gap Group Income
Gross Household Monthly Income	$4,220	$5,275	$7,385
Maximum Allowable Housing Expense (3)	$1,182	$1,477	$2,068
Maximum Mortgage Amount (4)	$185,224	$231,452	$324,064
Down payment at 20% of Sales Price (5)	$46,306	$57,863	$81,016
Total Affordable Purchase Price	**$231,530**	**$289,315**	**$405,080**

Note: Median household income for West Hawaii estimated at $63,300 in 2006 based upon comparable figures for urban areas of Maui and Kauai. This is approaching 20% above county-wide averages.

(1) Based on standard governmental affordability criteria at 33%.
(2) Assuming 6.5% annual interest and 30 year mortgage..
(3) Conventional financing with maximum monthly mortgage payment at 28% of gross income. No reserves of mortgage insurance required.
(4) Assuming 6.5% annual interest and 30 year mortgage.
(5) Conventional financing standard.

Source: HUD, State of Hawaii, Hawaii County and The Hallstrom Group, Inc.

Inherently, a large portion of the demand is generated by lower- to middle-income groups who can have difficulty competing in the high-priced West Hawaii marketplace. Upper-middle and above income households have more meaningful purchase alternatives.

About 19.3 percent of the Waikoloa Village units required through 2025 should be priced below a current level of $250,000, which would be generally affordable to the "low" and "low-moderate" income groups; 28.0 percent of demand will have price limits between $250,000 and $500,000 (affordable to "moderate-gap group" and lower market categories); 25.0 percent of demand will be oriented towards homes having prices of $500,000 to $750,000 (moderate market pricing); and, 27.7 percent will seek properties having a price above $750,000.

The atypically high percentage of demand oriented towards the top of the market is a function of the large number of upper-income non-resident buyers in the region, and that virtually all new development must have higher prices to economically support its construction.

Given long-term plans for the community, existing zoning/general plan classifications, and the strong preference among local families for single family purchase opportunities; the large majority of village inventory will continue to be single family lots and lot/home packages. Further, unlike in many neighbor island locales, a significant portion of the non-resident and investor buyer segment in the community has expressed a preference for homes, and not condominium units.

Of the 2,400 total currently existing residential units in Waikoloa, approximately 1,360 (or 57 percent) are single family or detached homes and 1,040 (43 percent) are condominiums (some of which are detached). In light of the large numbers of condominiums already in-place, the availability of only a few remaining multi-family zoned development sites, and that several major proposed and on-going additions to the community will not include condominium components, there will be a major change in the unit mix from current levels, significantly leaning further and further towards single-family in coming years.

As shown on Table 4, we forecast that single family homes and lots will increase meaningfully in overall proportion to multi-family units within the new projects over the next 20 years. Over the last decade

TABLE 4

DIVISION OF PROJECTED DEMAND BY UNIT TYPE
FOR HOUSING UNITS IN WAIKOLOA VILLAGE 2006 TO 2025
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii

	Periodic Demand (1)				Total	
	2006 to 2010	2011 to 2015	2016 to 2020	2021 to 2025	Demand 2006-2025	Comments
1. Using Minimum Demand Projections						
Single Family Homes	674	616	740	668	2,698	As elsewhere in West Hawaii, this segment is increasing in market share, with the majority of recent developments and current/proposed projects featuring this type. As the Village evolves into a standard, well-established bedroom community (not just a lower cost or convenient alternative), this types will continue to expand.
Percent of Total	60%	63%	67%	68%	64%	
Single Family Lots	314	245	254	216	1,029	The initial phases of Village were overwhelmingly vacant lots. The large majority of which have been built-out over the past three decades. While there will always be some meaningful demand in this category, it is not expected to have as major role except for upper-end and larger "ag" lots.
Percent of Total	28%	25%	23%	22%	25%	
Effective Subject Market Segment						
Sub-Total	**988**	**861**	**995**	**884**	**3,727**	
Percent of Total	**88%**	**88%**	**90%**	**90%**	**89%**	
Multifamily Units	135	117	111	98	461	Cyclically developed in Village. Numerous projects built at commencement of development, again in late 1980s, and there is renewed interest in today's market. Available sites are somewhat scarce, although some will be included in several under-way and long-term projects.
Percent of Total	12%	12%	10%	10%	11%	
Total	**1,123**	**978**	**1,105**	**982**	**4,188**	
	100%	100%	100%	100%	100%	
2. Using Maximum Demand Projections						
Single Family Homes	1,066	1,094	1,250	1,129	4,538	
Percent of Total	60%	63%	67%	68%	329%	
Single Family Lots	498	434	429	365	1,726	
Percent of Total	28%	25%	23%	22%	25%	
Effective Subject Market Segment						
Sub-Total	**1,564**	**1,528**	**1,679**	**1,494**	**6,264**	
Percent of Total	**88%**	**88%**	**90%**	**90%**	**89%**	
Multifamily Units	213	208	187	166	774	
Percent of Total	12%	12%	10%	10%	11%	
Total	**1,777**	**1,736**	**1,865**	**1,660**	**7,038**	
	100%	100%	100%	100%	365%	
Mid-Point						
Single Family Homes	870	855	995	898	**3,618**	
Single Family Lots	406	339	342	291	**1,377**	
Effective Subject Market Segment						
Sub-Total	**1,276**	**1,194**	**1,337**	**1,189**	**4,996**	
Percent of Total	**88%**	**88%**	**90%**	**90%**	**89%**	
Multifamily Units	174	163	149	132	**617**	
Total	**1,450**	**1,357**	**1,485**	**1,321**	**5,613**	

Source: The Hallstrom Group, Inc.

well more than 80 percent of all inventory additions have been single-family oriented (lots or lot/homes), a level which we forecast to increase to 89 percent of market additions through 2025.

The total mid-point demand for multi-family development in Waikoloa Village over the next two decades is estimated at 617 units. For single-family types the demand will be for 4,996 total homes; which we have allocated between 3,618 houses and 1,377 building lots for discussion purposes, although from a market perspective they are both serving the same general segment.

Identification of Waikoloa Village Residential Projects

Existing Supply

Based on extrapolation of 2000 census data and county planning figures, we estimate the total number of habitable housing units in the Waikoloa Village study area as of Spring 2006 was approximately 2,400 units. The majority of these have been constructed on long-subdivided lots or in more recent major developments constructed since the late 1980s.

An overview of the most recent single family (and detached multi-family) projects is shown on Table 5, focusing on product type, pricing, model types and purchaser orientation.

Proposed Supply

Apart from Waikoloa highlands, there are five major projects in-development, approved or proposed in Waikoloa Village area at this time. A sixth holding of circa 600 acres considered as having long-term residential use potential is still held by the master developer (Waikoloa Development), but there have been no announced plans to pursue construction in the near to mid-term.

All of the developments are in relatively close proximity to the subject property and are summarized on Table 6. We are aware of no other major developments preliminarily proposed, announced or otherwise making headway in the entitlement process at this time.

The top of the table contains those projects which are "fully approved/moving forward". The first three developments shown were all in construction as of the study date. Waikoloa Heights anticipates commencement of its first phase in 2007. These projects will provide a maximum of 3,456 additional total residential units to the village

TABLE 5

RECENT SINGLE FAMILY RESIDENTIAL DEVELOPMENTS IN WAIKOLOA VILLAGE

Market Study of Proposed Waikoloa Highlands Subdivision

Waikoloa Village, South Kohala, Hawaii

Location	**WEHILANI @ WAIKOLOA WAIKOLOA VILLAGE**	**17th FAIRWAY VILLAS WAIKOLOA VILLAGE**	**SUNSET RIDGE WAIKOLOA VILLAGE**	**KILOHANA KAI WAIKOLOA VILLAGE**
Year Constructed Began/Planned	2005	2003-04	1989	2003-2004
Number of homes (in-place/potential)	0/473	27/27	81 / 201+	150/230
Project Style	Mixed SF and MF	Detached Town homes	Single Family Homes	Vacant Lots / Single Family
Bed/Bath (current models)	3/2 - 4/3	3/2	3/2	3/2 to 4/3
Finished Home Price Range	$515,000 to $619,000	$409,800 to $449,800	$525,000 to $760,000	$515,000 to $719,000
Lot Size	10,000 - 14,000 Square Feet	3,300 - 5,200 Square Feet	10,000 to 30,000 Square Feet	10,000 to 50,000 Square Feet
Living Area in Square Feet	1,560 to 1,987	1,258	1,572 to 1,798	1,565 to 2,375
Indicated Price per Square Foot	$312 - $355	$326 - $358	$334- $423	$320 to $447
Marketing Insights	Most demand oriented to MF.	Strong demand during high period.	Market has softened last 6 mos.	Market slightly off in recent mos.
	Lower-price homes selling best.	Units on golf course highest demand	Investor segment most affected.	But interest high for coming phase.
	Mixed views limits demand.	Limited views, but larger lots hotter.	May drop low prices to $505,000.	No softening in prices…yet.
	All Own/Occ per restrictions.	40% Own/Occ, 25% Investor and	Huge demand for good view lots.	Huge demand for good view lots.
	Buyers asking about larger lots.	35% second home.	Large lots also in demand.	"Best views" in Waikoloa.
	All 2-car garages.	Sold out in a month.	Own/Occ and 2nd home still good.	Some investors demand remains.
	10 of 16 in first phase "sold".	Re-sale prices up 20+%	3-car garage desired feature.	Large lots , 3-car garage in demand.
Realtor	Castle & Cooke	Golden Triangle Realty	Golden Triangle Realty	Several (lead Hawaiian Homes)
Developer	Castle & Cooke / Kona Coast	Towne Development Group	Towne Development Group	Various
Builder/Contractor	Castle & Cooke	Towne Development Group	Towne Development Group	JV of realtors/builders
Community Amenities	Comm. Ctr & landscaped entry	None	None	None

TABLE 6

SUMMARY OF MAJOR IN-DEVELOPMENT & PROPOSED WAIKOLOA VILLAGE RESIDENTIAL DEVELOPMENTS
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii
INCLUDES THE SUBJECT PROPERTY

Development/Project	Proposed/Remaining Units (1) Single Family	Multi-Family	Total	Type	Timing	Comments
1. Fully Approved, Moving Forward						
Wehilani at Waikoloa	473	283	756	SF w/ 10,000 SF min. lot MF at 8 to 10 units/acre	Phase I infrastructure underway, with initial product (afford.-MF and mkt-SF) being offered. Build-out in circa 6 years.	Deed-restricted community, owner-occupants only for one year minimum. Currently offering three products: Aff-MF at $167,000 to $249,000; Mkt-MF at $309,000 to $389,000; SF at $515,000+
Sunset Ridge	120 (2)	0	120	SF w/ 10,000 SF min. lot Selected lots to 30,000 So	Phase I commenced in 1989. Had difficulties in mid-1990s. 81 homes completed in prior phases.	Phase I fast sell-out, II prolonged, III quickly in 2004. Standard subdivision, no amenities. From $485,000.
Kilohana Kai	80	0	80	19 lots and 61 finished homes from 10,000 SF to 1.25 acres	Second (and final) phase of 230 lot/home project began in 2004. Full-sell out by end-2006.	Rapid sell-out first phase, most homes being built now. Phase II infrastructure underway. Lots up to $325,000, homes at $598,000 and up. Several builders.
Waikoloa Heights (Subject)	2,500	0	2,500	SF w/ 10,000 SF min. lot Planned Unit Development	First phase in 2007. Build-out to require circa decade-plus.	Long-zoned (1969) northerly expansion area of village. Includes commercial, park, and community components. Prices expected at $600,000 to $800,000+.
Sub-Total (estimated unit mix)	**3,173**	**283**	**3,456**			
2. Proposed, Seeking Entitlements						
Waikoloa Highlands	398	0	398	1/2 acre and up "estate lots" Low density much open space. Began entitlements in 3/06.	Seeking "Ag" to "Rural" SLU change. Phase I planned in 2007.	Initial 700 acres of 2,000 acre holding located mauka/southerly of village. Additional units over long-term. Lot price expected at $350,000-plus.
State of Hawaii/Hawaii County	225	0	225	Small, "affordable", deed-restricted homes. Project planning re-commenced 3/06.	Has been "on hold" for 15 yrs due to Village CC&R /other issues	Public agency development. First 56 acre phase of 300 acre project. Prices expected at $250,000 to $350,000.
REGIONAL TOTALS	**3,796**	**283**	**4,079**			
3. Other, Inactive Holdings						
Waikoloa Development Company	N/A	N/A	N/A	Partially-entitled land near existing Village. Likely use is for medium to low density SF homes.	Portion of 20,000+ acres of lands remaining under original master developer control. Recently offered for sale as part of bulk holding.	There have been no announced plans to seek near to mid-term development of this property. At best, it is likely 10+ years away from any actualization.

(1) Unit counts and absorptions are estimates based on discussions with developers, brokers and County agencies and website data.
(2) Final unit count depends upon densities of unplanned final phase. 200 total homes in initial and current phases.

Source: County of Hawaii General Plan, Development brochures & websites, project brokers, and The Hallstrom Group, Inc.

inventory; 3,173 single family homes (91.8 percent of the total) and 283 multi-family units (8.2 percent).

The middle part of the table displays two projects which are proposed and currently seeking entitlements; the subject subdivision and a public "affordable" housing development. Together, they will add an additional 623 single family homes/lots to the community. However, the public agency project will not be a "market" offering; having selling prices established based on household income formulae and with purchase being limited to local resident families.

It is improbable that all of this inventory will be built, as master plans evolve over time and actual densities invariably fall short of utmost approvals. Further it is unlikely that all of the product will be built within the study time-frame; as Waikoloa Heights, the public project, and the Waikoloa Development holding could easily extend to circa 2025 or beyond.

Based on our investigation, we estimate the potential supply of new housing in the Waikoloa Village over the next 20 years, apart from the subject holding and assuming the other projects move reasonably forward into subsequent phases, will be about 3,681 total units; with an outside chance of an additional units on the Waikoloa Development Co. site toward the end of the time frame.

Comparison of Demand and Supply Indicators

The demand for new housing opportunities in the Waikoloa Village study area over the coming 20 years, 2006 through 2025, is estimated at from 4,188 to 7,038 total new units, with a mid-point of 5,613 units.

The probable level of new inventory additions during the same time frame will be a maximum of 3,681 units, if all approved developments are built to absolute top densities. However, it is likely a smaller number will be actualized.

Therefore, approved supply will fall short of projected demand by at least 507 (minimum) to 3,357 (maximum) housing units during the next two decades without Waikoloa Highlands. The mid-point shortfall of supply relative to demand in the study area is forecast at 1,932 total new residential units.

Micro Analysis

The Waikoloa Village residential real estate market, like most sectors throughout the state, is currently in the midst of a major up-cycle. The increasing activity began in the late 1990s, was set back briefly by 9/11, and has reached record levels in 2005 before experiencing a slight drop-off in the first quarter of 2006.

Despite the recent minor slow-down since late 2005, sales volumes remain well above historic levels, average prices are at/near all-time highs, market times are below long-term trends, appreciation in recent years has been substantial, and realtors report continuing purchaser interest from most sectors (although the "investor" segment has weakened of late).

Single family residential market activity data in the study area from 2000 through 2006 (based on extrapolation of data through March) are summarized on Table 7. We note, the statistics are extracted from the Big Island Multiple Listing Service database and do not include all original sales of new inventory; thus, there is a meaningful understatement in the number of sales and total sales volume, and likely in average sales prices.

During this period sales volumes of village homes more than tripled to $80 million annually in 2005 and average sales prices have increased by 134 percent to $566,877, an effective appreciation rate of 15.2 percent compounded annually over the past six years.

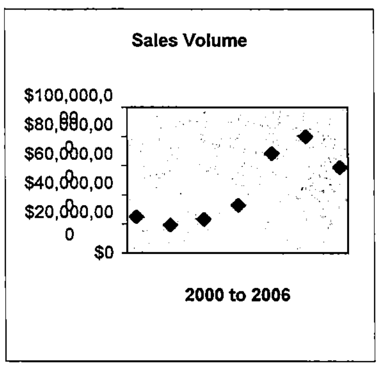
House lot activity for the same period is displayed on Table 8. The rate of expansion in this sector has also been exceptional, although it has been limited by a lack of inventory as finished home construction has become the primary goal of most developers. Sales volumes have grown nearly four-fold from 2000 to 2006 reaching $12 million per year, and average sales prices are up more than five-fold reaching $272,409 per lot, equating to an appreciation rate of 34.5 percent annually.

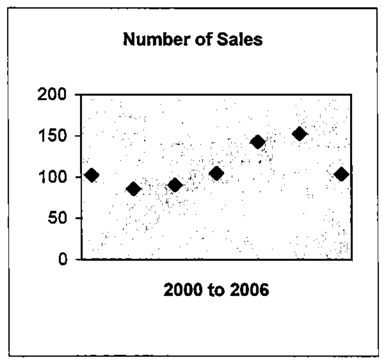
Despite the minor drop-off, 2006 will be among the strongest years in village residential real estate; below the record-setting heights of 2005, but still far above historic market trends. We uncovered no indicators in our research and interviews which demonstrated anything other than the subject area being in the midst of a continuing long-term up-cycle.

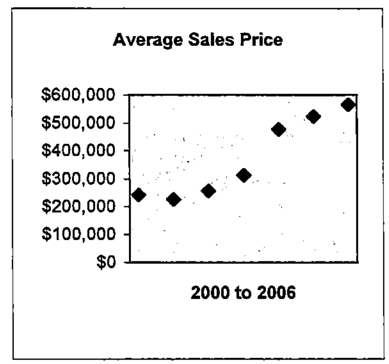
TABLE 7

SUMMARY OF SUBJECT AREA SINGLE FAMILY RESIDENTIAL MARKET ACTIVITY
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii
Includes Waikoloa Village Only

Year	2000	2001	2002	2003	2004	2005	2006 (1)
Sales Volume	$24,932,460	$19,453,550	$23,436,532	$32,970,930	$68,347,849	$79,989,150	$58,955,200
Percent Annual Change		-22.0%	20.5%	40.7%	107.3%	17.0%	-26.3%
Number of Sales	103	86	91	105	143	153	104
Percent Annual Change		-16.5%	5.8%	15.4%	36.2%	7.0%	-32.0%
Average Sales Price	$242,063	$226,204	$257,544	$314,009	$477,957	$522,805	$566,877
Percent Annual Change		-6.6%	13.9%	21.9%	52.2%	9.4%	8.4%







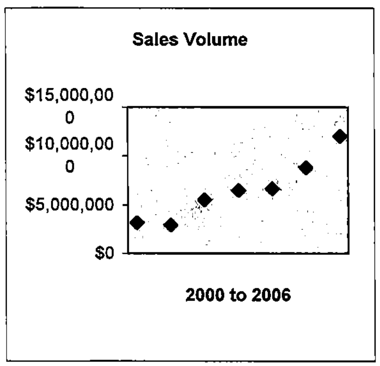
(1) Year-end estimate based on extrapolation of data through March.

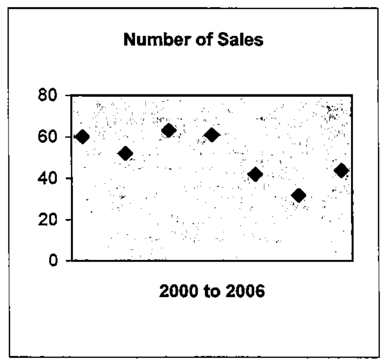
Source: Hawaii Information Service, Big Island MLS and The Hallstrom Group, Inc.

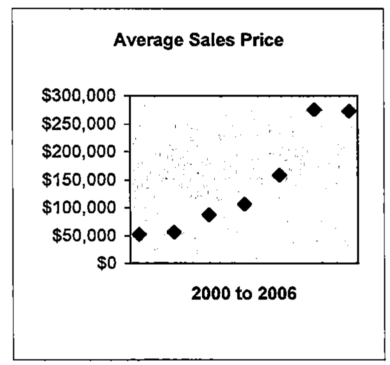
TABLE 8

SUMMARY OF SUBJECT AREA VACANT LOT MARKET ACTIVITY
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii
Includes Waikoloa Village Only

Year	2000	2001	2002	2003	2004	2005	2006 (1)
Sales Volume	$3,154,650	$2,955,800	$5,525,779	$6,479,500	$6,658,500	$8,803,513	$11,986,000
Percent Annual Change		-6.3%	86.9%	17.3%	2.8%	32.2%	36.2%
Number of Sales	60	52	63	61	42	32	44
Percent Annual Change		-13.3%	21.2%	-3.2%	-31.1%	-23.8%	37.5%
Average Sales Price	$52,578	$56,842	$87,711	$106,221	$158,536	$275,110	$272,409
Percent Annual Change		8.1%	54.3%	21.1%	49.3%	73.5%	-1.0%







(1) Year-end estimate based on extrapolation of data through March.

Source: Hawaii Information Service, Big Island MLS and The Hallstrom Group, Inc.

The primary concerns expressed were lack of product diversity, high prices and rising mortgage rates.

We conclude the micro analysis perspective also provides strong market support for the proposed Waikoloa Highlands project.

SUBJECT SITE APPROPRIATENESS AND ABSORPTION CONCLUSIONS

Appropriateness of the Subject Site for the Proposed Use

The 700-acre subject property presents a superior opportunity to meet the existing and projected shortfall in residential real estate in the Waikoloa Village, specifically addressing an expressed need for larger lots and ownership opportunities outside the "cookie cutter" single family inventory which presently dominates the community.

The availability of a more diverse product type is essential if the village is to reach its potential within the regional marketplace. A vibrant community requires a broad range of housing types, from affordable condominiums to upper-end single family homes, in order to reach its full "operating" potential.

Such diversity will bring a broader range of economic resources, creative energies, and public opinions to Waikoloa, and attract households which currently cannot find their desired level of product.

Further, the availability of some upper-end lots (and eventually homes) will attract the interest of non-resident buyers, who typically have more capital resources than local households, away from the village core; leaving the more moderately priced inventory for the housing of resident families. This is essential in lowering the ever increasing competition from outside purchasers for the scarcer, "more affordable" units.

Additionally, the Waikoloa Highlands site has the fundamental attributes to become a successful subdivision from a market perspective. It has/is:

- The necessary physical traits (size, shape topography) to support large-scale competitive residential development.

- Direct access onto the main arterial in the region (Waikoloa Road).
- Proximity to the Waikoloa Village community core.
- Access to existing utility systems.
- An expanding regional resident population nearby.
- Long been planned for large-lot residential use, as indicated by the land use classifications for portions of the holding and past announcements regarding the development of the site.
- It is nearby the primary retail/restaurant/service development in the community (Waikoloa Village Center) and major regional recreational amenity (Waikoloa Village Golf Course and Club).
- It will have extensive greenbelts, open spaces and view corridors within the subdivision; traits lacking in the existing village developments.

The proposed Waikoloa Highlands master plan embodies characteristics that will prove desirable to a an expanding segment of rural/residential purchasers seeking larger lots in the subject study area.

A comparative matrix of the characteristics for the major in-development and proposed residential projects in Waikoloa Village (including the subject) is shown on Table 9.

Subject Absorption Estimates

Given the evident level of support for the proposed subject inventory from both macro and micro perspectives, as demonstrated by our market study, and that the underlying site is highly appropriate for the envisioned development, it can be readily opined the 398 lots of the Waikoloa Highlands subdivision will achieve reasonable market success upon offering.

This conclusion is supported through summary application of several techniques, as discussed following.

TABLE 9

MAJOR COMPETITIVE PROJECTS COMPARATIVE MATRIX
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii

Project Name	Wehilani at Waikoloa	Sunset Ridge	Kilohana Kai	Waikoloa Heights	SUBJECT PROPERTY Waikoloa Highlands
Location	Waikoloa Village	Waikoloa Village	Waikoloa Village	Waikoloa Village	Adjacent to Waikoloa Village
Status	First Phase in Development	Began in 1989, Half Through	Final Phase in Development	Groundbreaking to be in 2007	Proposed Needs Entitlement
Current Price Range					
Multifamily	$167,000 to $389,000		Lots $289,000 to $325,000		
Single Family Price per Square Foot	$515,000 to $619,000 $312 to $355	$525,000 to $760,000 $334 to $423	Homes $515,000 to $719,000 $320 to $447	Homes $550,000 to $1,000,000+ $340 to $450	Lots to be $350,000 and up Finished homes $700,000 to $2.5 M
Characteristics					
Density Level	Moderate	Maximum	Maximum	Moderate	Low
Open Space Allowance	Limited	None	None	Moderate	High
Product Diversity	High Affordable MF to Market SF	Limited SF homes in tight range	Limited SF in tight range. Some lots.	Moderate SF in broad market range.	Limited Estate Lots Only
Product/Models Quality	Good Aff. aspects limit quality	Average to Good Models & cons. Disappointing	Good-Plus Well-designed, built homes	N/A (no product yet available)	N/A (Lots Only)
Product Appeal	High Master plan, nice look, high demand affordable component	Moderate Standard subdivision, no frills, avg. look, some good views	Moderate to High Standard subdivision, no frills, good look, most good views	High Will have open space, commercial, standard theme, some good views	Moderate to High Will have open, equestrian look, some good views
Deed Restrictions	Yes. Owner/Occ 1st year	No	No	No	No
SF Lot Sizes/Issue	10,000 SF to Mod. Larger Not an issue yet in marketing	Most 10,000 to 12,000 SF, some 30,000. High demand larger lots.	Most 10,000 to 12,000 SF, some 50,000. High demand larger lots.	Most 8,000 to 20,000 SF (avg. of 12,000) some larger high demand.	25,000 SF and up. Project based on anticipated demand for large lots.
Community Amenities	Limited to Community Center and Landscaped Entry	None	None	Trails, Parks, Open Space and Recreation & Community facilities.	Trails, Greenbelts, Open Space and Common Elements
Community Exclusivity	Moderate. Has separate entry with signal	Low Just another Village subdivision.	Low Just another Village subdivision.	Moderate to High. Separated by entry from Village development.	Moderate to High. Away from existing Village development
Pricing Demographic	Wide appeal from affordable to mid-level.	Limited to mid-level	Limited to mid-level	Moderate with Mid to upper-level	Limited to upper-level
Buyer Demographic	100% Owner/Occupant thus far as required.	50% Own/Occ; 35% Investor and 15% second home	60% Own/Occ; 30% Investor and 10% second home	50% Own/Occ; 40% second-home and 10% investors.	50% Own/Occ; 40% second-home and 10% investors.
Market Acceptance	High	Moderate, and declining with emerging competition	Moderate	N/A	N/A
Pricing Appropriateness	Competitive to Under-Priced	Competitive to Over-Priced (Dropping Prices in Next Release)	Competitive	Likely Competitive, widening of standard market sector	Likely Competitive, testing new market sector

Source: Project developers, brokers, brochures, websites, and The Hallstrom Group, Inc.

- The Gross Analysis Method. This is both the simplest and most fundamentally insightful method. It is a mere comparison between demand (for additional units) and supply (proposed units) indicators. If there is more potential demand than potential units, it can be asserted there will be sufficient demand to absorb portions or all of the proposed subject units.

  As our market analysis demonstrated, the supply of proposed residential units (homes, lots and condominiums) in Waikoloa Village will be insufficient to meet forecast regional requirements. The estimated mid-point demand for study area dwelling units over the next 20 years (through 2025) is some 5,613 units. If all of the proposed non-subject units are built, the total would be a maximum of 3,681 units; nearly 2,000 less than demand.

  Even with the 398 Waikoloa Highlands lots, the sector will still be underserviced by more than 1,500 units during the projection period.

  A 2,000-unit undersupply divided by 20 years, equals an average undersupply of 100 units per year. The 398 subject "units" (lots) represents about four years worth of needed supply to match forecast mid-point demand.

  This gross analysis indicates the subject units could reasonably be absorbed, regardless of any additional competitive advantage the inventory may have.

- The Residual Method. In this technique, all of the identified competitive approved resort/residential projects in the study area are placed on a time-line depicting the sales absorption anticipated by the developers, as evidenced by our market survey, or as can be reasonably assumed through historic activity. To the extent these projects fall short of the forecast periodic demand for units in the study region, or exceed the total demand, an undersupply or oversupply situation respectively exists.

  By accounting for the total of the units likely to be built in the competitive market during the projection period, it can be reasonably asserted the subject development will "capture" a significant portion of any residual demand. This approach is generally conservative, as it assumes the subject will capture only what is leftover after the other projects garner their anticipated share.

The tabular presentation of this method for the subject units is shown on Table 10.

Each of the identified sources of competitive additional supply are shown at the top of the table along with the reasonably anticipated number of units we consider likely to be constructed, and their periodic absorption over the projection period timeframe. The total demand forecast is shown at the bottom of the respective table, with the resulting over/under supply totals for each period and the residual demand level for the subject product under several capture rate assumptions.

In no single period is there an oversupply situation. In every period during the two-decade projection timeframe demand will exceed supply without the subject inventory.

This method indicates the 398 subject lots will require about four to five years to be absorbed.

- The Market Shares Method accounts for the probable competitiveness of the subject residential product regardless of the total level of other inventory being offered. In essence, it is an estimate of how much of the total residential demand in Waikoloa Village the subject could expect to achieve on an annual basis in light of its locational, pricing, and amenity characteristics.

  This "pure competitiveness" technique is generally moderate to optimistic in application and requires some subjective variables, but is perhaps the most appropriate and "classic" approach.

  Given the type, location and amenities of the proposed subject product and competitive market, we believe the Waikoloa Highlands lots could readily achieve an average share of about 22 percent of the total competitive demand during its sales period. The annual capture rate would range from 15 to 27.5 percent of the entire Waikoloa Village residential market.

TABLE 10

PROJECTION OF SUBJECT UNIT ABSORPTION USING THE RESIDUAL METHOD BASED ON TOTAL DEMAND FOR RESIDENTIAL HOUSING IN THE WAIKOLOA VILLAGE STUDY AREA
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii
Approved/Announced Units Only, Assuming Mid-Point Demand Trends

Project	TOTAL UNITS	2006-2010	2011-2015	2016-2020	2021-2025
Wehilani @ Waikoloa	756	500	256		
Market Share Percentage		49%	16%		
Sunset Ridge	120	120			
Market Share Percentage		12%			
Kilohanai Kai	80	80			
Market Share Percentage		8%			
Waikoloa Heights	2,500	300	1,200	1,000	
Market Share Percentage		29%	74%	91%	
Govt. Affordable Project	225		150	75	
Market Share Percentage			9%	7%	
Other Minor Projects/In-Fill	100	25	25	25	25
Market Share Percentage		2%	2%	2%	100%
Totals	**3,781**	**1,025**	**1,631**	**1,100**	**25**
Village Housing Unit Demand	**5,613**	**1,450**	**1,357**	**1,485**	**1,321**
Shortage or (Excess) Supply	**1,832**	**425**	**(274)**	**385**	**1,296**
Potential Waikoloa Heights Residual Subject Demand					
at 100% Capture Rate	1,832	425	-274	385	1,296
at 97.5% Capture Rate	1,786	414	-267	375	1,264
at 95.0% Capture Rate	1,740	404	-260	366	1,231

SUBJECT INDICATION: If the first subject finished home sales began closing in 2008, as anticipated, it would require approximately 12 to 14 year However, this assumes the subject is basically "non-competitive" and receives only the residual (or left over) deman Given its competitive capacity and market demographics, a shorter absorption period is probabl(

Source: County of Hawaii, Developers/Agents, & The Hallstrom Group, Inc.

This capture rate, which is reasonable given historic sales standards and the competitiveness of the limited alternatives, would equate to a 21.8 percent share during a mid-point 6.5-year sell-out period. This equates to an average absorption of 61 lots annually.

We consider the stabilized market share rate to be moderate based on the availability of competitive inventory and their anticipated sales rates. As shown in the residual method, during the subject sales period, there will be only a handful of projects competing for market shares, and just achieving a "fair split" of the demand (regardless of the favorable competitiveness of the subject inventory) will generate capture rates at the projected levels.

Table 11 displays the subject unit market capture absorption forecasts.

Based on our analysis, we forecast the 398 "rural" subject lots will be absorbed in a four to six-year timeframe from initial offering.

These conclusions based on mid to long-term forecasting models are understated relative to existing vibrancy of the West Hawaii real estate market. Certainly, the current up-cycle could rapidly absorb the subject inventory if the pre-sale program is timed correctly.

ECONOMIC IMPACT OF THE PROPOSED DEVELOPMENT

The development of the Waikoloa Highlands subdivision will generate significant efforts and expenditures that will favorably impact the Big Island economy on both a direct and indirect basis, increasing the level of capital investment, capital growth and capital flow in the region. The project will pump millions of dollars into West Hawaii, expanding the economy, widening the tax base and creating stable long-term employment opportunities.

From a direct perspective, the proposed 398 rural residential lots and homes eventually built there-on will create numerous construction, equipment operator and specialty trade jobs on- and off-site during the planning and emplacement of the infrastructure, and building of the improvements. After completion of the homes over an estimated ten-

TABLE 11

SUMMARY OF SUBJECT PROJECTED DEMAND LEVELS
USING THE MARKET SHARES METHOD

Market Study of Proposed Waikoloa Highlands Subdivision

Waikoloa Village, South Kohala, Hawaii

Assuming 398 Total Single Homes

With Sales to Begin in 2007; First Closings in 2008

Scenario One: Using Conservative Assumptions

Sales Year		Total Waikoloa Village Residential Demand	Effective Subject Share	Indicated Total Subject Absorption
1	(2007)	225	15.00%	34
2		225	20.00%	45
3		225	25.00%	56
4		225	25.00%	56
5		196	25.00%	49
6		196	25.00%	49
7		196	25.00%	49
8		196	25.00%	49
9		196	5.50%	11
Totals		**1,880**	**21.17%**	**398**

8.2 year absorption period

Scenario Two: Using Optimistic Assumptions

Sales Year		Total Waikoloa Village Residential Demand	Effective Subject Share	Indicated Total Subject Absorption
1	(2007)	355	17.50%	62
2		355	22.50%	80
3		355	27.50%	98
4		355	27.50%	98
5		347	17.50%	61
Totals		**1,767**	**22.52%**	**398**

4.7 year absorption period

ANALYSIS MID-POINT			
6.5 year absorption period	**1,824**	**21.83%**	**398**

Source: The Hallstrom Group, Inc

year development period, there will be significant additional employment positions created via the buildings themselves; such as landscape, service, maintenance, and renovation needs in the course of their use.

Numerous local businesses will enjoy significant profit opportunities arising for contracting companies constructing the improvements, and for local businesses which would supply a substantial portion of the materials needed in the building efforts.

The general island economy also will benefit from the subject development and resulting wage earners, which will spend large amounts of their income in regional shops, restaurants, and service establishments throughout the Big Island, and in purchasing day-to-day goods and services.

Indirectly, as these construction wages, profits, and resident expenditures move through the West Hawaii economy, they will have a ripple, or "multiplier," effect--increasing the amount of capital flowing to the entire island community as a result of the subject undertaking.

Construction, maintenance and other secondary/support workers earning wages from the Waikoloa Highlands and associated off-site efforts will spend the majority of their income on living and entertainment expenses while supporting and patronizing other island businesses, as will the moderate to upper income guests and residents of the community. Much of this spending would then be re-directed by these businesses to other island industries, with significant portions of these secondary profits in turn being put back through the region's economic and tax structure.

These substantial direct and indirect economic impacts associated with the proposed subject project, as quantified in the following sections, are all the result of the capital investment and entrepreneurship necessary to convert a vacant unused holding to a rural residential community. The Big Island economy will be meaningfully stimulated by the capital investments and maintenance requirements of the owners and guests.

Capital Investment and Construction Costs

The subject development will bring an estimated $340.3 million in direct construction capital into West Hawaii over the ten-year build-out period forecast for the project. A breakdown of the basic expense items, their respective costs and expenditure over time is summarized on Table 12. As with all our models, a ten-year total projection timeframe is used depicting the development, absorption and stabilized use of the community over the initial decade.

Also shown are anticipated contractor and supplier profits flowing to local businesses as a result of the project. Cost estimates and allowances were founded on our recent experiences with similar scale neighbor island residential subdivisions and tract and custom home developments, formulated and applied as described in the table footnotes.

Infrastructure sitework expenses were allocated at $150,000 per lot, pending completion of final figures by the engineering team. The total outlay of $59.7 million will occur over two sequential phases anticipated to require some 30 total months from initial groundbreaking (year 1 of the model).

Home construction costs were estimated at a total of $280.6 million in current dollars.

The single-family homes were estimated to have a current average construction cost of $705,000 each, based on a 2,100-square-foot house at $300 per square foot with an additional $75,000 per lot in utility extensions, septic system, sitework and landscaping. The total single-family home construction cost is projected to be $280.6 million.

It is expected the home types at Waikoloa Highlands will vary widely, from "smaller" houses (say 1,500 square feet costing $350,000) to "estates" with construction costs running into several million dollars. The "average" size and costs utilized are expected to be the most common (model) and median area of the overall spectrum.

Not included in the totals are indirect costs such as marketing and sales expenses, developer fees, loan interest and other non-real property items. The inclusion of these "soft cost" could result in a total capital investment undertaking approaching $360 million.

TABLE 12

CONSTRUCTION COSTS AND CONTRACTOR AND SUPPLIER PROFIT ESTIMATES
Economic Impact Analysis and Public Cost/Benefit Assessment
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii
In Constant Year 2006 Dollars

Development Year	1	2	3	4	5	6	7	8	9	10	Totals
	Phased Infrastructure Emplacement (Approx. 30 Months)										
	Infrastructure Begins	First Homes Finished (End Year 2)	Remaining Lots Sold and Finished Homes Built								
Construction Costs											
Infrastructure/Site work (1)	$19,701,000	$25,074,000	$14,925,000								$59,700,000
SF Construction -- 398 homes (2)		$24,675,000	$28,200,000	$35,250,000	$35,250,000	$35,250,000	$35,250,000	$35,250,000	$28,200,000	$23,265,000	$280,590,000
TOTAL CONSTRUCTION COSTS	$19,701,000	$49,749,000	$43,125,000	$35,250,000	$35,250,000	$35,250,000	$35,250,000	$35,250,000	$28,200,000	$23,265,000	$340,290,000
CONTRACTOR'S PROFIT	$1,970,100	$4,974,900	$4,312,500	$3,525,000	$3,525,000	$3,525,000	$3,525,000	$3,525,000	$2,820,000	$2,326,500	$34,029,000
SUPPLIER'S PROFIT	$788,040	$1,989,960	$1,725,000	$1,410,000	$1,410,000	$1,410,000	$1,410,000	$1,410,000	$1,128,000	$930,600	$13,611,600

(1) Allocation of $150,000 "all in" infrastructure costs per lot; pending completion of final cost estimates. Based on similar scale neighbor island subdivision
Phased subdivision construction period estimated at 30 months, commencing at beginning of model and completing by middle of Year 3.
(2) Assuming average home construction budget of $705,000 based on 2,100 square foot house at $300/SF cost plus $75,000 for septic, site work and landscaping.
First homes begin construction early in Year 2 and are finished by year-end.

Source: Waikoloa Highlands master plan, and The Hallstrom Group, Inc.

The direct costs of subject development will infuse an anticipated $34.3 million annually into the Big Island building industry on average over the build-out period. This is the equivalent of a nearly four percent boost over recent yearly construction levels on the island (estimated at $900 million in 2005). Indirect expenditures could reach up to an additional $3 to $5 million per year.

Employment Opportunities Created

Based on indicators provided by the construction of comparable sized projects and Hawaii industry averages, we have estimated the demand for on- and off-site, full-time equivalent employment positions associated with laying of initial infrastructure systems, building of the finished residential structures, and in providing continuing services to the occupied buildings.

The employment opportunities created by the construction of the subject and long-term maintenance, landscaping and renovations will not all be "new" jobs but will be enhanced opportunities for existing construction trade workers, youths reaching employment age and entering the "trades", and in-place local businesses.

The current construction upsurge has created a larger worker sector in the various trades, who will require continuing development activity across a broad spectrum of building tasks in coming years in order to maintain employment levels.

The subject will provide such mid to extended-term needed employment opportunities in the construction sector, and supply and building support industries during an estimated ten-year site development and home construction period.

Our employment estimates on are based on full-time equivalent "worker/years," although one worker/year (or circa 2,000 working hours) may be comprised of many employees involved in specialized tasks of a much shorter duration.

Estimates are based on a 10-year modeling period of project construction beginning with a first year of infrastructure emplacement (which continues for 30 months) followed by nine years of house building (model years 2 through 10). The associated number of employment opportunities created each year, in total over the decade development period and as stabilized annually are displayed on the top of Table 13.

Included in our projections on the table are the full-time equivalent (FTE) off-site and support employment opportunities which will be provided to Big Island businesses as a result of the project. Also shown are the total number of maintenance/landscaping workers which will be required to service homes in the subdivision over time.

The projections are founded on examples provided by various residential developments undertaken on the neighbor islands over the past decade, and via formulae expressing relationships between total worker wages/benefits and construction/operating tasks and costs.

Infrastructure and building construction employment forecasts are taken from job counts in similar scale developments, review of project budgets and ratios of direct costs to job creation (assuming an average wage of $60,000/year plus benefits equal to 25 percent of wages). Our analysis assumes one worker/year per $300,000 in construction contract spending for infrastructure positions and one worker/year per $225,000 in home construction contract spending.

Home "operations"/landscaping/maintenance workers in the finished homes, consisting of maintenance, landscaping, repair, installation and renovations efforts, were estimated at one full-time equivalent position per 10 houses. The average overall pay for these workers is estimated at $28,000 per year.

Off-site employees were estimated at 40 percent of on-site workers, and are comprised of three groups:

- Numerous off-site building industry positions will also be enhanced by the Waikoloa Highlands development, including such jobs as administration, office help, material providers, equipment maintenance and specialty tasks. Analysis of county of Hawaii and neighbor island labor trends from 1980 through 2005 demonstrate a linkage equal to about 20 to 30 percent between the creation of on-site construction positions and direct off-site employment.

- Off-site support businesses, including contractor/retail/counter sales, fuel providers, shipping, storage and professional services will also benefit. A conservative job creation

TABLE 13

EMPLOYEE JOB COUNT AND WAGE ESTIMATES
Economic Impact Analysis and Public Cost/Benefit Assessment
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii
In Constant Year 2006 Dollars

Development Year	1	2	3	4	5	6	7	8	9	10	Total 1 Through 10	Stabilized
Worker Requirements (1)												
Infrastructure/Site work (2)	66	84	50								199	
SF Home Construction (3)		110	125	157	157	157	157	157	125	103	1,246	
Operations/Maintenance (4)			8	13	18	23	28	33	36	40	195	40
Off-Site Employees (5)	26	77	73	68	70	72	74	76	64	57	656	16
TOTAL EMPLOYMENT CREATED	92	270	255	237	244	251	258	265	225	200	2,296	56
Worker Wages												
Infrastructure/Site work (6)	$3,940,200	$5,014,800	$2,985,000								$11,940,000	
Home & Unit Construction (6)		$6,573,000	$7,512,000	$9,390,000	$9,390,000	$9,390,000	$9,390,000	$9,390,000	$7,512,000	$6,197,400	$74,744,400	
House Operations/Maintenance (7)			$210,000	$350,000	$490,000	$630,000	$770,000	$910,000	$994,000	$1,114,400	$5,468,400	$1,114,400
Off-Site Employees (9)	$840,576	$2,472,064	$2,335,360	$2,163,200	$2,227,200	$2,291,200	$2,355,200	$2,419,200	$2,056,960	$1,831,552	$20,992,512	$509,440
TOTAL ANNUAL WAGES PAID	$4,780,776	$14,059,864	$13,042,360	$11,903,200	$12,107,200	$12,311,200	$12,515,200	$12,719,200	$10,562,960	$9,143,352	$113,145,312	$1,623,840

(1) All job counts expressed as "full-time" equivalent positions.
(2) Estimated at one worker/year per $300,000 in contract spending.
(3) Estimated at one worker/year per $225,000 in contract spending, or 3.13 worker/years for each single family home.
(4) Estimated at one worker/year for each 10 houses. Includes workers doing landscaping, repair, renovation, and other maintenance.
(5) Includes all off-site jobs created by work efforts at the project; direct and indirect. Estimated at 0.4 off-site positions per on-site position.
(6) Average annual wage of $60,000/worker year.
(7) Average annual wage of $28,000/worker year.
(8) Average annual wage of $32,000/worker year.

Source: Various, and The Hallstrom Group, Inc.

relationship of five to ten percent relative to on-site positions was used (or, one off-site support worker/year for each ten to 20 on-site worker/years).

- Extrapolation of state Department of Business Economic Development and Tourism (DBEDT) data, along with indicators provided by other state agencies and First Hawaiian Bank studies, demonstrate that each Hawaii worker creates demand for services (and related employment) during and directly attributable to the work day at up to a ten percent ratio. These positions include food businesses, providers of tools and trade goods, payroll/financial and insurance businesses, medical requirements and other secondary indirect/off-site employment.

During the 10-year construction modeling period of the project, the number of worker/years created on- and off-site by the development varies from 92 to 265 positions annually, totaling 2,296 worker/years over the entire projection timeframe. Of this total, 1,445 worker/years (an annual average of 145 positions during the ten-year construction period) are direct construction-oriented, 195 are on-going maintenance/operating positions; and 656 are off-site worker requirements.

On a stabilized basis after the modeling timeframe, the subdivision will generate some 56 permanent full-time equivalent and/or enhanced employment opportunities--40 directly related to on-site activities, and 16 indirect positions throughout the island.

The average annual on-site job count during the 10-year subject study period of 164 positions represents about a 0.26 percent increase from the total jobs presently available on the Big Island (164 additional jobs per year to the average in December 2006 job count of 63,500). Despite low unemployment rates of late, this number can be readily absorbed by the currently available worker pool.

Wage Income Generated

In accordance with data compiled by the state Department of Labor and Industry Relations, we have estimated the personal income (in the form of wages) which will flow to West Hawaii workers as a result of the Waikoloa Highlands subdivision.

The average wage of a full-time infrastructure construction worker is estimated at $60,000 per year (rounded) based on DLIR data for April 2006. For finished building construction workers, the average annual pay will also be about $60,000. Operating and maintenance personnel are forecast to be paid an average of $28,000 per year on average ($14 per hour). Off-site building and support industry jobs were estimated to receive an average pay of $32,000 annually.

Overall project average wages are equal to $49,279 per worker/year created during the model period, and $28,997 on a stabilized basis.

Application of these wage estimates to the employment forecasts generates personal income (wage) projections directly resulting from subject development, which were shown at the bottom of Table 13. The wage figures are all presented in constant 2006 dollars, and will undoubtedly escalate over time in accordance with inflationary pressures.

In the first year of development, the "Total Annual Wages Generated" by the subject development effort would be $4.8 million, increasing to a high of $12.7 million, as the number of construction workers peak and many maintenance positions are created in year 8. After completion of all construction, the on-going maintenance, off-site/indirect and other employment would result in average annual wages of $1.6 million thereafter.

Over the first 10 years of the development and operation period, on- and off-site, direct and indirect worker wages would total $113.1 million.

Development Costs as Profit Income

While the significant majority of the materials needed to build the subject homes must be imported to the Big Island, a portion of the construction costs spent in the development will flow to local businesses in the form of contractor profits and supplier profits.

Typically, within the industry net contractor profit margins are expected to be at 8 to 20 percent of total construction costs. We have used a conservative ten percent figure. Supplier profits were extrapolated at four percent of total costs; generally supplies/materials equate to 50 to 60 percent of total cost, with a profit margin for the supplier of six to eight percent.

Application of these estimates to the forecast development parameters of the subject project was shown on Table 12.

The total Contractor's Profit ranges from $1,970,000 to $4.97 million per year, with a cumulative profit of $34.0 million over the ten-year construction period. The total annual Supplier's Profit ranges from a low of $788,040 to a high of $2.0 million, and equates to $13.6 million over the development time-frame.

Population, Income and Expenditures

The 398 subject lots (and eventual homes thereon) will be owned by a variety of local residents, second homeowners and in-migrants. Together these groups and guests will contribute to the Big Island economy during the use of the subject units in the form of discretionary expenditures and (for full-time residents) household income levels.

Table 14 displays our population, discretionary expenditures, and household income estimates for the subject project.

For the single-family homes, it was estimated that 60 percent would be used by full-time residences and 40 percent by part-time/second home users. For the full-time component, an average household size of 3.8 persons was assumed. For the part-time users, it was estimated the homes would be occupied 20 percent of the time with an average party size of 3.8 persons.

Beyond these standard allowances would be extra guests in the households. It was estimated the average guest population in the subdivision would equate to one person per 10 finished homes on average.

At built-out, the stabilized de facto population of the project would be some 1,068 persons, comprised of 907 full-time residents and 161 second-home owners and guests, divided as follows:

Single-Family Full-Time Residents	907
Single-Family Part-Time Residents	121
Guests (Estimated at One Per 10 Units)	40
Total Average De Facto Population	**1,068**

TABLE 14

DE FACTO POPULATION, DISCRETIONARY EXPENDITURES AND RESIDENT HOUSEHOLD INCOMES
Economic Impact Analysis and Public Cost/Benefit Assessmen
Market Study of Proposed Waikoloa Highlands Subdivisio
Waikoloa Village, South Kohala, Hawai
In Constant Year 2006 Dollars

Development Year	3 (1)	4	5	6	7	8	9	Stabilized 10
Cumulative Residential Developmen								
SF Home Construction	75	50	50	50	50	50	40	33
Total Finished Homes	75	125	175	225	275	325	365	398
Average Daily Resident/Guest Populatior								
SF Full-Time Residents (2)	171	285	399	513	627	741	832	907
SF Part-Time Residents (3)	23	38	53	68	84	99	111	121
Guests (4)	8	13	18	23	28	33	37	40
Total De Facto Population	201	336	470	604	738	872	980	1,068
Estimated School Age Children (5)	50	84	117	151	185	218	245	267
Estimated Public School Children (6)	44	73	102	132	161	190	214	233
COMMUNITY DISCRETIONARY (TAXABLE) EXPENDITURES (7)	$7,335,413	$12,225,688	$17,115,963	$22,006,238	$26,896,513	$31,786,788	$35,699,008	$38,926,589
Total Years 1 -10	$153,065,608							
FULL-TIME RESIDENT INCOME (8)	$9,000,000	$15,000,000	$21,000,000	$27,000,000	$33,000,000	$39,000,000	$43,800,000	$47,760,000
Total Years 1 -10	$235,560,000							

(1) Includes 35 homes finished at end of Year 2 and 40 homes finished in Year 3 of modeling perioc
(2) 60 percent of homes estimated to be used as full-time residences, with average household size of 3.8 person
(3) 40 percent of homes estimated to be used as part-time (second home) residences, occupied 20% of time with average party size of 3.8 person
(4) Estimated average guest population (not included in full-time or part-time categories) of 1 guest per 10 finished hom
(5) Persons between the ages of three and 19 enrolled in public and private schools, estimated at 25% of total full-time resident population.
(6) Persons enrolled in public schools, using Hawaii Department of Education "per home" demand factors. The department estimates that for every new single family home built, an additional .109 public elementary students are added to the system, .040 middle school, and .069 high school students. Given the type and demographics of the community, these demand factors may be overstated for Waikoloa Highlands.
(7) Estimated at 60% of full-time resident household income, and at $175 per capita daily for part-time residents and guest populations.
(8) Estimated at $200,000 annually per full-time resident household. This is approaching four times the Big Island average as would be necessary to support reasonable mortgage.

Source: Various, and The Hallstrom Group, Inc.

It is estimated that upon subdivision build-out and population stabilization about 267 of the full-time resident population (or 25 percent of the total) will be juveniles of school age.

In order to quantify the number of children attending public schools, we have used the State of Hawaii Department of Education "per home" pupil attendance factors for new construction. The DOE estimates each new single-family home results in .109 public elementary students, .040 middle school, and .069 high schoolers. The total attendance projection per home built is thus 0.218 public school students. Given the type, ownership and demographics forecast for Waikoloa Highlands, the effective public school load may be moderately overstated.

The population of the project will place significant discretionary expenditure dollars into the Hawaii County economy. In light of the cost of the finished homes, the residents and other users will be in the top household income brackets with substantial available income for such spending. The second home users and guests will further contribute to the high amount of discretionary funds.

We estimate that full-time resident households will spend about 60 percent of their total income on local discretionary items based on the most recent data. The daily per capita spending by second-home users, and their guests in the West Hawaii economy will be on average \$175, which is moderately above what the typical Big Island visitor spends daily on non-lodging purchases (commensurate with the relative upscale subject project quality). This pays for all food, entertainment, household goods, locally purchased fixtures and furnishings, utilities, clothing and other daily items.

By build-out, the total resident owner/guest discretionary expenditures made by subject project users in the local market will be at \$38.9 million annually on a stabilized basis, in 2006 dollars. During the 10-year development and operation model period, the total sum of these expenditures will be \$153.1 million.

The total full-time resident income amount was quantified for use in estimating discretionary expenditures and state income taxes to be paid. In order to conventionally qualify for a lot/home with prices likely to be sought for the subject houses, a household income approaching four times the islandwide average, or about \$200,000 per year, is necessary. We recognize this amount could range widely upwards, and consider this projection moderate.

On a stabilized basis after build-out, the total annual full-time taxable resident income at the subject would be some $47.8 million. The total subject household income during the decade long modeling timeframe will be some $235.6 million. Some of the resident and virtually all of the second home and guest expenditures will be "new" dollars on the Big Island, providing a true economic expansion.

Summary of Direct, Local Economic Impacts

The various direct, local economic impacts which will flow to the West Hawaii study region as a result of the subject development are summarized on Table 15.

The wages, profits and discretionary expenditures figures are taken from previously presented tables. The home maintenance, repairs and upgrades revenues were calculated based on an estimated average of $1,500 per home monthly beginning in year 3, or $7.2 million total annually on a stabilized basis.

The annual Total Base Economic Impact increases from $7.5 million in year 1 of the development effort to a high of $58.5 million in year 10 (in 2006 dollars). Over the decade long development and operation modeling period, the total is $409.3 million. Fueled by unit maintenance and resident/guest expenditures, the estimated stabilized annual base impact thereafter is $47.7 million.

These dollars will be spent, then re-spent, on goods and services on the island, diminishing in impact on the local economy with each turnover as a portion of each spending cycle flows off the Big Island for goods, services and financing commitments. First Hawaiian Bank studies have concluded the appropriate economic multiplier rates in Hawaii are from 1.2 to 3.5 times (or 20 to 250 percent) of the base impact amount. Mainland studies (by the Urban Institute and others) tend toward the upper end of this range, and reach multipliers as high as 4.0.

Due to the need to import more than 85-plus percent of supplies/goods used on the Big Island, the multiplier impact for the island is not as great as for mainland locales, particularly for construction-based

TABLE 15

SUMMARY OF ECONOMIC IMPACTS ASSOCIATED WITH DEVELOPMENT
Economic Impact Analysis and Public Cost/Benefit Assessment
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawai
In Constant Year 2006 Dollars

Development Year	1	2	3	4	5	6	7	8	9	10	Total Years 1 Through 10	Stabilized
ANNUAL WAGES GENERATED	$4,780,776	$14,059,864	$13,042,360	$11,903,200	$12,107,200	$12,311,200	$12,515,200	$12,719,200	$10,562,960	$9,143,352	$113,145,312	$1,623,840
CONTRACTOR'S PROFIT	$1,970,100	$4,974,900	$4,312,500	$3,525,000	$3,525,000	$3,525,000	$3,525,000	$3,525,000	$2,820,000	$2,326,500	$34,029,000	
SUPPLIER'S PROFIT	$788,040	$1,989,960	$1,725,000	$1,410,000	$1,410,000	$1,410,000	$1,410,000	$1,410,000	$1,128,000	$930,600	$13,611,600	
HOME MAINTENANCE, REPAIRS AND UPGRADES (1)			$1,350,000	$2,250,000	$3,150,000	$4,050,000	$4,950,000	$5,850,000	$6,390,000	$7,164,000	$35,154,000	$7,164,000
DISCRETIONARY EXPENDITURES			$7,335,413	$12,225,688	$17,115,963	$22,006,238	$26,896,513	$31,786,788	$35,699,008	$38,926,589	$213,353,523	$38,926,589
TOTAL BASE ECONOMIC IMPACT	$7,538,916	$21,024,724	$27,765,273	$31,313,888	$37,308,163	$43,302,438	$49,296,713	$55,290,988	$56,599,968	$58,491,041	$409,293,435	$47,714,429
Multiplier Effect Ratio	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
TOTAL OVERALL IMPACT	$15,077,832	$42,049,448	$55,530,545	$62,627,775	$74,616,325	$86,604,875	$98,593,425	$110,581,975	$113,199,935	$116,982,082	$818,586,869	$95,428,858

(1) Estimated at $1,500 per home per month, beginning in Year 3.

Source: Various, and The Hallstrom Group, Inc.

expenditures. We have therefore tested multiplier rates at the mid-point of the market spectrum, ranging from 1.5 to 3.5 times.

On a conservative basis, using a relatively low-end multiplier effect ratio of 2.0, the total overall direct impact on the island of Hawaii economy resulting from the Waikoloa Highlands subdivision would be $818.6 million over the 10-year projection period (in constant 2006 dollars). On a stabilized annual basis thereafter, the overall impact would be at $95.4 million.

PUBLIC COSTS/BENEFITS ASSESSMENT

The purpose of this analysis is to delineate the direct areas in which the proposed subject rural residential subdivision will potentially impact the sphere of public agency resources, and quantify (where possible) the costs of providing expanded services to the project, versus the economic benefits that accrue to the community through an increase in local and state tax payments.

For most developments, potential direct <u>costs</u> to governmental services and programs include:

-- Police Protection
-- Fire Protection
-- Public Oversight Agencies
-- Infrastructure Services
-- Recreational Demands
-- Educational Needs
-- Infrastructure Costs
-- Various Other Services and Financial Commitments

However, as a privately built master planned rural residential community many of these costs will not be increased on the state or county levels as a direct result of the proposed Waikoloa Highlands. There will be minorly increased educational or recreational needs directly attributable to the subject development; the major off-site public infrastructure items are already in place; and the development will require no specific public subsidies, welfare services, bonding or capital improvements.

Direct tax benefits to the state and county coffers will primarily flow from the project and its operation over time from three major sources:

-- Real Property Taxes
-- Gross Excise Tax Receipts
-- State Income Taxes

Some cost/benefit issues are considered as off-setting, or "a wash," as the cost of the services to the government is theoretically directly reimbursed in the form of user fees. Building permits and utility hook-up fees are two prime examples. Other such items include workers compensation premiums and benefits, utility operations and associated use billing rates, and business oversight/registration verses licensing fees. These items are excluded from this study.

A concern of this analysis is the integration of the subject project into the overall state and county of Hawaii governmental services plan on both an actual and pro rata perspective.

From an actual public service cost perspective to the Big Island and state agencies, the subject will represent only a fraction of the county and state residential inventory and overall urban lands in use. Given the vast number of housing units, resorts, businesses, and agricultural lands on the island, it is difficult to assert that of themselves the subject homeowners and users will create the need for meaningful expansion of existing public services.

No new schools, parks, highways, recreational facilities, service agencies, hospitals, or other public enterprises will be required specifically because of the Waikoloa Highlands subdivision. The impact on the total regional land base will be minimal. Public safety facilities in Waikoloa, Waimea and Kawaihae are reasonably proximate, generally have the personnel and equipment to service the businesses and buildings in the development, and will be expanded in the village with overall community growth over the next decade as the various other identified projects with their many thousands of units are built.

However, the need for additional services is a cumulative effect, each project, each resident, tourist and, to a lesser degree, business adds a little bit to the community base until increased "need thresholds" are reached.

In regard to some services, the effective actual impact of a minor/moderate subdivision such as the subject may not be apparent from a cost perspective, merely creating nominally greater demands which can be readily met through existing agencies and facilities without the need for additional workers or funds.

Our analysis of county of Hawaii and state budgets indicate the actual effect of governmental services relating to the subject would not create the need to expand county and state services in and of itself.

As an alternative to actual cost estimates, which are often disparate as they inherently cannot provide for unexpected and/or atypical items, it is most common to project public costs for a proposed development on a per capita allocation.

This approach is generally appropriate for residential subdivisions, as the substantial portion, but not entirety of public costs and services generally accrue to where a person lives (or in the case of a tourist, where they are lodging).

Government services are holistic in nature, providing a foundation throughout a community, regardless of actual, specific impact on any given land holding. A resort development or business may not have a need for parks or schools, but they are essential to the patrons and workers and create the climate in which the resort or business operates. Similarly, government administration, capital projects and public welfare items may have no direct relation to a particular project, but provide the economic underpinnings that enhances overall economic success and quality of life for its residents.

In order to meaningfully quantify public costs that may be associated with the subject development, we have therefore looked at the issue from both perspectives, on an actual cost basis and on a per capita allocation basis.

Public Costs

Actual Costs

The county of Hawaii will directly incur several areas of cost increases as a result of the Waikoloa Highlands subdivision, primarily in regards to emergency services. Based on analysis of response frequencies, time/cost data, and past discussions with affected agencies, we have made general allowances for these items as summarized below.

Police/Enforcement -- Using a base cost of $175 per hour for a responding officer (wages and benefits for responding/support/ administrative personnel, overhead, capital costs, and amortized equipment), we estimate the annual additional police/enforcement cost to the county of Hawaii on a stabilized basis after project build-out will be about $198,800.

This is comprised of:

- Four miscellaneous calls per week at an average of two total officer hours each. (2 hrs. x $175/hr. x 4 x 52 = $72,800)

- Four "minor" incidents/traffic accidents each month requiring on average five hours of officer time. (5 hrs. x $175 x 4 x 12 = $42,000)

- Two "major" incidents/traffic accidents each month requiring on average of 20 hours of officer time. (20 hrs. x $175 x 2 x 12 = $84,000)

This demand of 1,136 hours is the equivalent to 56.8 percent of one new full-time equivalent officer (2,000 total hours).

Fire Protection -- Our forecasts are based on a crew cost of $1,000/hour (four to five firemen, wages, benefits, overhead and amortized equipment). Using this method, we estimate that at build-out, the yearly additional costs to the county of Hawaii resulting from the Waikoloa Highlands is $168,000 per year.

This is comprised of:

- Two "minor" fire/rescue events per month requiring one crew for a total of three hours (response and/or clean-up). (3 hrs. x $1,000/hr. x 2 x 12 = $72,000)

- One "major" fire/rescue event every two months requiring two crews for a total of eight hours each. (2 crews x 8 hrs. x $1,000/hr. x 6 = $96,000)

Emergency Medical Response -- This is based on average cost per response of $700, with an average of four calls per month. The total cost to the county would be $33,600 per year on a stabilized basis after build-out. ($700/response x 4 per month x 12 = $33,600)

Road and System Maintenance -- The roadways and infrastructure system at Waikoloa Village are privately owned and funded by area residents. The county should have no substantial operating costs. However, we have made an allowance of $50,000 per year for inspections and various oversight duties.

The total annual "actual" cost to the county on a stabilized basis at build out of the subject development is estimated at $449,600. This cost would be reached on an escalating basis over time, beginning in year 3 and increasing as the community is finished and populated.

State of Hawaii costs would include nearby highway frontage work (Queen Kaahumanu and Mamalahoa), inspections and other minor oversight duties. An allowance of $100,000 per year was made for these items, increasing to the stabilized level as the project is built out.

Additionally, it is possible that up to 233 resident children (the count projected by the DOE formula) could enter the public school system. The cost per student in public schools statewide is presently at above $10,000 per year. We have used a stabilized allowance of $10,500 per potential student, or $2,446,500 in maximum student costs to the state each year.

However, as previously noted, we believe the DOE "per home" public pupil formula overstates the probable number of public education students which will come out of Waikoloa Highlands.

The total state costs on an "actual" stabilized basis would be about $2,546,500 annually.

Per Capita Costs

An alternative method for determining public costs is through per capita expenditures incurred by the State of Hawaii and county of Hawaii in accordance with the de facto population area of the jurisdiction. This is founded on the principal that each individual on the island equitably benefits from all governmental costs, regardless of type or focus throughout the day, with each new member of the community (whether resident or visitor) creating a proportionate new cost burden in their daily home and working life.

As previously noted, this is the standard method for residential application as the majority of costs are viewed as accruing to the housing or lodging aspects of a persons lifestyle and land use. We have included it as a means of demonstrating the overall public fiscal impact potential of the proposed subject project even when viewed from this maximum potential cost perspective. We consider this approach as setting the absolute upper limit on all public costs (actual, indirect and inferred) for the proposed Waikoloa Highlands subdivision.

However, not all public costs accrue solely to a persons place of residence. Government services and oversight are also a vital component of the commercial community, and industrial, resort and retail/service land uses must also bear a proportionate share of their operational and consumer-related public expenses.

Generally, it is highly appropriate to allocate the costs of governmental services between residential and other uses, typically with two-thirds of each persons per capita governmental services impact (whether resident or tourist) being attributable to their dwelling place; the other third to the non-residential uses they patronize.

But for the subject project analysis, we have made the traditional (and exceptionally conservative) allocation of 100 percent of the per capita governmental costs to the place of residence. This results in an absolute maximum amount of public costs which could be accorded to Waikoloa Highland owners and guests.

According to the state Department of Budget and Finance database, the state will spend a total of $4.65 billion on services, salaries, infrastructure, and financing in fiscal 2005-2006. The total de facto population in the state on an average daily basis at year-end 2005 was about 1,471,000 persons, including residents, tourists, and military personnel.

The per capita expenditure by the state will thus be about $3,164 for 2005-2006, a minor increase from 2004-2005. From 1979 through 2006, state government expenditures increased at a rate of about five percent annually compounded.

The stabilized average de facto population on-site at the subject at build-out will be 1,068 persons, a figure reached in year 10 of the development model. Using the allocated state cost per de facto "resident" of $3,164 per year, the total annual "costs" to the state purse at stabilization by the project using the per capita method would be $3,380,000 (rounded) in constant year 2006 dollars.

Analyzed on a similar basis, Hawaii County's budget for the local government in fiscal year 2005-2006 is circa $284,048,832, which represents an escalation over time of more than four percent compounded annually since 1995.

The current de facto population on the Big Island is some 192,000 persons. The resulting de facto per capita county expenditure for this year is therefore anticipated to be about $1,479.

The construction and use of Waikoloa Highlands at build out would be about $1,580,000 (rounded) annually in costs to the county government on a stabilized basis (1,068 de facto residents x $1,479).

Total Public Costs -- On a per capita allowance cost basis, the state and county expenses associated with the subject development would range from $934,636 in year 3 of the project (the first year of home occupancy) to a stabilized maximum of $4,959,801 at build-out in year 10 and beyond, in constant 2006 dollars.

On an actual cost basis, which we acknowledge may be an atypical perspective and a minimized accounting of direct expenditures, the total governmental costs at build-out to the state and county would be $2,906,100 annually.

Public Fiscal Benefits

Real Property Taxes -- Property taxes paid by landowners in the subject project were calculated using the 2006 tax rates for both land and buildings, improved or unimproved.

The assessed values for the improvements were based upon the estimated direct costs for each unit, plus an allowance of 20 percent for indirect, financing, profits and other costs which would inure to the structures. The total estimated assessed values of the 398 finished homes upon completion is $336.7 million.

The assessed values for the land component was estimated at $50.7 million (700 acres at $50,000 per acre) for the site in its pre-developed state during year 1 of our model. This equates to an underlying assessed land value equal to $88,000 per proposed lot.

"As Is," it was assumed the site would be taxed as agricultural (or other non-homeowner vacant land type) at the rate of $9.85 per $1,000 assessed valuation. After subdivision, the house lots, prior to improvement, would have an estimated value of $400,000 each, would be taxed at the same rate as long as they are vacant.

Once improved, the tax rate for the finished homes and lots changes and is different for full-time resident homeowners (60 percent of subject) and non-resident owners. For homeowners, the single-family homes and lots were assumed taxed at a rate of $5.55 per $1,000 in value, and for non-residents a rate of $9.10 per $1,000 was used.

All real property value of the subject holding is assumed to be vested in the completed "salable" and operating components, with no assessment placed against open spaces, roads, or other systems.

At stabilization, the effective overall tax rates for both the lands and improvements at Waikoloa Highlands using 2006 dollars and effective tax rates would be $6.97 per $1,000 of assessed value (the resulting mix of owner/occupant and non-resident rates). The total real property tax to be paid to Hawaii County in 2006 dollars ranges from $344,750 in year 1 of development, to a stabilized level of $3,456,479 at build-out after year 10. The aggregate real property taxes paid over the 10-year study time-frame will be $24.4 million.

<u>State Income Tax</u> -- The state will receive income taxes from three sources:

- the wages of the workers associated with the construction, maintenance, and "operation" of the Waikoloa Highlands components;
- the household incomes of full-time residents in the community; and
- the corporate profits from contractors and suppliers serving the construction phase of the development, and as generated by on-going maintenance and operations.

According to DBEDT data, individual State of Hawaii income tax liability as a ratio to gross income has ranged from 4.7 to 5.8 percent during the past decade, with the more current figures tending toward the mid to lower-end of the range. We have employed an effective tax rate of 5.00 percent of gross income for individual workers and full-time residents.

The effective tax rate for the corporate income is estimated at 1.00 percent of gross operating profits, based on available DBEDT statistics.

The total income tax revenues to be received by the state are projected at $252,830 in the first year of construction increasing to a maximum level at year 10 of $2.9 million annually in constant 2006 dollars.

On a stabilized basis, after build-out, the permanent maintenance workers, off-site workers, and full-time project residents would pay an annual state income tax of $2.5 million. Over the 10-year modeling period, the cumulative income taxes paid are estimated at $17.9 million.

We have not included any corporate income or other taxes which will be paid by the developers as a result of their profits from undertaking the subject development, or from the secondary jobs created by the discretionary spending of workers and businesses. Such items have the potential to be substantial contributions to the state coffers.

State Gross Excise Tax -- This 4.166 percent of expenditures tax was applied against:

- the total estimated construction contract costs;
- the total allocated gross sales maintenance, landscaping and renovations operations; and
- the discretionary expenditures of the de facto resident, guest and worker populations of the subject.

The anticipated state excise tax receipts arising from the subject development grow from an estimated $820,744 in the first year of development to a peak of $3.03 million. Over the 10-year study period, the receipts total $23.6 million and stabilize at circa $1.9 million per year.

We have not included any excise tax revenues associated with the direct, local "multiplier effect" expenditures on the Big Island, or those created in the secondary market by the suppliers to the maintenance operating or secondary worker expenditures.

Total Public Benefits (Revenues) -- In constant 2006 dollars, the aggregate annual tax revenues flowing from the subject development at full project build-out range from:

- $344,750 to $3.5 million per year for the county of Hawaii, stabilizing over time at $3,456,479 per year, totaling $24.4 million over the 10-year development projection model;

- $1,073,573 to $5.8 million annually for the State of Hawaii, stabilizing at $4.4 million per year, and cumulatively at $41.5 million over the 10-year forecast period; and

- $1,418,323 to $9.3 million per year for total tax receipts (county and state), totaling $65.9 million for the initial 10 years of the Waikoloa Highlands subdivision, and stabilizing at $7.9 million per year.

Correlation

Our public cost/benefit assessment model is displayed on Table 16, depicting the correlation of public service costs (per capita allocation basis) with the anticipated tax revenue benefits.

Table 17 summarizes our costs/benefits findings on both an actual cost and per capita allowance basis for the Waikoloa Highlands project.

As can be seen, regardless of the cost methodology adopted, in no single year do public coffers suffer a net loss resulting from subject development.

CERTIFICATION

The undersigned do hereby certify that, to the best of our knowledge and belief, the statements of fact contained in this report are true and correct. It is further certified that the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions. We further certify that we have no present or prospective interest in the property that is the subject of this report, and have no personal interest with respect to the parties involved. We have no bias with respect to the property that is the subject of this report or the parties involved with this assignment. Our

TABLE 16

PUBLIC COST/BENEFIT SUMMARY TABLE
Economic Impact Analysis and Public Cost/Benefit Assessment
Market Study of Proposed Waikoloa Highlands Subdivision
Waikoloa Village, South Kohala, Hawaii
In Constant Year 2006 Dollars

Development Year	1	2	3	4	5	6	7	8	9	10	Total Years 1 Through 10	Stabilized
PUBLIC BENEFITS (Revenues)												
1. REAL PROPERTY TAXES												
Cumulative Assessed Values (1) (2)												
Improvements		$29,610,000	$63,450,000	$105,750,000	$148,050,000	$190,350,000	$232,650,000	$274,950,000	$308,790,000	$336,708,000		$336,708,000
Land	$35,000,000	$159,200,000	$159,200,000	$159,200,000	$159,200,000	$159,200,000	$159,200,000	$159,200,000	$159,200,000	$159,200,000		$159,200,000
Total Assessed Value	$35,000,000	$188,810,000	$222,650,000	$264,950,000	$307,250,000	$349,550,000	$391,850,000	$434,150,000	$467,990,000	$495,908,000		$495,908,000
TOTAL REAL PROPERTY TAXES	$344,750	$1,766,542	$1,954,647	$2,201,718	$2,448,789	$2,679,940	$2,927,011	$3,174,082	$3,362,186	$3,493,095	$24,352,757	$3,456,479
2. STATE INCOME TAXES												
Taxable Personal Income	$4,780,776	$14,059,864	$22,042,360	$26,903,200	$33,107,200	$39,311,200	$45,515,200	$51,719,200	$54,362,960	$56,903,352	$348,705,312	$49,383,840
Taxable Corporate Profits	$1,379,070	$3,482,430	$3,860,291	$3,870,069	$4,431,096	$4,992,124	$5,553,151	$6,114,179	$6,055,101	$6,094,329	$45,831,840	$4,143,020
Personal Taxes Paid	$239,039	$702,993	$1,102,118	$1,345,160	$1,655,360	$1,965,560	$2,275,760	$2,585,960	$2,718,148	$2,845,168	$17,435,266	$2,469,192
Corporate Taxes Paid	$13,791	$34,824	$38,603	$38,701	$44,311	$49,921	$55,532	$61,142	$60,551	$60,943	$458,318	$41,430
TOTAL STATE INCOME TAXES	$252,830	$737,818	$1,140,721	$1,383,861	$1,699,671	$2,015,481	$2,331,292	$2,647,102	$2,778,699	$2,906,111	$17,893,584	$2,510,622
3. STATE GROSS EXCISE TAX												
Taxable Transactions												
Construction Contracts	$19,701,000	$49,749,000	$43,125,000	$35,250,000	$35,250,000	$35,250,000	$35,250,000	$35,250,000	$28,200,000	$23,265,000	$340,290,000	
Disposable Income Purchases			$7,335,413	$12,225,688	$17,115,963	$22,006,238	$26,896,513	$31,786,788	$35,699,008	$38,926,589	$191,992,197	$38,926,589
Home Maintenance			$1,350,000	$2,250,000	$3,150,000	$4,050,000	$4,950,000	$5,850,000	$6,390,000	$7,164,000	$35,154,000	$7,164,000
Total Taxable Transactions	$19,701,000	$49,749,000	$51,810,413	$49,725,688	$55,515,963	$61,306,238	$67,096,513	$72,886,788	$70,289,008	$69,355,589	$567,436,197	$46,090,589
TOTAL STATE EXCISE TAX	$820,744	$2,072,543	$2,158,422	$2,071,572	$2,312,795	$2,554,018	$2,795,241	$3,036,464	$2,928,240	$2,889,354	$23,639,392	$1,920,134
TOTAL GROSS PUBLIC REVENUES												
To County (Item #1)	$344,750	$1,766,542	$1,954,647	$2,201,718	$2,448,789	$2,679,940	$2,927,011	$3,174,082	$3,362,186	$3,493,095	$24,352,757	$3,456,479
To State (Items #2 & 3)	$1,073,573	$2,810,361	$3,299,143	$3,455,433	$4,012,466	$4,569,499	$5,126,532	$5,683,565	$5,706,939	$5,795,465	$41,532,976	$4,430,756
AGGREGATE TAX REVENUES	$1,418,323	$4,576,903	$5,253,789	$5,657,150	$6,461,254	$7,249,439	$8,053,543	$8,857,647	$9,069,125	$9,288,559	$65,885,733	$7,887,235
PUBLIC COSTS (Expenses)												
By County of Hawaii			$297,723	$496,205	$694,686	$893,168	$1,091,650	$1,290,132	$1,448,917	$1,579,915	$7,792,395	$1,579,915
By State of Hawaii			$636,913	$1,061,522	$1,486,131	$1,910,740	$2,335,348	$2,759,957	$3,099,644	$3,379,886	$16,670,141	$3,379,886
TOTAL PUBLIC COSTS			$934,636	$1,557,727	$2,180,817	$2,803,908	$3,426,998	$4,050,089	$4,548,561	$4,959,801	$24,462,537	$4,959,801
TOTAL NET PUBLIC BENEFITS												
To County of Hawaii	$344,750	$1,766,542	$1,656,924	$1,705,513	$1,754,102	$1,786,771	$1,835,361	$1,883,950	$1,913,269	$1,913,180	$16,560,361	$1,876,564
To State of Hawaii	$1,073,573	$2,810,361	$2,662,229	$2,393,911	$2,526,335	$2,658,759	$2,791,184	$2,923,608	$2,607,295	$2,415,579	$24,862,834	$1,050,870
AGGREGATE NET BENEFITS	$1,418,323	$4,576,903	$4,319,153	$4,099,424	$4,280,437	$4,445,531	$4,626,544	$4,807,558	$4,520,564	$4,328,758	$41,423,196	$2,927,434

Source: The Hallstrom Group, Inc.

TABLE 17

SUMMARY OF ANNUAL PRIMARY GOVERNMENTAL TAX RECEIPTS AND PUBLIC SERVICE COSTS

Economic Impact Analysis and Public Cost/Benefit Assessment

Market Study of Proposed Waikoloa Highlands Subdivision

Waikoloa Village, South Kohala, Hawaii

In Constant Year 2006 Dollars

State of Hawaii

On Stabilized Basis At Build-Out	Actual Cost Comparison: Receipts	-	Costs	=	Net Benefits or (Costs)	Per Capita Allocation Comparison: Receipts	-	Costs	=	Net Benefits or (Costs)
Amount per Year	$4,430,756		($2,546,500)		$1,884,256	$4,430,756		($3,379,886)		$1,050,870

County of Hawaii

On Stabilized Basis At Build-Out	Actual Cost Comparison: Receipts	-	Costs	=	Net Benefits or (Costs)	Per Capita Allocation Comparison: Receipts	-	Costs	=	Net Benefits or (Costs)
Amount per Year	$3,456,479		($449,600)		$3,006,879	$3,456,479		($1,579,915)		$1,876,564

Source: The Hallstrom Group, Inc.

engagement in this assignment was not contingent upon developing or reporting predetermined results. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. The appraisal analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, and the Uniform Standards of Professional Appraisal Practice. The use of this report is subject to the requirements of the Appraisal Institute relating to review by duly authorized representatives. The undersigned certify that they have made personal inspections of the property that is the subject of this report. No other persons provided significant real property appraisal assistance other than the undersigned.

The Appraisal Institute conducts programs of continuing education for their designated members. As of the date of this report, James E. Hallstrom, Jr. has completed the requirements of the continuing education program of the Appraisal Institute.

James E. Hallstrom, Jr., MAI, CRE
Hawaii State Certified
General Appraiser, CGA-178
Exp. Date December 31, 2007

Tom W. Holliday

/as

4694_R01

THE HALLSTROM GROUP INC.
REAL ESTATE
CONSULTANTS
& APPRAISERS

PROFESSIONAL BACKGROUND AND SERVICES

The Hallstrom Group, Inc. is a Honolulu based independent professional organization that provides a wide scope of real estate consulting services throughout the State of Hawaii with particular emphasis on valuation studies. The purpose of the firm is to assist clients in formulating realistic real estate decisions. It provides solutions to complex issues by delivering thoroughly researched, objective analyses in a timely manner. Focusing on specific client problems and needs, and employing a broad range of tools including after-tax cash flow simulations and feasibility analyses, the firm minimizes the financial risks inherent in the real estate decision making process.

The principals and associates of the firm have been professionally trained, are experienced in Hawaiian real estate, and are actively associated with the Appraisal Institute and the Counselors of Real Estate, nationally recognized real estate appraisal and counseling organizations.

The real estate appraisals prepared by The Hallstrom Group accomplish a variety of needs and function to provide professional value opinions for such purposes as mortgage loans, investment decisions, lease negotiations and arbitrations, condemnations, assessment appeals, and the formation of policy decisions. Valuation assignments cover a spectrum of property types including existing and proposed resort and residential developments, industrial properties, high-rise office buildings and condominiums, shopping centers, subdivisions, apartments, residential leased fee conversions, special purpose properties, and vacant acreage, as well as property assemblages and portfolio reviews.

Market studies are research-intensive, analytical tools oriented to provide insight into investment opportunities and development challenges, and range in focus from highest and best use determinations for a specific site or improved property, to an evaluation of multiple (present and future) demand and supply characteristics for long-term, mixed-use projects. Market studies are commissioned for a variety of purposes where timely market information, insightful trends analyses, and perceptive conceptual conclusions or recommendations are critical. Uses include the formation of development strategies, bases for capital commitment decisions, evidence of appropriateness for state and county land use classification petitions, fiscal and social impact evaluations, and the identification of alternative economic use/conversion opportunities.

ARBITRATION
VALUATION AND
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PROFESSIONAL QUALIFICATIONS OF JAMES E. HALLSTROM, JR., MAI, CRE

Business Background	President	The Hallstrom Group, Inc. Honolulu, Hawaii (1980 - Present)
	Former Senior Vice President and Treasurer	Hastings, Martin, Hallstrom and Chew, Ltd., Honolulu, Hawaii (1972-1980)
	Former Real Property Appraiser and Analyst	Administration, Inc., a subsidiary of C. Brewer and Company, Limited Honolulu, Hawaii (1971-1972)
	Former Senior Real Property Appraiser and Analyst	Opitz Realty, Madison, Wisconsin (1969-1971)

National Designations and Memberships

- CRE Designation (1998) - The Counselors of Real Estate
- MAI Designation (1976) - American Institute of Real Estate Appraisers
- SRPA Designation (1975) - Society of Real Estate Appraisers

The American Institute of Real Estate Appraisers (AIREA) and the Society of Real Estate Appraisers (SREA) consolidated in 1991, forming the Appraisal Institute (AI).

Education

- M.S. (Real Estate Appraisal and Investment Analysis) 1971, University of Wisconsin at Madison
- B.A. (Economics) 1969, Brigham Young University at Provo
- Additional numerous specialized real estate studies in connection with qualifying for national professional designations, and uninterrupted Continuing Education.
- Completed Continuing Education requirements with the Appraisal Institute through 2006.

Professional Involvement

- Former President and Officer for Hawaii AIREA and SREA Chapters
- Instructor for Society of Real Estate Appraisers Course 101, "Introduction to Appraising Real Property" and Course 201, "Principles of Income Property Appraising"
- Contributing author to the "Hawaii Real Estate Investor"
- Lecturer at many professional seminars and clinics.
- Appointed numerous times as an Arbitrator and Mediator.

Qualified Expert Witness

Federal and State Courts
State Land Use and County Hearings
Arbitration Proceedings

State of Hawaii Certification

Certified General Appraiser, License Number CGA-178, Exp. Date December 31, 2007

Community Service

Active registered member of the Boy Scouts of America; former Director of Le Jardin Academy; former Advisory Board Member of the School of Business, Brigham Young University, Hawaii Campus; Director of Hawaii Reserves, Inc.

PROFESSIONAL QUALIFICATIONS OF THOMAS W. HOLLIDAY

Business Background

Senior Analyst — The Hallstrom Group, Inc.
Honolulu, Hawaii

Former Staff Appraiser — Davis-Baker Appraisal Co.
Avalon, Santa Catalina Island, California

Education

- B.A. (Communications/Journalism) 1978 California State University at Fullerton
- SREA Course 201- Principles of Income Property Appraising
- Expert witness testimony before State of Hawaii Land Use Commission and various state and county boards and agencies since 1983.
- Numerous professional seminars and clinics
- Contributing author to Hawaii Real Estate Investor, Honolulu Star Bulletin

  On January 1, 1991, the American Institute of Real Estate Appraisers (AIREA) and the Society of Real Estate Appraisers (SREA) consolidated, forming the Appraisal Institute (AI).

Recent Maui Assignments (since 2000)

- Market Study, Economic Impact Analyses and Public Costs/Benefits Assessments
  - -- Wailea Ranch (Master Planned Community)
  - -- Palauea Bay (Resort/Residential)
  - -- Upcountry Town Center (Mixed-Use Planned Development)
  - -- Maui Lani (Residential and Industrial Components of Master Planned Community)
  - -- Maui Business Park, Phase II (Industrial/Commercial)
  - -- Four Seasons Private Estates and Residences Club (Resort/Residential)
  - -- Kualono Subdivision (Residential)
  - -- Kapalua Mauka (Master Planned Community)
  - -- Hailiimailii (Commercial)
  - -- Pulelehua (Master Planned Community)
  - -- Westin Kaanapali Ocean Villas Expansion (Resort/Timeshare)
- Major Valuation Assignments
  - -- Sheraton Maui Hotel
  - -- Outrigger Wailea Resort Hotel
  - -- Maui Lu Hotel
  - -- Coconut Grove Condominiums
  - -- Palauea Bay Holdings
  - -- Wailea Ranch
  - -- Maui Coast Hotel
  - -- Westin Maui Hotel
  - -- Maui Marriott Hotel
  - -- Waihee Beach
  - -- Kapalua Bay Hotel and The Shops at Kapalua