WATERFRONT BUSINESS PLAN

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DISCLAIMER

Architectural and engineering work is still in process and will not be completed in time for this Plan. As a result, only the abbreviated and preliminary information in the conceptual site plan could be used as a basis for the financial projections.

In addition, the financial forecasts are continuously affected by changes in market and economic conditions, governmental regulations and environmental and other circumstances beyond control. Therefore, the assumptions used herein are based on information which HCDA and GMR feel reasonably applicable to the conceptual nature and purpose of this Plan and have been collected from current and past projects, studies and industry sources deemed reliable.

Accordingly, neither HCDA nor GMR can guarantee or warrant the information and projections contained herein nor assume responsibility for any adverse consequences that may occur as a result of the financial projections being at variance with actual results or used for any other purpose than planning.

EXECUTIVE SUMMARY

PURPOSE

The purpose of this plan is to develop a strategically sound and viable business plan ("Plan") for the makai portion of the Kakaako Community Development District, which will be referred to hereafter as the "Waterfront".

This is a working Plan intended for internal use by the Hawaii Community Development Authority ("HCDA") as a basis for a strategic development program and a communication tool for key government and community stakeholders. It will also be used as a descriptive piece for potential developers, financiers and others who may have an interest in the Waterfront. Information from many different sources has been consolidated to permit easier and more comprehensive dissemination of information. This Plan should provide direction and enough information about the Waterfront to stimulate thinking and input and identify areas of concern or opportunities. However, it is not intended to contain enough detail for specific action.

Typically, real estate business plans are never finished because there are too many variables. Every event of political or economic significance may change the direction and conclusions. Therefore to avoid obsolescence, the Plan must be continuously reviewed and adjusted. However, the essence of the Plan…its vision and mission…should last until completion.

DEVELOPMENT CONCEPT

The Waterfront needs to attract substantial numbers of residents by offering experiences and services that make them want to return. A mix of uses…workplaces, recreation, public facilities, retail shops, dining and residences…would maximize activity and synergy.

The Waterfront's strategic location, public ownership and many physical assets make it the perfect location for an urban community. Its commercial zoning and location can also make it home to new or growing industries in technology. The concept is designed to be "sustainable" and to allow residents who are comfortable urbanites and uncomfortable commuters the option of living and working in an urban neighborhood.

Despite the premium values inherent in an oceanfront site, the Waterfront will be a place for the working population rather than an enclave for the wealthy. This is an advantage enabled by State ownership, which fosters social as well as economic benefits.

The Conceptual Site Plan (Figure 1) illustrates the Waterfront's mixed use potential. Thirty-five acres of existing parks establish the development context. HCDA's holdings also include about 55 acres that are designated in this Plan for development. These include 10 acres designated for the University of Hawaii John A. Burns School of Medicine ("JABSOM"), 11½ acres set aside for a retail entertainment center, and an additional 10 acres for a public facility at the promontory called "Point Panic". About 9½ acres is needed for parking, residential or commercial uses, and 4 acres next to the historic sewage pump station plus 10 acres containing the Foreign Trade Zone ("FTZ") warehouses can accommodate expansion of technology and office space. In the short term, the FTZ site immediately adjacent to JABSOM will be cleared and used as its interim parking site.

FIGURE 1: CONCEPTUAL SITE PLAN

Internal roads will be brought to city standards to accommodate the expected increase in traffic as well as provide on-street parking. Some side street closures may enhance the park setting, calm traffic flow around the park, streamline traffic along Ala Moana Boulevard, and still allow pedestrian access through the grid. However, such changes call for more specific traffic planning before decisions can be made.

Commercial or residential facades ("liners") should obscure unsightly parking structures from main street view. Residences will be an important component for a vibrant mixed-use community that needs a healthy retail market as well as an active evening environment. Residences are not currently allowed in the Waterfront so HCDA must amend its rules to allow them. The Waterfront will need a full spectrum of activity and uses to avoid the same fate as the Aloha Tower complex.

HCDA is developing a property management capability for the Waterfront as well as a common area assessment system to raise funds necessary to maintain the Waterfront at the highest standard. Eventually, each of the Waterfront sites should pay a fair share of maintenance cost based on the size of the lot.

TIMING

The current state of Hawaii's economy may not immediately support development of a retail project at the Waterfront. A marketing study completed in February 2002 confirmed the Waterfront Plan's long-term promise but concluded that short-term market conditions call for particular caution because of the soft economic conditions.

Although the soft economic conditions are the result of a market cycle, they nevertheless affect timing of the retail entertainment center and commercial office spaces. Under these circumstances, it will be appropriate to defer any marketing effort until at least 2003, at which time it may be more productive to issue a Request for Qualifications ("RFQ"). An RFQ would generate the greatest interest from the most capable and qualified developers by providing a high level of comfort in the overall process, primarily because of the relatively low investment of time and costs.

In the meantime, every effort should be made to find short-term alternate uses for existing space. The objective would be to generate traffic and exposure to provide momentum for future development rather than to allow the State's investment in the Waterfront to languish.

DEVELOPMENT COSTS

Work in progress is not included as part of this Plan. It involves completion of the Ilalo Street improvements and relocation of tenants and is budgeted at $23 million, including related indirect costs. The projects that are included in this Plan have been grouped in phases, although the individual projects will no doubt vary in timing and cost.

Phase I of the new infrastructure in this Plan includes the realignment and improvement of Forrest Avenue to provide better access to the FTZ sites and South Street, and will start in late 2002. It also provides for improvement of Ahui and Olomehani Streets for better access to the Point Panic site, starting in late 2003. Finally, it will include environmental investigation of the retail and parking sites. HCDA direct and indirect costs will be about $30 million.

Phase II, which could start in 2 to 3 years, provides for demolition and environmental clean up of the Look Laboratory and the Pacific Biomedical Research Center ("PBRC") sites and completion of the roadway network including Ohe and Cooke Streets, plus central parking. This could total about $40 million including indirect costs.

Finally, Phase III will include construction and design of the new amphitheater, park improvements and the Punchbowl extension for about $60 million.

Waterfront infrastructure and site preparation costs will total about $131 million including land acquisition, environmental and indirect costs.

WHAT NEXT?

In order to execute this Plan, HCDA needs to accomplish the following:

- Update its Rules and Plans to accommodate the urban village concept;
- Stimulate interest and select a developer for the retail project and the residential or commercial liners;
- Issue bonds and coordinate construction on the parking structures and the retail space;
- Amend the Makai Area Plan and Rules as necessary to revise alignment of Ohe Street and allow residences;
- Establish a strategy to provide incubator space for the anticipated technology needs generated by JABSOM;
- Revise its rules to include all Waterfront sites as contributing members of the Waterfront Association of Owners;
- Decide whether or not Tax Increment Financing is something HCDA should pursue as a funding source for Kakaako; and
- Nurture business growth in the Waterfront even if it may require capital investment with little or no initial payback.

RISKS

The usual concerns involving market, budget and environmental risks all apply to this large-scale project. The previously mentioned market study, which was precipitated in large part by the 9/11 tragedy, has indicated that the overall market condition may last until our traditional visitor markets recover from the current economic slump. Nevertheless, experience after previous downturns gives reason to anticipate a return to full consumer confidence after a 2- to 3-year period of weakness. We have based our timing on this more optimistic perspective.

Environmental risks are the most problematic for this development. However, a program to mitigate this risk for the developer is described herein.

The State is not usually subject to interest cost on invested project capital but is obligated for bond debt service, which can still be substantial. In this case, debt service will approximate $10 million for about $96 million of bond funding over a 10-year period.

Finally, there is always a risk of project delays and cost overruns.

WATERFRONT BUSINESS PLAN

"What is abundantly clear at this point…is that the state's development of the Kakaako waterfront area is our last great chance to make a world-class statement about our dreams and our identity." (Honolulu Advertiser editorial, 7/31/00).

PROPERTY DESCRIPTION

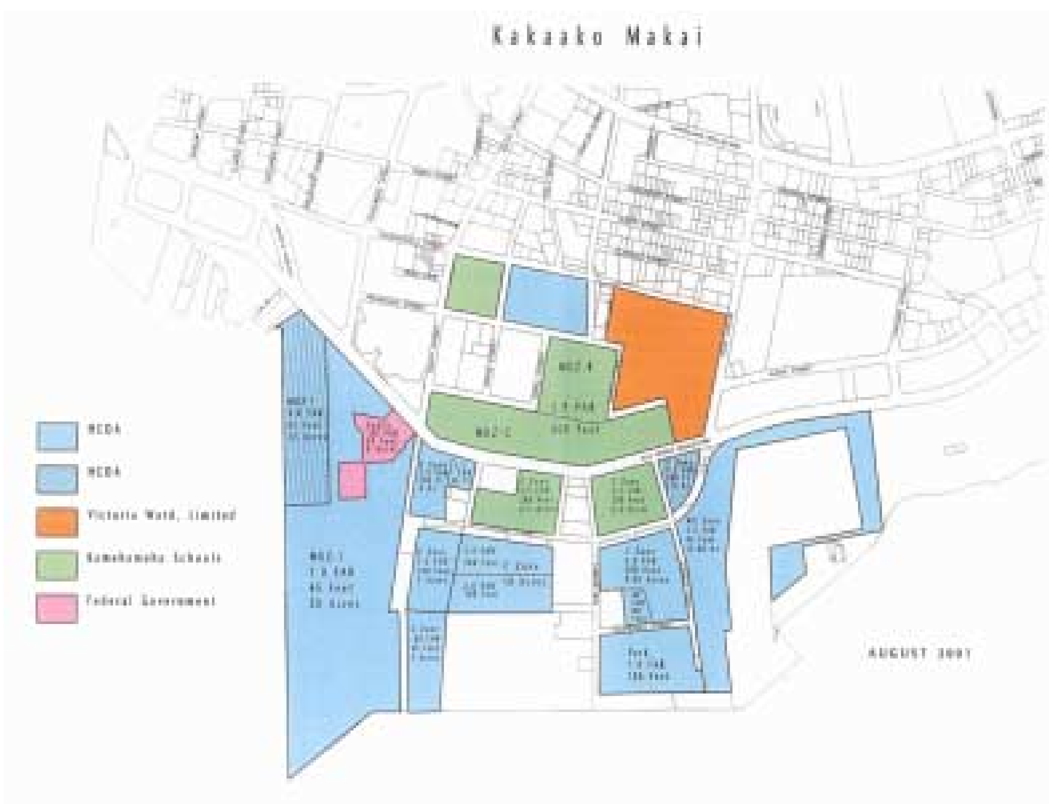
The area under HCDA jurisdiction, officially known as the "Kakaako Community Development District", is estimated to total almost 700 acres in the center of Honolulu. This district is defined by King Street as the mauka boundary, Piikoi Street as the Diamond Head boundary, Punchbowl Street as the ewa boundary and the ocean as the makai boundary. The Waterfront is the makai portion of this Plan and includes almost 115 developable acres owned by HCDA and defined by Ala Moana Boulevard, Piers 1 and 2, the ewa end of Ala Moana Park, and the ocean (Exhibit A). Every new use must be evaluated and positioned in the context of the park core and respect the larger public character of the Waterfront.

EXHIBIT A: KAKAAKO COMMUNITY DEVELOPMENT DISTRICT

The Waterfront's major assets are its prominent central location and ocean frontage. It is within walking distance to the Capitol and Central Business District and on the major thoroughfare from the airport to Waikiki, which accommodates most of Hawaii's 6 million annual guests. It is also adjacent to the Victoria Ward Centers ("Ward") retail complex, which includes about 700,000 square feet ("sf") of commercial and industrial space and is less than a mile from the 1.8 million sf Ala Moana Center, the largest shopping center in Hawaii.

HCDA owns about 115 acres of the developable land on the makai peninsula. In addition, there are about 19 acres of roads, 35 acres of parks, the 1¼-acre Children's Discovery Center, the ¾-acre John Dominis Restaurant, the 2¼-acre former AAFES site, the 3½-acre "Gold Bond" parcel plus 8¼ acres of auto dealerships owned by the Kamehameha Schools trust (KS), and approximately 5 acres owned by the Federal Government. The Ward holdings include about 65 mauka acres and was recently purchased by Chicago-based General Growth Properties, Inc. Exhibit B depicts the various land ownerships, acreages, and height and FAR ratios for the Waterfront lots.

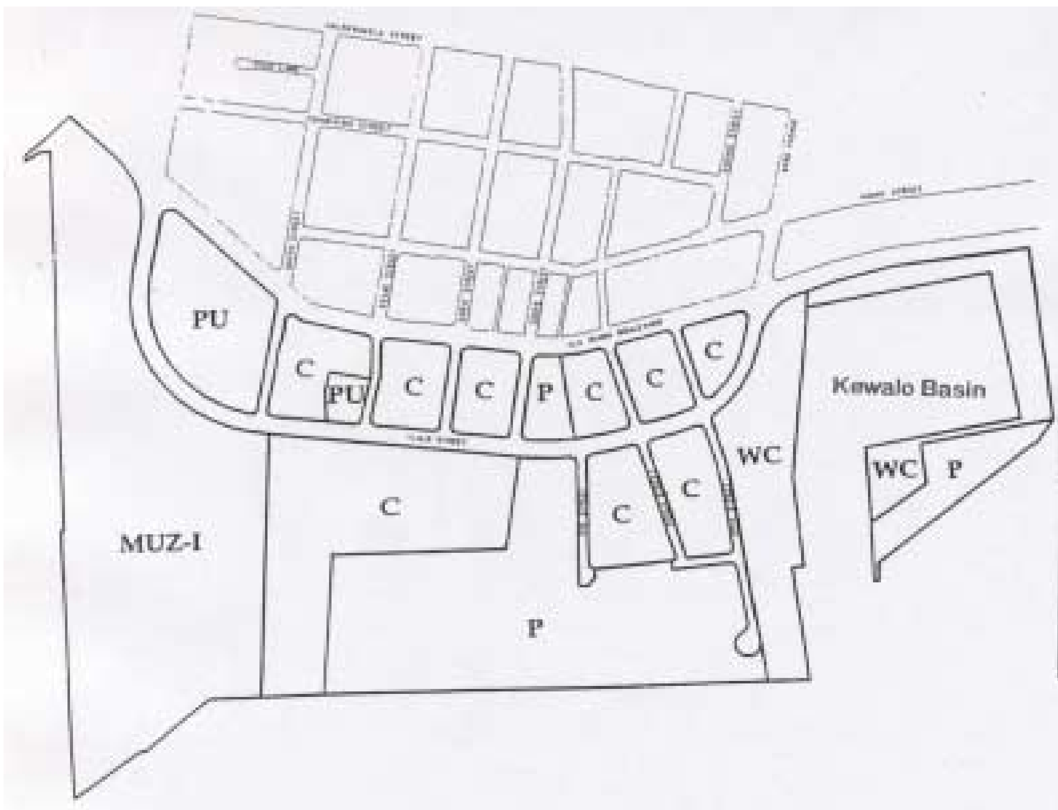
EXHIBIT B: LAND OWNERSHIP MAP



In 2002, KS and Ward collaborated on a regional "framework" plan using the planning firm of Cooper, Robertson & Partners ("Cooper"). HCDA contributed information and participated in the development of this plan. The general theme is consistent with HCDA's own conceptual plan as far as land uses and the basic urban village concept are concerned.

Exhibit C depicts the land uses allowed under the current Makai Plan.

EXHIBIT C: EXISTING LAND USE PLAN



BACKGROUND

Several industries are emerging that appear to hold particular promise for Hawaii because of its ability to compete in these markets. These include medicine, technology and biotechnology, telecommunications, computer sciences, oceanography, and higher education. Kakaako can accommodate any of these clean and synergistic industries, which offer relatively high levels of compensation and fit well with the State's unique cultural, geographical, and network relationships with Asian and Pacific Basin businesses.

Hawaii is trying to put together a consistent program to further develop these industries. Other states have been aggressive competitors and have seized evolving opportunities giving them a competitive edge. In most cases this has involved locational advantages, effective marketing and meeting the needs of new businesses through financial incentives. One of the major obstacles for any growing business is finding affordable space. Hawaii's notoriously high cost of space impedes our ability to put together attractive packages. Consequently, any plan to attract new businesses must include affordable space. In the case of incubators, this space will probably need to be subsidized either by low or deferred rents, or exchanged for an equity position in the struggling new venture. In any case, the Waterfront will have much to offer growing new businesses.

To be competitive, Hawaii must advance its substantial human resources rather than being overly dependent on its natural resources as in the case of the visitor industry. There are too many instances of our brightest expatriates living on the mainland because of higher income potential and more fulfilling jobs. They have achieved prominent and successful positions in the medical and technology revolution on the mainland but are fully as capable of growing similar businesses and jobs here. Many want to come home and are eager to take advantage of emerging opportunities.

After living through a decade of economic doldrums with many more potential cycles on the terrorist-tainted horizon, thoughtful citizens are beginning to appreciate the need for a more diversified economy to avoid the downturns that repeatedly affect our volatile tourism-biased economy. The Plan provides an opportunity for a coalition between government, private landowners and developers that could level the competitive playing field for aspiring new businesses.

On the social front, Honolulu is outgrowing its space. Like many mainland cities, we too often have traffic gridlock. When a two-car traffic accident results in a three-hour commute, we must acknowledge that we have reached an unsustainable lifestyle because of our preference for suburban homes and the overdependence on the automobile that results. The infrastructure, environmental and social costs needed to create new suburbs have increased faster than we can afford.

One emerging alternative to "sprawl" is the renaissance of traditional lifestyle in walkable mixed-use villages. Even though statistics are still relatively small, they indicate that more homebuyers are joining the ranks of neo-traditionalists throughout the nation who are embracing the urban village concept. According to articles published by the Urban Land Institute, new homebuyers opting for neo-traditional lifestyles generally range from 5% to 15% of the market.

At least 16 of the 20 largest US cities gained population in the last decade in a trend that will continue into the 21st century. Nationally, city housing permits for 1999 increased 35% over the average annual increase from 1990 to 1998, compared to only a 21% increase in suburban housing permits.

Only time will tell if this reversal of a decades-old trend is a viable alternative for Hawaii. But some real estate planners and professionals believe that, if this concept is to succeed, it has the best chance of succeeding at the Waterfront. The Waterfront's attributes, primarily its proximity to the Central Business District and family services, make it the best candidate for a successful urban community.

VISION

The Waterfront will be the gathering place for Hawaii's residents. It will provide the setting for socializing, dining, learning, and recreation. The Waterfront will also reincarnate as a contemporary urban village, a freestanding walkable community that will contribute to the existing visitor industry as well as accommodate growing new industries that will add to Hawaii's future economic base. It will be an incubator for new business ideas and research in technology, medicine and education. Finally, the Waterfront will serve as an icon of Hawaii's identity and achievements.

MISSION

HCDA will create and execute an economically viable Plan to stimulate growth that is consistent with the vision for the Waterfront. The Plan will provide balance and synergy between private and public facilities. It will provide space and infrastructure for new industries and their workers that the private sector cannot afford to produce. HCDA will also establish a strategy and objectives, and execute the Plan by breaking ground on the first project before the end of 2002.

STRATEGY

The Waterfront will contain a mix of facilities and services. It will be the link between the Central Business District and the retail shops at Ward, Ala Moana Center and Waikiki, while merging its mass with these anchors. Its high visibility will capture a significant portion of the visitor market, thereby supplementing the inventory of visitor attractions and enhancing the visitor experience.

The Waterfront will also be home to growing new industries that will help sustain us for the next century. JABSOM is expected to jump-start the biotechnology industry for Hawaii. It will stimulate other businesses and services that will help diversify Hawaii's economy. The Waterfront will add new park and public facilities and create a place for residents to gather and socialize on a scale heretofore lacking in Honolulu. The concept promotes employment as well as enjoyment for our residents.

The benefits to the State will be significant. Construction of the planned projects, including the infrastructure, JABSOM's 10-acre Biomedical Science facility, the 11½-acre retail project and residential units, will infuse about $309 million into the economy. Annually, this should produce 300 direct jobs, stimulate another 440 indirect and induced jobs, and generate over $30 million in direct, indirect and induced wages. State revenues during construction include $31 million in excise, corporate and personal income taxes.

Once the currently planned projects are completed and operating, they should provide about 1,700 direct jobs and 860 indirect and induced jobs, paying $51 million in direct wages and another $28 million in indirect wages annually. Research workers for JABSOM alone will pay annual excise and income taxes amounting to $5 million. In addition, almost $750,000 in new annual real property taxes will be generated for the City.

If the development plan is carried to full build-out of its total allowable floor area and use over the next few decades, another $490 million in construction costs and $214 million in combined additional wages could result, generating almost $50 million in annual State taxes.

ASSETS and LIABILITIES

Venice's Piazza San Marco ("Piazza") is arguably the world's most renowned gathering place (Exhibit D). The Waterfront could not hope to match the aura of the Piazza, which has existed for over a millennium. Such a space is distinctive because of its unique history and a combination of characteristics that cannot be replicated. But some of the elements which make the Piazza a gathering place are relatively easy to emulate at the Waterfront to produce similar results: convenient and breathtaking location; good food and drink; unique shops; a strong expression of history; a nearby residential community; and an awesome setting in which to see and be seen.

As with most leeward coastal areas the Waterfront is climatically comfortable. Its temperature, rainfall and wind conditions are benign and there are hardly any bad days…a perfect park setting and place for outdoor dining and socializing. Despite its proximity to a dense urban core, the park is a sanctuary and is the perfect spot for an ocean-and-harbor front respite. It enjoys sweeping views of Honolulu and its environs, including the world-renowned Diamond Head. It is already used by surfers, commercial weddings and tours, as well as park users and provides safe harbor for sport fishing and cruise ships. The extensive park network provides soft green open space for any structure.

EXHIBIT D: PIAZZA SAN MARCO

Existing structures generally consist of outdated warehouses and metal buildings that should be eventually demolished to make way for redevelopment. The West section is still used by maritime interests for shipyards and storage. The underlying zoning of the land is mixed-use industrial (MUZ-I), which allows for the coexistence of industrial and commercial uses.

The aging 11-story “Gold Bond” and 6-story “AAFES” buildings must probably live out their economic lives. Good planning would suggest integrating these projects into the larger master plan. Relatively new or refurbished structures include the Children’s Discovery Center, the John Dominis Restaurant, and the parks and promenade, which will be integrated into the evolving redevelopment. The radio transmission tower has a long term lease but should be relocated before major neighboring development takes place.

Contiguous parks on the Waterfront add up to about 35 acres. The Kewalo Basin Park represents another 5 acres. The Waterfront Park contains a series of mounds as high as 40 feet, extending 200 to 400 feet in the mauka direction. From this point the topography is essentially flat to Ala Moana Boulevard. These mounds were created during the development of the Waterfront Park to encapsulate wastes from nearby incinerators with an impervious membrane and about 3 feet of fill. As a result of the previous industrial uses, almost all developable sites need environmental remediation of some sort.

Potential developers for the retail and Point Panic sites have already cited environmental exposure as a concern. HCDA must be prepared to convey a usable site and relieve the developer and lender of major site concerns at the time of their commitment to the project.

To accomplish this, HCDA completed a preliminary environmental investigation on all developable sites east of the park in collaboration with the EPA and DOH. HCDA is using this information to assess the sites and will work with the agencies involved on a comprehensive remediation program, which would establish detailed and specific procedures for each developable site. Since the full extent of remediation may not be determined until a project is designed, HCDA intends to identify the level of contamination, estimate the cost of remediation and then negotiate a remediation program with the developer for completion during construction.

HCDA is also investigating the usefulness of environmental insurance to protect itself and the developer against unforeseen risks that may be discovered in the course of remediation or construction. This type of comprehensive and proactive program is necessary to make the project sites marketable and to avoid the costly and time-consuming remediation procedures that have been forced upon other projects.

Pedestrian access across Ala Moana Boulevard is another challenge. Many mauka residents will visit and work at the Waterfront. Therefore, there is a need for a safe and comfortable crossing over Ala Moana Boulevard. Besides their high cost, bridges or underpasses have produced mixed results. At some time in the future when buildings along Ala Moana Boulevard can serve as supports, an elevated crossing lined with retail kiosks may best serve this purpose. In the interim, a safe and comfortable at-grade crossing is probably the most reasonable compromise. This could include a decorative crosswalk and a generous landscaped median such as used at the San Francisco Embarcadero, so that the pedestrian can cross comfortably. Traffic calming measures along Ala Moana Boulevard would also be beneficial.

A shuttle service to connect the growing mauka retail areas with the Waterfront has also been discussed. This would add to critical mass and benefit both areas, albeit at significant expense, and should therefore be best left for businesses to consider.

In general, the Waterfront will not easily accommodate major underground structures such as basements and parking due to a shallow water table that ranges from 4 to 5 feet. Also, there is an underground channel that extends from mauka to makai roughly along the alignment of the parks. This should not be a major obstacle as evidenced by the existing 11-story "Gold Bond" Building. Foundation tests for JABSOM indicate a usable basalt layer at a depth of 100 to 160 feet.

HCDA has reinforced the bulkhead along the shipyard ramp, and engineers have deemed the bulkhead to be in reasonably good condition. As with remediation, however, a project could be designed such that additional reinforcement may be necessary. If this happens, HCDA will work with the developer to further reinforce the bulkhead during construction.

Tenant encumbrances include the shipyard (2½ acres) and University of Hawaii operations (about 1½ acres for a marine mammal laboratory and the PBRC). Multiple City operations will occupy about 8½ acres until late 2003.

Efforts to prepare sites for the ongoing development program continue. The Produce Center tenants and the Department of Agriculture have already relocated to make room for JABSOM.

The 1¼-acre Children's Discovery Center and the ¾-acre John Dominis Restaurant, will both remain to complement the total Plan.

The Foreign Trade Zone manages two large warehouses on about 10½ acres. Month-to-month tenants in the warehouse adjacent to JABSOM will move to accommodate temporary parking when necessary.

Utilities are being designed according to programmed densities and uses for the sites. The conduit now being installed in the Ilalo Street expansion should be more than adequate for any future development. If needed, power supply redundancy must be built into the individual projects and gas service must be specifically requested and installed for each project.

The city plans to add a second segment of its proposed Bus Rapid Transit system ("BRT") on Ilalo Street in addition to the original mauka segment on Pohukaina Street because of the anticipated levels of Waterfront pedestrian traffic. This segment is planned to have three Waterfront stops, one at JABSOM.

DEVELOPMENT CONCEPT

One of the Waterfront's major advantages is a prime location (Figure 2) that is visible from streets that are heavily used by visitors and residents. The Waterfront must achieve "critical mass", a term from nuclear physics, which in the real estate context is the smallest combination of the right mix of traffic-generating attractions necessary for self-sustaining revenues. Finding the proper balance is more a matter of art than of science. Some of the necessary characteristics include type of shops, entertainment levels, accessibility, uniqueness, comfort, safety, quality and parking.

FIGURE 2: MAIN ENTRY

The quantity of space as well as the sequence and type of projects and tenants must be carefully manipulated to achieve and maintain critical mass. For lack of supporting attractions, the Children's Discovery Center and the Aloha Tower retail complex have suffered. Ideally, all projects should be built simultaneously but, unfortunately, this is not usually possible from a practical standpoint. Nevertheless, critical mass is the basis for successes or failures and will be a most serious challenge for the Waterfront.

The following projects have been suggested for the Waterfront:

- A museum depicting Hawaiian super stars, music, history or culture;
- An entertainment venue to showcase world-prominent entertainment ranging from the Cirque du Soleil to opera to rock on a level that cannot be accommodated at other existing facilities;

- Technology, biotechnology, commercial and education offices;
- Medical education, research, surgery and rehabilitation centered around JABSOM;
- As envisioned in the master plan for the waterfront park, a view corridor from the mauka areas, a blowhole, solar energized projects, an interactive fountain, tidal pools, and a carousel as well as suggestions for features such as a "bark park" and jogging stations;
- Retail in various forms with emphasis on a Granville Island-type farmer's market together with adequate parking;
- Multifamily residential uses;
- Cruise ship terminals on Piers 1 and 2;
- Statuary and cultural monuments in coordination with the State Foundation on Culture and the Arts;
- A ferry landing at the retail frontage that could connect Waikiki, the airport and points beyond;
- An ocean, health or science learning facility which showcases Hawaii's expertise in astronomy, oceanography, or culture;
- Cultural and art facilities such as for the Honolulu Theatre for Youth, a performing arts theater, meeting and convention facilities; and
- A boutique hotel to serve the needs of transient guests visiting Waterfront businesses.

Because of the public focus, prices and land rents should be "affordable". Structures should represent good "Hawaiian" design, emphasizing outdoor settings that take advantage of the Waterfront's temperate climate. Pedestrians must be able to circulate safely, freely and comfortably. Security is a crucial element, more so after 9/11 than ever before, and will be an important item for the common area budget.

A common area maintenance ("CAM") fee will be assessed on HCDA-leased Waterfront sites to pay for security, maintenance of roadways, landscaping and park areas. Eventually, all Waterfront sites should pay these fees but it will take specific action by HCDA to enact the necessary rule changes to include privately owned sites. This program will initially be administered by HCDA but will eventually be turned over to an association of project owners. Initial expenses could approach $1 million per year, assuming that the current maintenance and security support now provided by the State and City will continue and CAM merely supplements this level of maintenance. The ultimate goal is to achieve operating self-sufficiency for the Waterfront.

COMMERCIAL and OFFICE

Due to the soft economic conditions, it would be helpful to start with uses that can generate consumer traffic but do not themselves depend on consumers. This includes JABSOM as well as certain office projects that are not sensitive to economic fluctuations or consumer traffic for justification.

The conceptual development plan sets aside about 24 acres adjacent to Ft. Armstrong for these kinds of uses. Included in this allocation is 10 acres for JABSOM, now being designed for ground breaking in 2002. In addition, KS is preparing to take advantage of the technology-intensive activities at JABSOM as a basis for developing its four Waterfront blocks.

If JABSOM is built according to plan, it will stimulate exactly the kind of services, spending, and employment opportunities described in the Waterfront vision and mission. JABSOM is planning to construct about 500,000 sf of usable area, and include a medical school and research facilities. Construction costs for the initial phase will be about $150 million. This is the kind of catalyst the Waterfront needs to precipitate long-term development of new industries and residential, commercial, and public spaces.

ENTERTAINMENT, RETAIL and DINING

HCDA is planning to make an 11½-acre site along Kewalo Basin available for a retail entertainment complex. Assuming at least 250,000 sf of retail space is built in the first phase, this project will probably need to attract 3 to 5 million annual shoppers and diners to be solidly successful. The Waterfront retail will be anchored by a farmer's market complemented by retail, entertainment, and food shops that appeal to local residents.

As a comparison, the 42-acre Granville Island center with 108 galleries and shops, 45 offices, 5 schools, 10 theaters and a hotel, all totaling 851,000 sf, claims 8 million annual shoppers with a resident population of 2 million. The 11.2-acre Pike Place market with 111 produce stalls and 156 artisans in about 470,000 sf as well as 500 residential units, claims about 9 million annual shoppers with a resident population of 2 million. The prominent Vietnam Memorial and the Arizona Memorial, both recognized as "must visit" attractions, draw only 2 million and 1½ million annual visitors respectively, even though admission is free. The point is that, although the primary market focus for the Waterfront will be local residents, visitations and spending by visitors must contribute to the economic success of the retail project. Furthermore, visitors tend to go where residents go which validates local residents as a target market. Additionally, public spaces must be able to attract traffic as well.

These kinds of retail opportunities showcase local merchants and products as well because success will hinge on selecting smaller tenants whose goods and services are distinct from the competition at Ward and Ala Moana shopping areas. This suggests a very careful definition of the market and tenant selection which, when done well, should achieve economic results that equal any retail facility. Granville Island and Pike Place Public Market (Exhibit E) tenants can average a gross $1,000 per sf of sales per month. The fishmonger at Pike Place grosses $2,500 per sf lending some support to his claim that he runs the "most lucrative retail space on the West Coast". Although both markets are government-owned and operate for the public good, they nevertheless are financially self-supporting and make good models for the Waterfront.

EXHIBIT E: PIKE PLACE MARKET

The retail area will have sweeping views of the harbor front, Waikiki and world-famous Diamond Head as a backdrop and will include activities and dining that takes full advantage of the exclusive views as the John Dominis Restaurant has successfully done. Since development of the retail project will probably face a still-recovering economy, one alternative would be to start at a smaller level and add more space as the market recovers, since the retail shops will not initially enjoy the activity generated by adjacent residences or offices. However, the counter argument is that a smaller stand–alone project could not generate enough critical mass to attract enough customers.

The answer is to time the development of a larger project to preempt other potential projects and this would suggest that HCDA should be prepared to issue an RFQ in the next year or two, while leaving the actual start to the discretion of the developer.

The Waterfront will eventually have an esplanade along its entire ocean frontage. The park portion is already completed and the basin segment will be constructed in phases with the retail development (Figure 3).

FIGURE 3: KEWALO BASIN ESPLANADE

Ahui Street's character will be a pedestrian-oriented street with generous sidewalks and landscaping providing a comfortable setting for dining and shopping (Figure 4). Stabilized aggregate net ground rent from the retail development is expected to start at about $650,000 per year.

PUBLIC SPACES

Point Panic is a very prominent and desirable location and one of the most attractive remaining developable sites in the State. It also offers one of the best settings for dining, catered events, weddings, and larger special events. To maximize synergy, secondary retail, food and entertainment options will be placed in this area to support the public attractions as well as to serve park users.

FIGURE 4: AHUI STREET

The Waterfront's "centerpiece" will be an iconic structure on the Point Panic site. This could be a science museum (Figure 5), ocean research center or a similar public attraction. Since it must also function as a traffic generator, this project should be interesting and entertaining, with rotating exhibits or shows to attract repeat local, as well as visitor, traffic. A good operator should ensure that these facilities break even financially particularly since the land would be leased at "public rents".

FIGURE 5: SCIENCE MUSEUM

The esplanade will also function as the link between the many different uses along the waterfront and offer some of the most spectacular views of the Honolulu waterfront (Figure 6).

The inability to convert strong interest in some of our best sites into actual projects attest to the difficulty of launching projects, despite lower-than-market land costs. Therefore, it would be realistic to initially attract any compatible traffic-generating facility, even though it may not provide the iconic structure that Point Panic ultimately deserves.

FIGURE 6: POINT PANIC ESPLANADE

HCDA should be prepared to offer low initial rents and find a use that can be constructed at a cost that allows an operating profit, as it would serve the public purpose and add to critical mass for the Waterfront. The objective would be to attract large numbers of people to establish momentum and increase awareness in the Waterfront while awaiting a resurgence in the economy.

The existing amphitheater is too small, not properly located and does not contribute synergy because it is hardly used. The Plan calls for a new structure which can take advantage of the existing mounds and could be inexpensively covered with vinyl or Kevlar and might accommodate as many as 8,000 to 10,000 people. Such a structure could even be designed to be permanent as demonstrated by the many fine examples throughout the country (Exhibit F).

EXHIBIT F: AMPHITHEATER

Another dazzling setting envisioned at Point Panic will be the Café Plaza which would be set on a "Great Lawn" at the edge of the Pacific Ocean (Figure 7). It will be accessible from the promenade and will offer one of the most memorable casual dining experiences.

FIGURE 7: GREAT LAWN

RESIDENTIAL

Residences and commercial offices are needed to generate some of the consumer traffic. They are also needed to fulfill the inclusive work-live-shop-recreate lifestyle for an urban village.

For the time being, the high office vacancy rate in the Central Business District does not support the development of new commercial spaces. Also, only residences produce much-needed evening customers, so HCDA plans to initially focus on residential uses.

As with any mixed-use village project, the Waterfront will need a residential component as its heart in order to become a community. Residences will complement the other uses, contribute to critical mass and stimulate the flow of customers and activity, thus transforming the area into a very convenient and desirable urban neighborhood. The residences, which will require a plan amendment, should be salable even in today's market.

Residences are important to the Waterfront for several reasons. First, the residents will patronize the facilities and be jobholders in the surrounding workplaces, thereby forming a cadre with a vested interest that will maintain the Waterfront at high standards. Second, fee sales of the homes will contribute to income, thus providing capital to pay down some of the debt. Third, and most importantly from the standpoint of critical mass, the residents and their guests will form a small but enthusiastic consumer core.

Not surprisingly, low-income residents do not adequately contribute to critical mass. After starting with low-income rental units, Pike Place found it necessary to provide a wider price range of residences. The Waterfront's units will be built to meet the "moderate" price range, size, and quality level for white-collar workers in the Waterfront and Kakaako as the target market. If necessary, purchase conditions may be imposed to favor these buyers. The Waterfront residences will not compete with the high or low extremes of the market which can be better accommodated elsewhere.

Another function of the residences and commercial spaces would be to conceal the parking structures, which are usually unsightly (Exhibit G). This would also mitigate the generally unpalatable "dead" frontage of the typical parking structure. The Cooper plan suggested about 1,000 residential units in the Waterfront. However, there is only enough land area for about 300 to 400 residences.

PARKING

The Waterfront is similar to any new major development project with regard to parking needs. There are about 300 existing stalls for park users and another 125 at the former AAFES building for possible after hours use. After new streets are completed, there will be another 170 on-street stalls for the public.

Structured parking will be necessary to accommodate the planned projects. Using industry standards, a minimum of about 2,000 additional stalls will be needed for the amount of floor area and uses currently planned, assuming JABSOM will provide its own parking.

EXHIBIT G: PARKING LINERS

The 700-stall Kauhale Kakaako parking structure only generates about $17 per stall per month in net operating income, well short of debt service if such a structure were financed. Parking economics are not usually favorable and therefore the parking structures must be developed and operated by HCDA for shared use by businesses, their patrons, and residents. Revenue bond authorization has been granted by the Hawaii State Legislature for public parking structures. The structures will total over $30 million in construction costs, assuming costs of about $15,000 per stall. Parking revenues from the public and fees paid by businesses must carry the bond debt service.

HCDA will construct two smaller and more manageable structures to break up the mass of these 6-story structures and also to better time the construction of parking to coincide with the need. The space between the two structures will form a promenade with the potential for additional retail or office opportunities (Figure 8). This space would be constructed only as the market may demand.

Construction of the retail center or residences will require the construction of structured parking. Sales of stalls to residents could produce almost $9 million assuming a sales price of $29,000 per stall. This income would be used to retire bond debt. Retail uses will more realistically require 5 to 6 stalls per 1000 sf instead of the usual 2½ to 3½ stalls called for in the Makai Area Rules.

FIGURE 8: PROMENADE

There is no accurate estimate of how much the BRT and urban village concept may reduce the need for parking. HCDA will need to analyze the effect of these factors on parking need.

PARK

More park improvements are forthcoming. Picnicking families will enjoy an interactive fountain adjacent to the Children's Discovery Center. Also, about 300 on-grade parking stalls will be provided for joint use by park users and visitors to the Children's Discovery Center.

On the relatively flat park area, a public green will accommodate special events such as festivals, flea markets, bazaars and similar outdoor events (Figure 9). This will merge into a park corridor that will extend across Ala Moana Boulevard to Mother Waldron Park.

TIMELINE and BUDGET

The current plan sets aside about half of the developable acreage for JABSOM and a public facility on Point Panic, which are not expected to pay land rents. Therefore, land revenues will only be available from the retail center, residences and office sites. In order to complete the Plan, it will be necessary to obtain legislative funding for almost all capital needs, as well as State and City services. Therefore, even assuming a reasonably successful retail center and break-even performance from the parking facilities, the objective to establish operational self-sufficiency will only be possible if CAM is collected from all project owners for the additional maintenance and landscaping expenses inevitable in such a large and high-profile area.

FIGURE 9: PUBLIC GREENS

Ilalo Street, a major spine road and the eventual BRT accessway through the Waterfront, will be finished by the end of 2002. It is anticipated that realignment and upgrade of Forrest Avenue, which leads to South Street will begin at about the same time. The BRT construction is scheduled to begin in 2003.

The Produce Center and the Department of Agriculture sites are being cleared as needed to accommodate JABSOM. For the time being, the two FTZ warehouses next to the Produce Center shall remain, but the mauka warehouse will be cleared to accommodate parking for JABSOM. The sites next to the historic sewage pump station have been cleared.

Construction will start on Ahui Street and a portion of Olomehani Street as early as mid-2003. Ahui Street's 8 foot wide sidewalks and 8 to 10 foot setbacks will allow a comfortable, calm, tree-lined pedestrian street with retail, dining and on-street parking. Improvements to Ohe Street will follow the completion of Ahui Street.

A very preliminary time line and budget for the project is attached as Exhibit H. The timeline shows JABSOM breaking ground by the last quarter of 2002, and completing by 2005. JABSOM's positive impact as a catalyst and its ability to stimulate the need for other spaces and uses sets the strategy and the timeline for the entire Plan.

HCDA's pro forma estimate of costs totals about $131 million (Exhibit I). The budget is very rough since it is only based on the Conceptual Site Plan.

This estimate includes all direct and indirect costs for streets, cadastral work, infrastructure, environmental analysis, and so on.

Finally, the total Source and Application of Funds for HCDA's projects is shown as Exhibit J. It was necessary to assume that any funds in excess of tenant rents, capital sales or revenue bonds, as in the case of the parking structures, would most likely come from general obligation bond sales. This amount totals almost $96 million, $20 million of which has already been funded. Total funds required for development and debt service will be about $141 million over the next 10 years.

TAX INCREMENT FINANCING ("TIF")

Most redevelopment agencies enjoy TIF as their primary source of funding. Basically, tax increment revenue is the ad valorem property taxes generated from the increase in assessed valuation resulting from new development that takes place within the boundaries of the redevelopment area. The assessed valuation at the time a redevelopment plan is adopted becomes the base year value. This base year value is frozen for the purpose of distributing property taxes to the various taxing entities. The increased taxes generated by the assessed valuations in excess of the base year level ("value added") are referred to as the "tax increment".

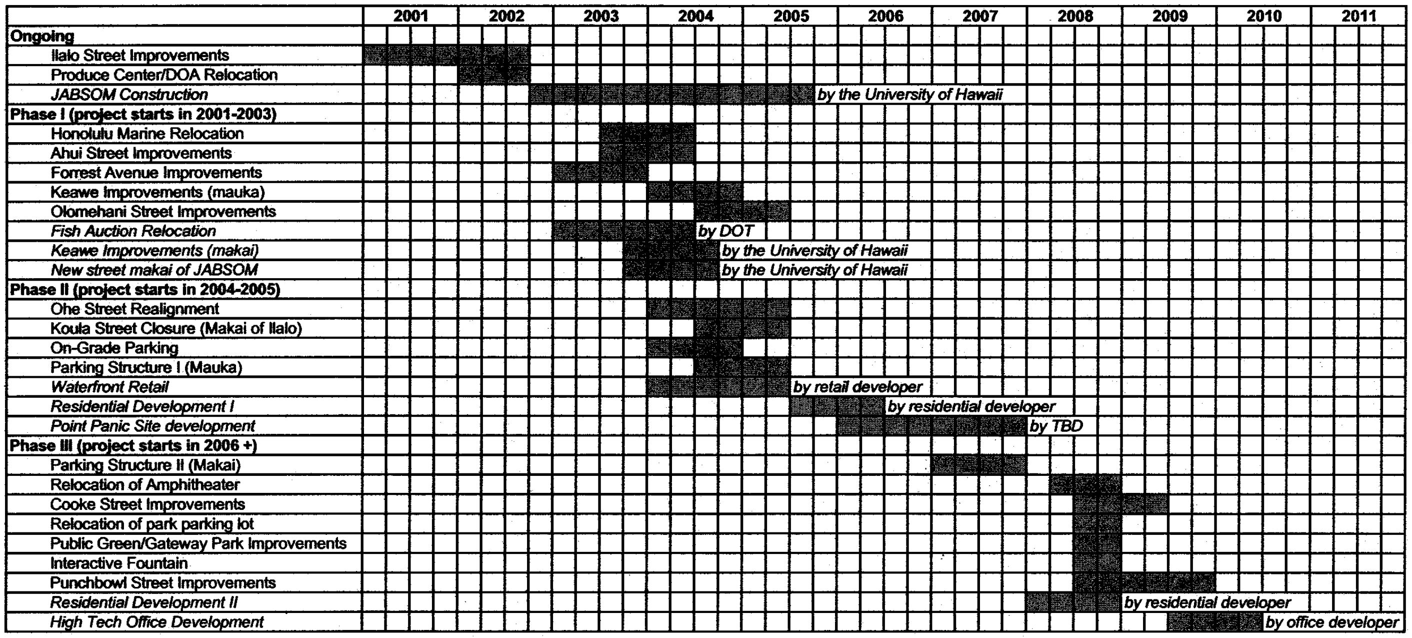
Initially, the flow of tax increment revenues will not be sufficient to finance the full scope of redevelopment activities and development projects. Therefore, the agency usually issues bonds for which it is solely responsible and uses the tax increment revenues to service debt. In states like Hawaii, real property taxes are relatively low and it may be additionally necessary to include increments from other taxes such as gross excise tax, for sufficient funding. Honolulu has another major complication in that the City now depends on the property taxes, while HCDA is a State agency, so this presents major policy issues. Regardless, TIF should be explored to determine whether or not it holds any promise as a funding mechanism for HCDA.

EXHIBIT H: ESTIMATED TIMELINE

10/4/02

Waterfront Master Plan

Estimated Timeline



Note: Tasks in italics will be developed by a separate entity.

EXHIBIT I: COST SUMMARY

Waterfront Master Plan

Cost Summary

I. 0	**Phase I - Relocation of Look Lab, Honolulu Marine, improve Ahui, Forrest, Keawe and Olomehani.**	**Cost**
I. 1	Phase I Property Acquisition Costs	1,520,000
I. 2	Phase I Direct Costs	20,476,758
I. 3	Phase I Indirect Cost	3,486,000
I. 4	Phase I Sub-total Cost	25,482,758
I. 5	Contingency	5,096,552
I. 6	**Phase I Total Cost**	**30,579,310**
I. 7		
I. 8	**Phase II - Ohe realignment, Koula closure, on-grade parking, parking structure I**	**Cost**
I. 9	Phase II Property Acquisition Costs	390,000
I. 10	Phase II Direct Costs	26,560,226
I. 11	Phase II Indirect Cost	6,189,498
I. 12	Phase II Sub-total Cost	33,139,724
I. 13	Contingency	6,627,945
I. 14	**Phase II Total Cost**	**39,767,668**
I. 15		
I. 16	**Phase III - Parking structure II, relocate amphitheater, park parking lot, public green and fountain improvements.**	**Cost**
I. 17	Phase III Property Acquisition Cost	220,000
I. 18	Phase III Direct Cost	41,684,109
I. 19	Phase III Indirect Cost	8,263,436
I. 20	Phase III Sub-total Cost	50,167,545
I. 21	Contingency	10,033,509
I. 22	**Phase III Total**	**60,201,054**
I. 23		
I. 24	**Total Development Cost**	**130,548,033**

Note: See Appendix H for source information

10/4/02

EXHIBIT J: SOURCE AND APPLICATION OF FUNDS

Waterfront Master Plan

Source and Application of Funds (HCDA Projects Only)

		Total Capital Costs	2002 YEAR 1	2003 YEAR 2	2004 YEAR 3	2005 YEAR 4	2006 YEAR 5	2007 YEAR 6	2008 YEAR 7	2009 YEAR 8	2010 YEAR 9	2011 YEAR 10
J. 0	FUNDS REQUIRED											
J. 1	Development Costs	$130,548,033	2,306,679	21,173,516	28,724,587	18,142,197	2,567,048	19,110,195	24,209,399	14,314,412	0	0
J. 2	Operating Cash Flow Shortfall	$0	0	0	0	0	0	0	0	0	0	0
J. 3	Debt Service	$10,355,211	0	0	0	1,479,316	1,479,316	1,479,316	1,479,316	1,479,316	1,479,316	1,479,316
J. 4	Total Funds Required	140,903,244	2,306,679	21,173,516	28,724,587	19,621,513	4,046,364	20,589,511	25,688,714	15,793,728	1,479,316	1,479,316
J. 5	FUNDS SUPPLIED											
J. 6	Net Operating Income	16,379,757	0	0	0	1,847,540	1,840,821	1,833,969	1,826,979	2,956,489	3,029,095	3,044,864
J. 7	Revenue Bonds - Parking	21,500,000	0	0	0	21,500,000	0	0	0	0	0	0
J. 8	GO Bonds	96,549,815	2,306,679	21,173,516	28,724,587	(7,888,441)	2,205,543	16,444,284	23,861,735	12,837,239	(1,549,779)	(1,565,548)
J. 9	Land Sales (Residential)	6,473,672				4,162,414		2,311,258				
J. 10	Total Funds Supplied	140,903,244	2,306,679	21,173,516	28,724,587	19,621,513	4,046,364	20,589,511	25,688,714	15,793,728	1,479,316	1,479,316

Note: Refer to Appendix H for source data.

9/25/02

Landowners and developers, as well as municipalities, support TIF because it is a reliable and growing source of funds, and less arbitrary and punitive than exactions. Also, given enough time and appreciation of values, it is not unusual for agencies to accumulate enough tax increment revenues to fund capital projects in their entirety. In the case of the Kakaako redevelopment area, an analysis by Cooper estimated that about $3 million could be raised in the next 10 years, but this could grow to as much as $280 million in 30 years.

COMMUNITY PROGRAM

HCDA has already started a community relations program because it will be very important for achieving the mission. Portions of this Plan will require plan amendments and public hearings. In addition, there will be special management area permits and environmental assessments that will undergo public review. Since these projects must be submitted to entitlement and funding procedures similar to any public project, good communications to enlist community support is important to achieving our objectives.

The possibility of JABSOM becoming reality has generated much excitement in the community. Businesses are excited about the infusion of new money and opportunities. Landowners are excited about the opportunity to get their stagnant plans going. The University community is excited about this tangible proof of a new beginning. The Kakaako community is especially excited about the potential for a new industry in Hawaii that will create new jobs for themselves or their family who may have been found it necessary to live and work in the mainland due to the lack of opportunities here.

HCDA is also excited about the chance to rejuvenate the redevelopment of Kakaako and is confident that JABSOM will have a catalyzing effect. JABSOM will offer opportunity for almost everyone and with 115 adjacent acres, HCDA may be one of the biggest beneficiaries. The prospect of thousands of new jobs nearby supports timely development of the Waterfront plans. This, combined with what appears to be awakening developer interest, justifies moving ahead with the retail and parking within the next year or two. As the landowner and development agency with access to legislative funds for capital improvement, HCDA may represent the only path to affordable incubator space for fledgling technology companies.

BUSINESS DEAL

There are many ways to organize the business deal, but the most logical and typical would call for HCDA to assume the master developer's role, pay for and complete the master plan and off-site infrastructure, and negotiate development agreements and leases with developers for the finished sites. This would insulate HCDA from the primary project development risk.

One consideration would be to seek a master developer with the expertise and track record in master planned projects and the resources to develop all the sites. This may make the venture more enticing and attract a more substantial developer, expedite the timetable and provide better-coordinated sequencing and uses between the projects. However, such a developer would probably be only interested in the revenue-producing projects and this would suggest some sort of profitable use at Point Panic. Also, the entire Waterfront development would then depend on a single entity.

Another consideration is a partnership, which would include HCDA and one or more developers. HCDA could contribute the anticipated income stream from its lands to a Limited Liability Company or Partnership ("LLC" or "LLP") to secure an equity position and appropriate profit potential using the discounted value of the rental income stream to establish a basis for HCDA's pro rata interest in the project(s).

The developer could also contribute equity to the LLC or LLP, possibly in several different forms, which would establish the basis for its pro rata equity interest in the project. HCDA and its developer partner could assume a "full-shield" protected position thereby limiting its exposure to its equity investment. The developer could then separately assume the role of the managing member or general partner in a third equity position, which would be also entitled to an incremental share of profits depending on the assets at risk.

There are several reasons such a structure would be advantageous for HCDA. It will provide comfort to both partners that our interests and motivation are comparable and that the other partner's support will be forthcoming when and as needed. It will minimize front-end capital requirements and reduce risk accordingly thereby providing additional comfort to lenders. Although participation in management decisions is usually restricted as a requirement to limit liability, it would still allow some influence over decision making, thereby protecting the State's interests and goals. Probably the biggest advantage is that it offers profit-sharing opportunities for HCDA together with an experienced, market focused, well-financed and motivated private-sector managing member, which will enhance the viability of the project and reduce the time to completion.

Partnerships have disadvantages as well. Without benefit of an adequate period of "courtship", it is difficult to predict compatibility and partnerships are inherently cumbersome, adding to the strain on the relationship. As a result, more often than not, relationship problems occur between the partners.

Finally, there is much to be said for the conventional lessor-lessee relationship as far as simple development roles and efficient organization is concerned.

In any case, the many different organizational structures deserve careful study and thoughtful selection when the time comes to make this basic and important risk vs. reward decision.

ADMINISTRATIVE ISSUES

Planning has progressed quickly to the point in which the key land uses have been identified, located and sized. The conceptual development plan illustrates the interrelationship between these uses. It is also the basis for the economic analysis that provides the costs and flow of construction, realistic financial expectations and a preliminary test of project viability from which decisions can be made.

For at least the early phases of development, the current environmental impact statement should be scrupulously followed to avoid unnecessary amendments. In general, retail and conventional office buildings falling within existing zoning parameters are immediately allowed. But realignment of streets, residential uses, and potential specialized needs as salt water intake and exhaust system for marine research and aquarium uses will require revisions or amendments.

RISKS

For HCDA, the major risk is that of time. Failure to get private developers to join this effort will further delay the redevelopment of the Waterfront into the asset it should be and delay the development of new industry. Public facilities alone cannot produce the excitement and appeal that a project of this size needs to be successful.

The State is fortunate in that the financial risks usually are limited to cost and time overruns instead of compounded double-digit interest burdens that can result in foreclosure of the land and buildings in a bad market. There is little doubt that, given enough time, the Waterfront Plan will be completed and will be successful when critical mass is achieved.

If the opportunity arises and funds become available, the warehouses could be converted into incubators, weekend markets or even a standing farmers market. Serious consideration should be given to a major entertainment venue in the near future to add critical mass and common area revenue, rather than waiting for a permanent Point Panic structure to be developed. Any of these ideas could help generate traffic for the waterfront.

HCDA's goal is to complete the redevelopment of the Waterfront within the stated time and budgetary parameters. We are committed to providing the many public benefits that have been identified, establish new industries, and do it in a reasonable time period.

We will need to maintain a high level of commitment to the vision and the mission to achieve these goals. We also need to be patient in awaiting an improvement in the economy, and to use our experience as to what will or will not work in order to guide HCDA's assets and resources to execute the Plan.