

Pace is Slowing, But Maui County's Outlook for '07 is Still Bright

Maui County continues to do well this year, and the outlook for 2007 is bright for most sectors. However, Maui can expect a slowdown from the heated pace of the last several years.

- The pluses for Maui: healthy tourism, a continuing construction boom, active development plans by kama'aina companies.
- The minuses: an extremely tight labor market, harbor overcrowding and a slowdown in real estate sales and price increases.

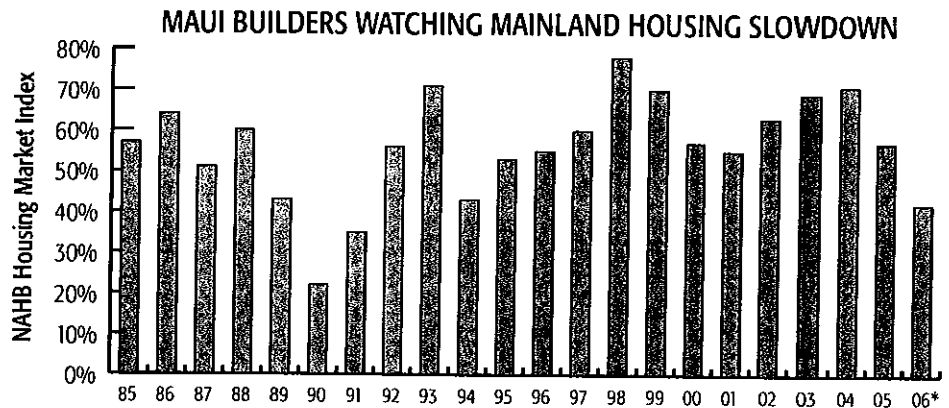
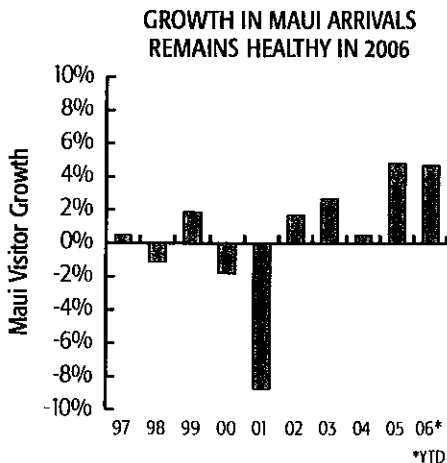
Arrivals Up Again in 2006; Spending Rises Even More

Maui visitor arrivals were up 4.7% through August 2006, but visitor spending was up a much stronger 20%. This was far higher than any other island in the state. For some years now, Maui has been closer to capacity than other islands, and it has been targeting higher spending visitors rather than just more bodies. That strategy seems to be paying off.

Although Japan business is down, Europe and Australia have been strong. U.S. East Coast visitors continue to pick up, although Maui's bread and butter remains repeat visitors from the Western U.S.

The average daily room rate rose almost 10% in 2005, after a 4% climb the year before that.

Hawaii got another mega-cruise ship this year, bringing the total to four on the inter-island circuit. Three are U.S. flagged, so they can go directly between Hawaii ports rather than having to stop in international waters. Cruise passengers passed the 100,000 mark in 1999, broke 200,000 in 2002, 300,000 last year, and this year will exceed 400,000.



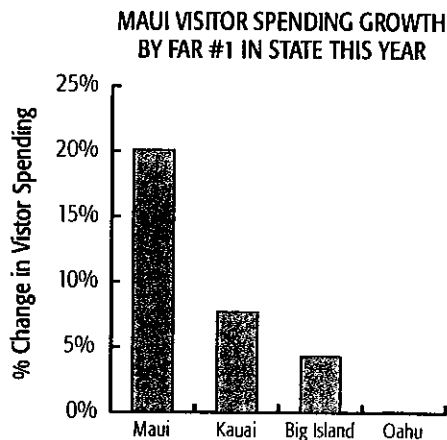
In 2007, current bookings alone show the 500,000 milestone will be passed. A cruise ship is in Kahului Harbor six days a week now.

Maui's Construction Industry Still Booming During 2006

Previously permitted construction projects — both residential and non-residential — are now coming out of the ground, tangible evidence that the Maui construction boom is continuing. This sustains the demand for construction jobs, and higher paying jobs in this sector are making life harder for other employers.

Builders universally report that the permit and entitlement process is getting longer and harder, a sign of increased anti-growth sentiment on Maui. After the prolonged expansion, a greater focus on the negative aspects of growth isn't surprising.

The biggest residential development in central Maui now is Maui Lani, which has built more than 750 homes with the potential for about 3,700. Nearby Kehalani could add another 2,000.



A&B still plays a big role in Maui development:

- Redevelopment of the Kahului Shopping Center is underway after the fire.
- Phase II of the Maui Business Park will add 179 acres of fee simple light industrial lots by 2008.
- In the Haliimaile area, 63 acres has been zoned for residential use, and a planned 160+ units are slated.
- In Wailea, two smaller subdivisions and a 75-unit condo project are planned.
- A&B has revived plans for a much-needed business hotel adjacent to Costco, pursuing a partnership with Courtyards by Marriott.
- A \$21-million, 400-bed student housing project for Maui Community College. More than 90% of MCC students are from Maui County, but non-resident student enrollment is increasing and the college is poised to market to the Mainland.

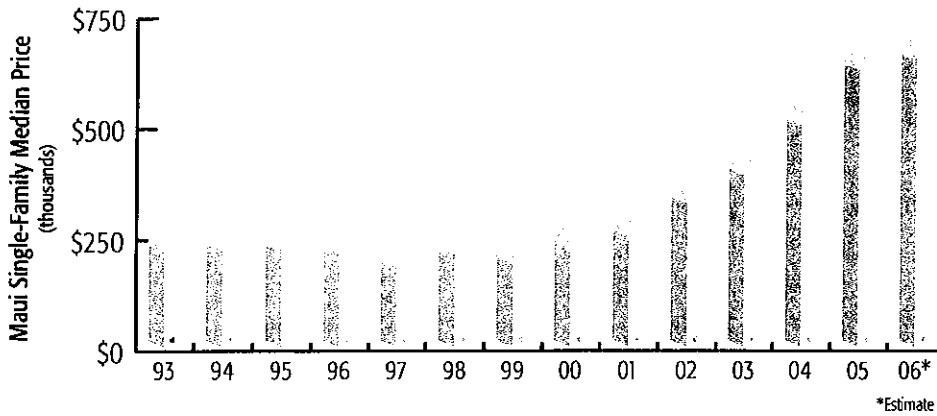
Maui Land & Pine has gotten Planning Commission approval for its 882-unit project in West Maui. It now goes to the County Council. Pulehewa will include 450 houses and apartments that meet affordable housing guidelines.

Maui Builders Watching Mainland Housing Trends

The chart above, from an outlook survey of members of the National Association of Home Builders, indicates that the national building boom is over. Most economists agree.

This change in expectations obviously hasn't hit Maui's construction industry yet, and some builders believe that second-home demand from a retiring baby-boom generation will make Maui

MAUI HOUSING PRICE GROWTH COOLING NOTICEABLY IN 2006



different. Also, there is no doubt that we have a housing shortage here, and increasing supply is the only viable way to help control astronomical prices that are out of reach for residents.

Still, it would be foolish to believe that Maui is totally insulated.

Maui Real Estate Market Cooling During 2006

So far in 2006, single-family sales volume has declined a dramatic 27%; median prices are still rising, but by a much more realistic 6.4%. That's to be expected after the unsustainable run-up in prices over the last several years. During 2005, Maui median single-family prices rose 23%.

This year the speculators are gone, and those wanting to own a home to live in are more on the sidelines, watching price trends closely. If this cycle follows past ones, a mild decline in prices next year would not be surprising. Slumping prices on Maui last time lasted four years — a 16% decline from 1993 to 1997.

Commercial real estate is a little different because it's driven more by income. Maui brokers report the tightest industrial market in 20 years, with 800,000 square feet of space coming on line in the foreseeable future, compared to an estimated 3 million square feet of demand. Warehousing costs are likely to rise as a lot of break-bulk activity will be displaced by the SuperFerry. A&B's Maui Business Park Phase 2 will help.

Maui's Labor Market Remains Extremely Tight

Though the state's labor market is tight, Maui's is even tighter, to the point where not being able to find employees is an increasing business problem. Traditionally, Neighbor Island jobless rates are higher than Oahu's. But that's no longer the case. This is one of the biggest constraints on growth — for the state, certainly, but especially for Maui.

Maui job growth has actually accelerated some in 2006, despite the shortage of workers. When growth does eventually taper off, it's likely to be as much because Maui is running out of workers as it is because the economy is slowing.

Kahului Harbor Lacks Space To Meet All the Coming Needs

Kahului Harbor likely has more problems than any harbor in the state when it comes to accommodating cruise vessels and the new SuperFerry. There simply isn't enough space and, with the SuperFerry supposed to begin operations in 2007, not much time to fix things.

Plans are for the ferry to dock at Pier 2 in the harbor, with cruise ships and cargo vessels continuing to tie up at Pier 1. Cars will debark via a widened road next to First Hawaiian's Kahului Branch, and embark from parking lots nearby. The ferry can carry up to 260 cars, and about 900 passengers.

For those who have the time, it will be cheaper than air travel. Families can travel with their cars, school groups can travel together in buses or vans and all kinds of equipment can be brought along. Fresh produce and other perishable items can be

shipped. Losers will include car rental companies and other leisure rentals such as surfboards, dive equipment and kayaks.

Maui's High-Tech Sector Continues Its Growth

The center of the Maui tech sector remains the Research and Technology Park in Kihei. There, the Maui Economic Development Board moved into its new 32,000-square-foot building and the sector continues to grow, offsetting recent layoffs by Boeing. High-tech now employs about 1,300 people.

Maui's HC&S Plantation Has Good Future Outlook

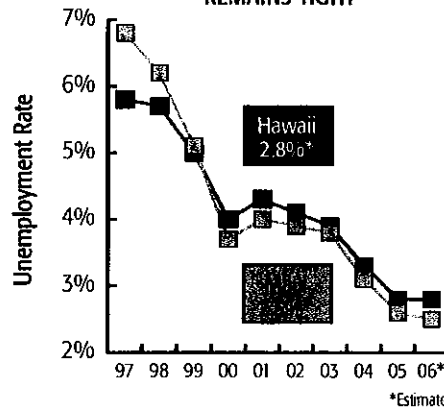
Maui's remaining sugar plantation, HC&S, has a good current position and future outlook. This year, production will be about 200,000 tons of sugar, around 10% lower than they would like. Production is still being affected by earlier drought years, but sugar prices are up some.

The plantation is also selling more power to Maui Electric, so higher energy prices are actually a net positive for HC&S. Its ethanol production efforts are still being pursued, even though that endeavor has fallen short of earlier goals.

The real future of Maui agriculture is in smaller niche operations. That can be tricky. Paradise Flower Farms is feeling the effects of Thai competition on its lei production. But Alii Kula Lavender in Kula is a current example of an operation that has found a popular niche. It partners with other producers to make and sell everything from lavender tea, lemonade, and scones to soap and shaving cream. Last year's sales increased 70%, and it expects another 50% increase in 2006.

Another operation that has proven its staying power is upcountry Ulupalakua Ranch and its Tedeschi Vineyard. Visitor traffic has exploded over the years to around 1,000 a day.

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MAUI JOB CREATION ACCELERATES

