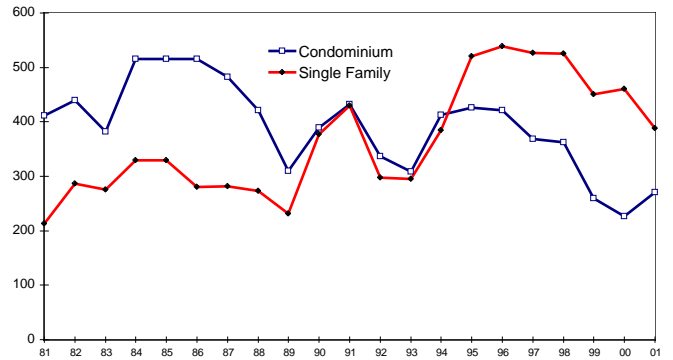


KAUAI INDICATORS

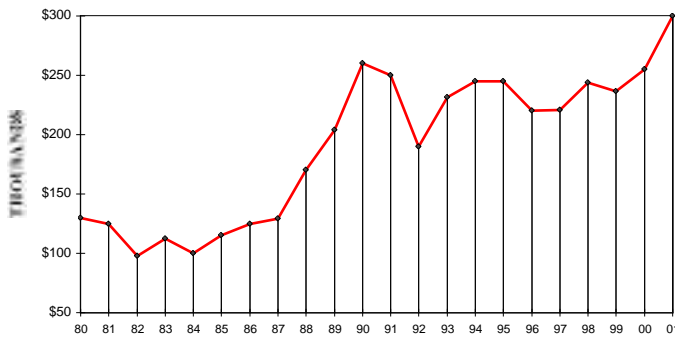
PRUDENTIAL LOCATIONS Real Estate Sales & Research



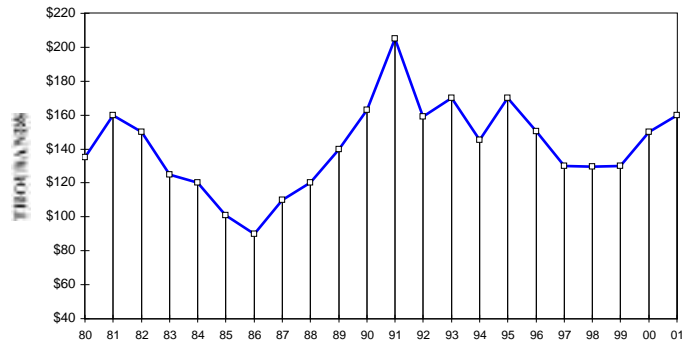
KAUAI RESIDENTIAL LISTINGS



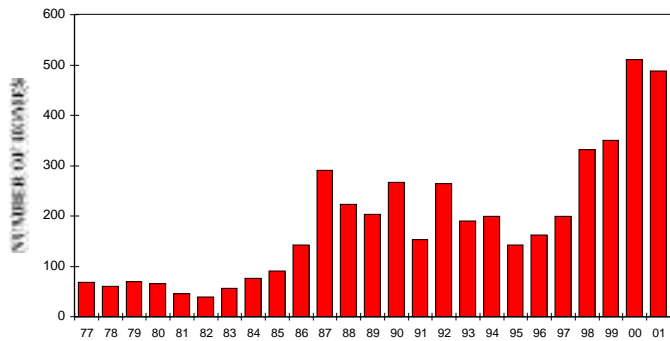
MEDIAN SINGLE FAMILY RESALE PRICES



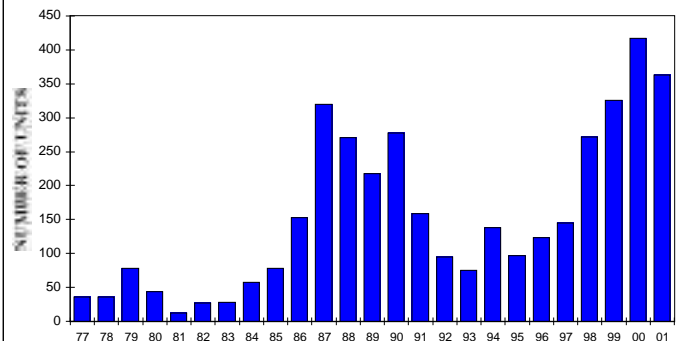
MEDIAN CONDO RESALE PRICES



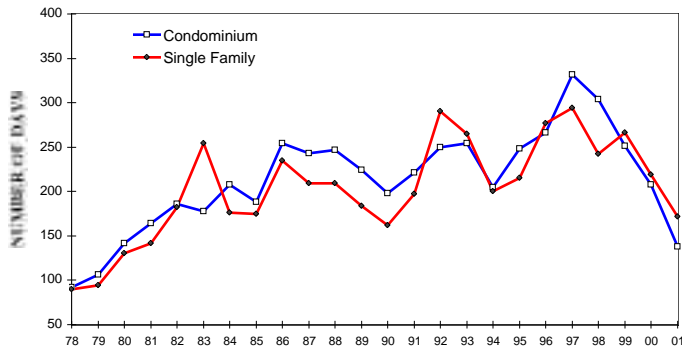
KAUAI ANNUAL SINGLE FAMILY REALES



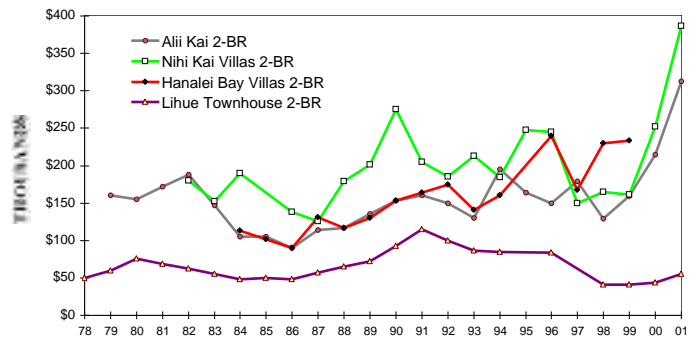
KAUAI ANNUAL CONDO RESALE



AVERAGE SOLD MARKET TIME

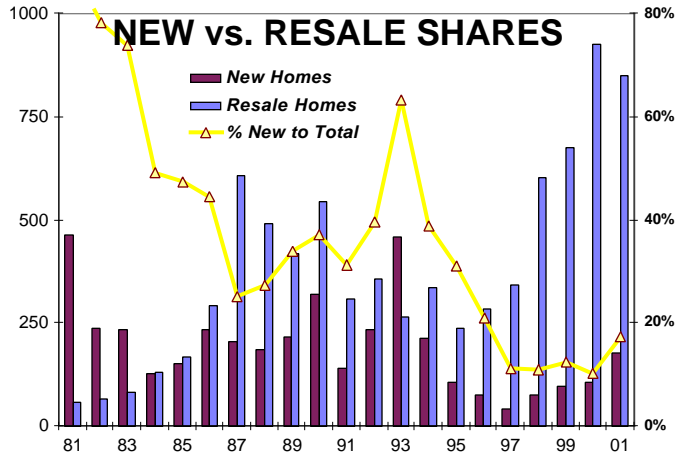


SELECTED MEDIAN CONDO RESALE PRICES



PREDICTION

Going forward, we note that the new home market is under producing, relative to historical levels: this market usually services around 25% (excluding the extraordinary years when hurricane replacement housing was in full swing) of the total housing demand for the island, selling one



home for every three that are sold in the resale market. But, over the last five years, developers are only servicing 13% of the market.

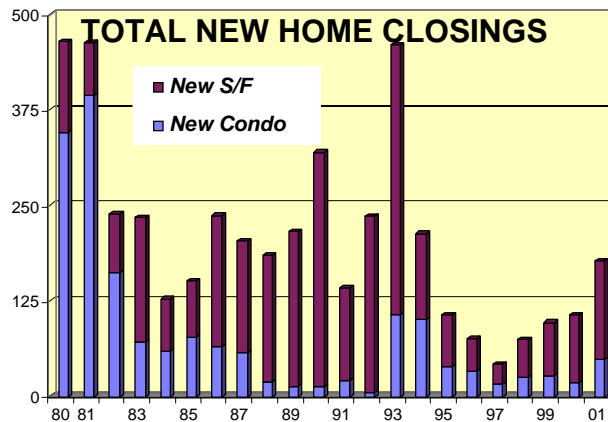
We think that this might be an opportunity for new home development. The sources for this demand? the housing stock of the island has been aging, the population has been growing and demand for second homes has strongly increased over the last five years.

Written By Ricky Cassiday, MSFS
ricky.cassiday@pruhawaii.com

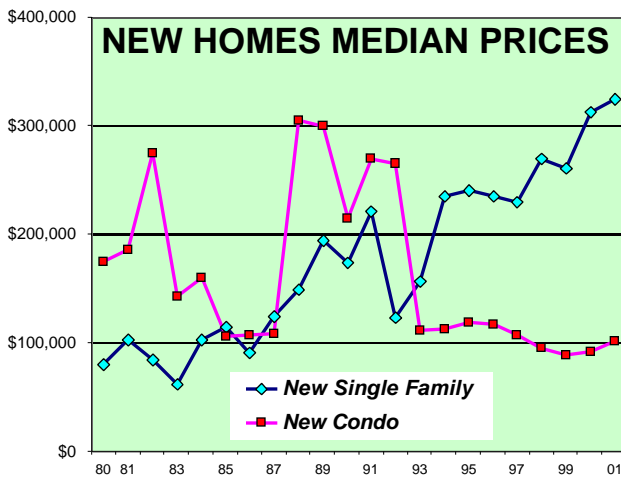
Up until 9/11, this would have been our forecast. However, the downturn in the economy here and abroad led us to present another possible scenario, one that accommodates a more pessimistic view of the future: this one is characterized by the red arrow, and shows no changes in median prices, as well as falling sales.

KAUAI NEW HOMES MARKET:

CLOSINGS: From a developer’s perspective, the market for new homes on Kauai is growing nicely this year. For 2001, sales are forecast to be around 60% higher than 2000. This is obviously thanks to strong single-family demand, both local and offshore. Condominiums have also improved, but nowhere like single-family demand.



Looking backwards, sales are nearly four times where they were at the low of the market, set in 1997. However, in terms of developer activity, 2001 looks to be the first ‘normal’ year in the last 10. This is because the hurricane affected the market, forcing first a high level of activity in order to replace what was destroyed in 1993. Thereafter, there was a very low level of activity, as replacement housing demand was exhausted... and new housing demand was not forthcoming, thanks to a weak economy.



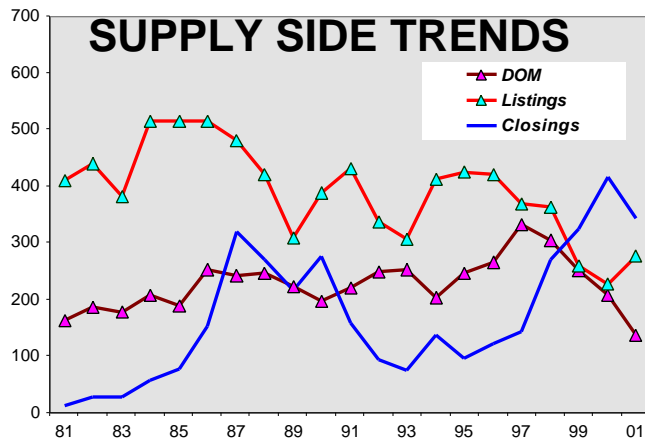
PRICES: Single-family median prices are up some 24% over the last 21 months, while new condominium prices are up 15%. In a longer term context, these new home prices have gone in two directions:

One is upwards for single family homes, thanks to a good combination of steady local demand with strong off-island demand. The other direction is flat for condominium homes, thanks to a lack of demand. This both is from offshore buyers, who buy new condos in resort areas, and from local residents, who buy new condos in a

location that is high-priced. Kauai does not really have an urban core or central focus of living activity, which would allow high land values (which itself translates into high prices for attached housing).

SUPPLY SIDE

LISTINGS: Listings have bounced back up from the all-time low, 227 condos on the market, set last year. Currently at 271 units on the market, they have moved higher by 19% this year. In contrast, they were down 13% and 28% the two years before this. This trend reversal started in the first quarter of this year, and has extended itself in each of the two quarters since then.



Currently at 271 units on the market, they have moved higher by 19% this year. In contrast, they were down 13% and 28% the two years before this. This trend reversal started in the first quarter of this year, and has extended itself in each of the two quarters since then.

DAYS ON MARKET (DOM): Days on Market is at an all-time low, at 138 days. It is down 34% since last year, which was 208 days. This shrinkage is in addition to the 17% reduction in each of 1999 and 1998. The last peak in the market for this indicator was set in

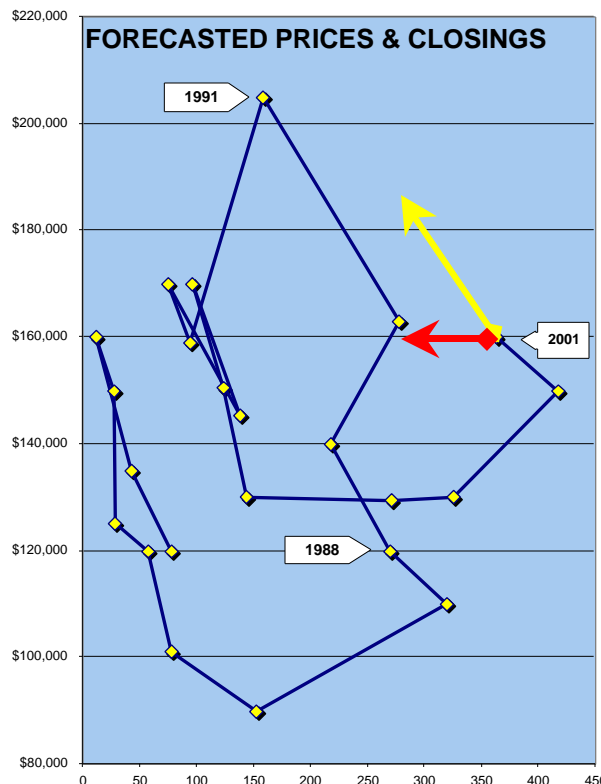
1997, at 332 days. It has never been as low as this, inasmuch as the market is absorbing available units in record time.

MONTHS OF REMAINING INVENTORY (MRI): MRI is the number of listings divided by the number of sales for a period, and indicates how quickly demand is exhausting supply. Currently, this stands at 9 months, up some 37% from last year's historic low of 6.5 months. Prior to that, it had been declining for 5 years straight, signaling that demand had consistently outstripped supply.

PREDICTION

Here, please refer to the chart entitled "Forecast Prices & Sales." The points on the blue line represent the intersection of closings and prices for every year since 1979 (when the annual condominium closings were 78 and the median price was \$120,000). The line ends at 2001, as noted by the call-out box.

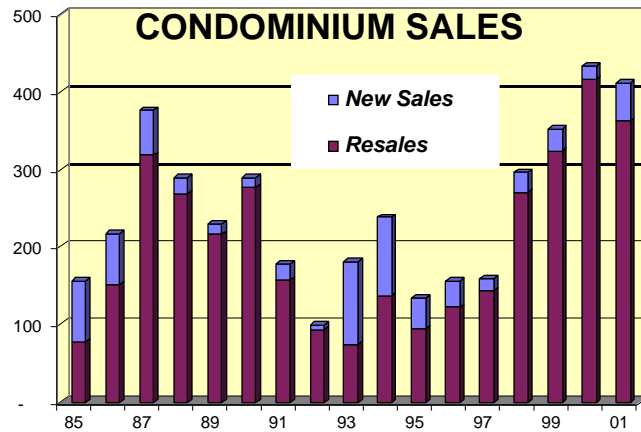
There is an additional call out box, with the year inset: 1988. This is because we think that 1988 demonstrates a point in the real estate cycle that relates to where we currently are. To explain, in 1988, closings had risen after four to five years of shrinking sales, and prices were rising. Thus, conditions were ripe for the market to enjoy another year of price increases, as well as a fall in sales activity. This is why we forecast the market in 2002 moving upwards and leftwards, as characterized by the yellow arrow (higher prices, lower sales).



KAUAI'S CONDOMINIUM FAMILY RESIDENTAL MARKET

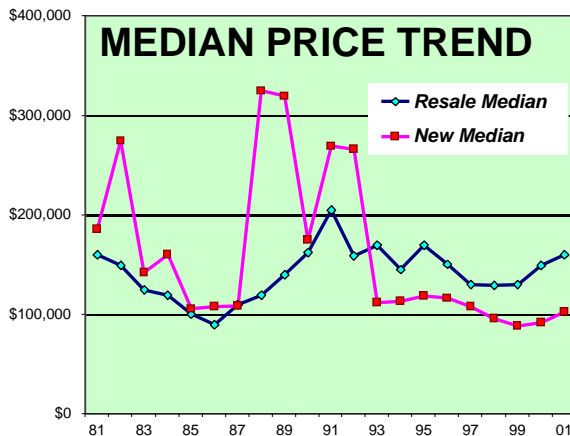
MARKET DEMAND

CLOSINGS: Like single-family homes, the multifamily market set a record high last year, hitting 435 sales. This was a rise of over 20% from 2000. The prior high was 377 sales, set in 1987. After five straight years of higher closings, we expect that the market this year will take a break; we are forecasting that sales this year will come in around 412 homes, down by some 5%, but still the second best year on record.



This activity is primarily concentrated in the RESALE market, which set a record last year, as well as the year before. We are forecasting that 2001 will see 363 resale closings, off 13% from 2000, but still the second highest year on record.

On the other hand, we are forecasting that the NEW HOMES market will rise this year, but only from a very low level. It will be up by almost double, but this is still only half of what it was during the last peak in 1993. Currently, developers are hoping that a lower level of economic activity will favor lower price points for housing... which is the strong selling point for condominium housing.



PRICES: The median prices for all condominiums, new and resale, have jumped to around \$154,000 this year, up 4% from 2000. This comes on the heels of a 16% rise last year, so the prices are slowing down a bit. They are up 22% from the last low set in 1998, but are 27% below the last peak in prices set in 1991.

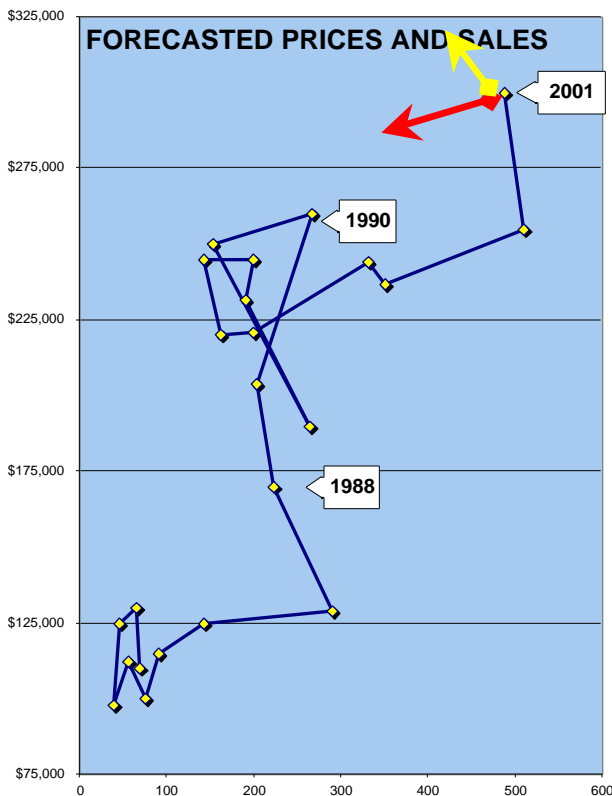
The RESALE market's median price is at \$160,000, up 7% from last year. The year before, 1999, it enjoyed a boost upwards of 15%. Overall, it has not moved close to the all-time highs... but those were set in years that the hurricane affected the market. It currently is higher than the median price set in 8 out of the last 10 years. The NEW HOME market's median price has risen by some 11% this year, after a 4% rise last year.

supply. At 9.1 months, the market is currently at an all-time low, with the next lowest level being established in 2000 (before that, 1987). It is arguably the purest indicator of the balance of supply and demand, and it has been declining for the last 6 years, signaling that demand has consistently outstripped supply. The continuation of this trend results in prices rising, thanks to good demand.

PREDICTION

Here, please refer to the chart entitled "Forecasted Prices & Sales." The points on the blue line represent the intersection of closings and prices for every year since 1979 (when the annual condominium closings were 69 and the median price was \$110,000). The line ends at 2001, as noted by the call-out box, with 490 closings at a median price of \$300,000. There are two additional call out boxes, with the year inset: 1988, and 1990.

We think that these two points demonstrate market conditions that could exist in the coming year. Take 1988, for instance: closings had been rising for a number of years, and prices have finally



made a strong move upwards. Thereafter, sales continued to shrink, and prices continued to rise. this would have been our forecast (as characterized by the yellow arrow), up until the 9/11 attacks.

However, the downturn in the economy here and abroad led us to show another possible scenario: that one illustrated by 1990, when the market fell in terms of sales and prices (as characterized by the red arrow). Given that visitor traffic to Kauai has held up well since the WTT attack, we tend to believe the market trend next year will move in the direction of the yellow, rather than the red, arrow.

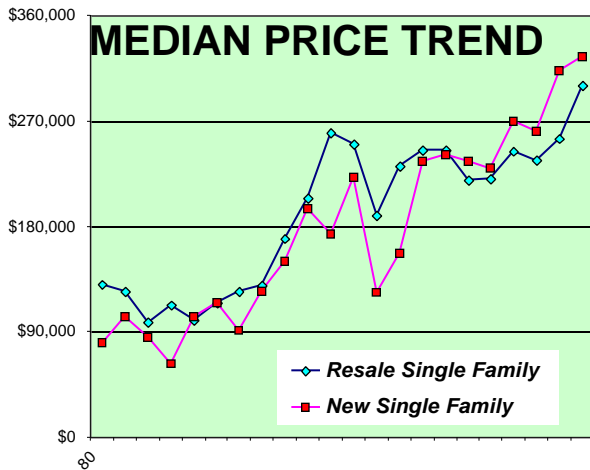
In general, there are two major external trends pulling at Kauai's real estate market: falling mortgage rates and a weakening island economy. While falling rates make homes more affordable, personal income and, more so, employment are the final determinants for a family in making a major purchase.

Now, the effect of lower visitor arrivals may be overblown. Indeed, visitor counts in the months after September have been very comparable to those of September 2000. Should the US economy follow the stock market upwards, and should this translate to visitor spending in Hawaii at levels somewhat near to what occurred in 2000, then we think that job losses will become job gains, at least by this time next year. Currently, DBEDT is predicting that our state economy is looking at 1% growth this year, minus 0.1% next year, and then 2-3% growth in 2003.

(the one before that was in 1982).

The RESALE market is on track to sell around 490 homes in 2001. This is some twenty under last year's 510 closings, which was an all-time high. It is also down from the 519 sales we predicted for 2001 in our Real Estate Indicator last quarter. However, from the bottom of the market in 1995, resales are up some 240%.

The NEW HOMES market is projected to enjoy about 120 closings this year, up some 30 from last year. This is due to continued lot development for offshore buyers and local residents.



PRICES: The median prices for the combined single-family market rose nicely this year, up 15% from 2000. In fact, they set a record, overcoming the last record of \$260,000 set last year. Underwriting this was a strong push upwards by RESALE prices, which also set an all-time record. This year, median prices have hit \$300,000, up 18% from 2000's \$255,000.

year, but only at an increase of 4% over 2000.

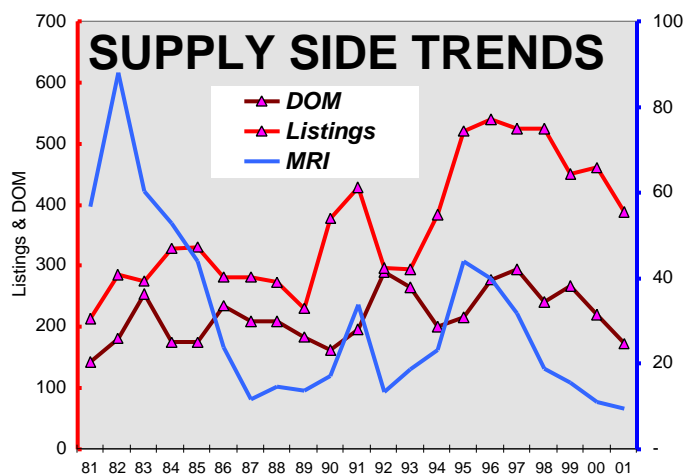
NEW homes prices have risen also this

In the near-term, we expect prices to remain steady, or continue to drift lower, especially if the sales activity slows. On the other hand, the fall in interest rates is likely to stimulate sales, as it increases buyer purchasing power, but not enough to affect prices.

SUPPLY SIDE

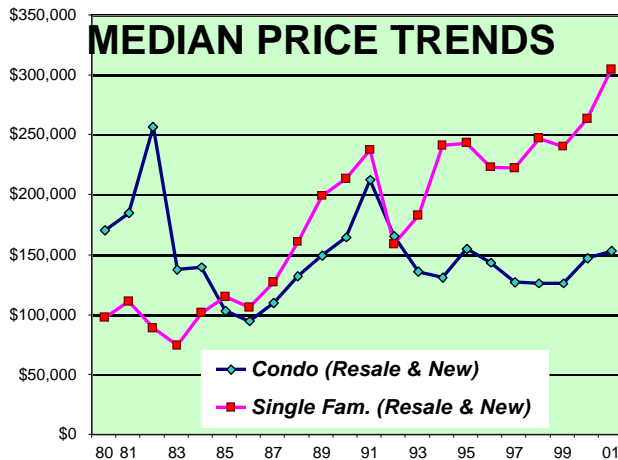
LISTINGS: RESALE Listings have fallen from 461 homes available at the end of 2000, to 354 at the end of the third quarter 2001. This is down by some 23%. In 2000, listings rose slightly, 2%, after falling by 14% in 1999. At current levels, listings are a third of the way down from their last high, set in 1996, but only 20% above their most recent low, set in 1993.

DAYS ON MARKET: Days on Market (DOM) has also fallen in 2001, about as dramatically as listings: it is off 21% this year, in addition to the 18% reduction last year. Overall, DOM is 41% down from the high set back in 1997. On the other hand, it is within 6% of it's all-time low, so it is possible that the next move will be a reversal of itself... although the market still looks good.



MONTHS OF REMAINING INVENTORY: The MRI indicates how quickly demand is exhausting

developers... who are now beginning to take up advantage of the opportunity given by higher resale prices.



The single-family component of the market is the strongest sector, up by over 40% in 2000. Last year, it blew by the all-time record high set in 1990; this year, we forecast that the market will set another record, but not by very much.

The condominium market also has performed well, but much of its growth came earlier (1997-98). Growth last year was half that of single family, and we think it will shrink by 3% this year.

PRICES: The overall median price for homes on Kauai has climbed by around 14% both this year and last. The year before, 1999, they were down slightly (and then up and down for much of the decade).

Condominium prices have been on a downward trend over much of the last ten years... and, despite the economic recovery, they have not really responded to strong growth of demand.

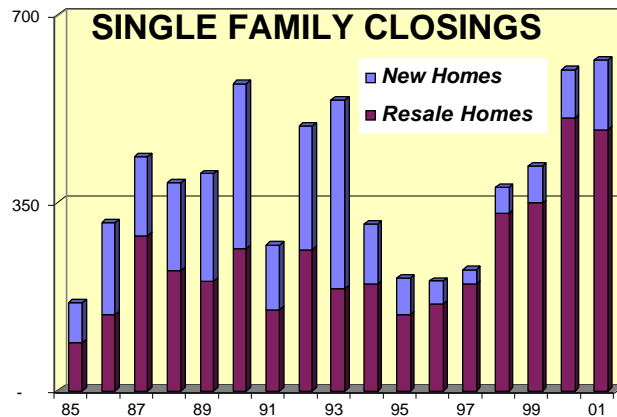
Against this background, there is an expectation that prices would continue to rise this year. This is due to a number of factors: a falling inventory of condominium housing, a lack of new condominium development and a rising level of rental rates. That said, the 9/11 surprise attack has reduced this certainty that condominium prices would continue to march upwards next year.

On the other hand, single-family home prices have been able to enjoy record prices for the last two years. Why? Single-family living is more desirable than condominium living... especially for local residents. And the economic recovery has fueled their ability to buy this more expensive form of housing. In addition, off shore buyers entered this market at the end of the stock market boom 1998-2000, with substantial resources. Traditionally, this demand has been satisfied by condominium housing near or on resort communities.

KAUAI'S SINGLE FAMILY RESIDENTIAL MARKET:

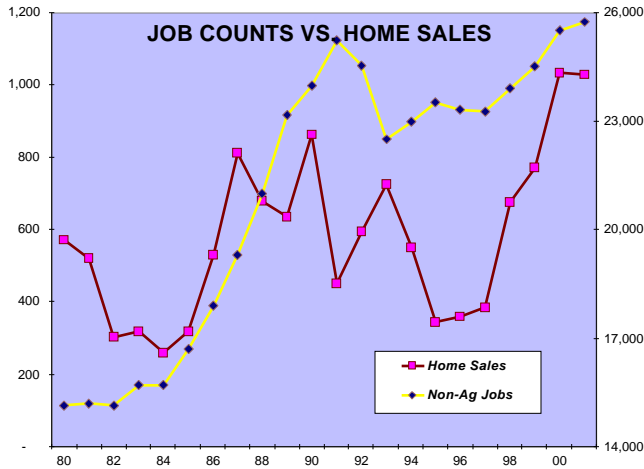
MARKET DEMAND

CLOSINGS: Last year, the total single-family market hit an all-time record high for sales: 599 homes. This year, thanks to the production of new homes, it looks like it will come in just above that mark. We expect overall single family residential sales this year of about 616 homes, up about 3% from 2000. Remarkably, Kauai has seen higher sales levels in each of the past 4 years, and is currently about 200% over the most recent low which was set in 1996



OVERVIEW

Up until 9/11, the residential real estate market on Kauai seemed poised to expand in terms of closings, as well as prices. This expectation was underwritten by a growing local economy and confident consumers, who had been able to replenish their financial position after the 1991 hurricane and the business doldrums, 1991-1997. Over the last two years, for instance, jobs grew by 3-4%; GET and Income Tax revenues were up 6-12%; hotel occupancies were up 6-7%; and room rates have grown 4-8%.



However, the September sneak attack changed much of this: visitor arrivals fell 27% in September 2001, relative to September 2000; private building permits fell by the same amount; and, for the 3Q, the number of unemployed rose 4%.

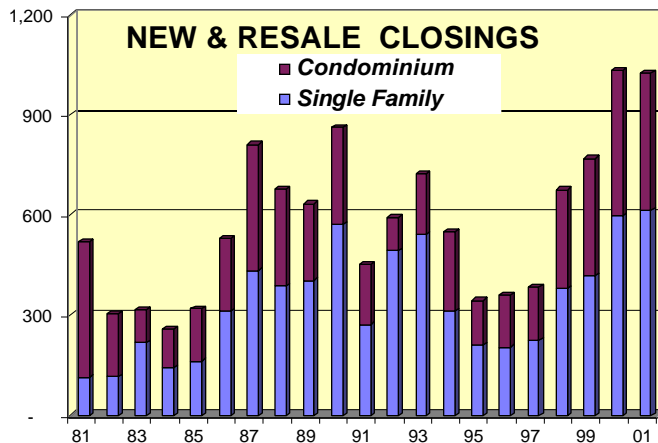
The effect on the residential real estate market? We foresee a slowdown in demand in those parts of the market that service those job sectors most affected by the visitor arrival slowdown.

Which market segments are candidates for experiencing such a slowdown? Pretty much everything, save for housing that is favored by public sector worker households (particularly federal workers). That said, we do believe the effects of this will be short-lived and relatively shallow. This is based on the strong rebound in visitor traffic since September, plus the ongoing construction of both public and private sector projects.

Which market segments are candidates

THE OVERALL RESIDENTIAL HOUSING MARKET

SALES: Last year, the housing market enjoyed closings of over 1,000 homes, an all-time record well ahead last one, set in 1990 when there was a lot of hurricane-damage related reconstruction. This year, closings are expected to come in at around 970 units, around 4% lower than 2000. However, given that the overall market has risen three-fold from the floor in 1995, such a respite is not out of order.



The mainstay of the market is the resale market, which has enjoyed record demand last year. There were 927 transactions, and that was 37% higher than 1999's 675 closings. This year, we are projecting sales to be in the range of 850 closings, off some 8%. Indeed, this up trend has revived the island's new home

KAUAI REAL ESTATE INDICATORS

Third Quarter, 2001

by Ricky Cassiday



DATA@WORK

REAL ESTATE MARKET RESEARCH

860 Onaha Street, Honolulu, Hawaii 96816

(808) 738-3227 office, and (808) 291-4407 cell

• rcassiday@aol.com •

Although this report has been carefully compiled from sources believed to be reliable, there is no guarantee of accuracy. Further, the opinions are personal to the author. Any conclusions drawn from reading this report are the responsibility of the reader, and the reader alone.

APPENDIX

1. KAUAI ECONOMIC INDICATORS
2. KAUAI REAL ESTATE INDICATOR, 3RD QUARTER

XIII. SUMMARY AND PROJECTIONS

Overall, the economic conditions on Kauai are producing a growing demand for housing of all kinds, but particularly for that which would be satisfied by the kind of units proposed by the proposed development. The overall real estate market has enjoyed much higher levels of transactions, many of which were purchases made to offshore buyers. This means that units were taken off the market, reducing the level of housing stock available to local residents.

Following on to higher closings comes higher prices, across all market segments, high to low. With the rise in prices, as well as the reduction of available housing stock comes a rise in rental rates.

There has been a corresponding increase in development activity, but not of the kind that would service the housing needs of those at the low end of the market. Thus, we have an overall housing market characterized by low supply and growing demand, particularly at the lower ends of the income group demographics.

Taking demand first, Kauai's overall rental market has tightened over the past few years, both at the high-end of the market (vacation rentals, primarily) and the low-end. Looking ahead at continued visitor growth and greater economic activity, there are ample reasons to believe there will be continued upward pressure on rental rates. This is particularly noticeable in the area and community surrounding the proposed project.

Within the affordable rental sub-market, our analysis illustrates that the rental market is experiencing strong demand. There are no units on the open market at these rental prices, and current projects have long and lengthening wait lists in place.

On the supply side, the tight market conditions also were noted, inasmuch as the present inventory is 100% occupied. In addition, an examination of future supply was made and we found there are very few projects in the works that target either the general long-term rental market demand, or the specific target market demand.

Thus, we concluded that neither current nor future supply does not appear sufficient to absorb significantly the current and projected demand in this market.

Therefore, we believe the project should be able to achieve similar rental rates as the other affordable rental projects and achieve a rapid absorption. The developer can anticipate between 80 and 160 applications within four to twelve months after marketing is commenced. Of those, the developer should be able to convert enough to be able to reach final occupancy within a six to twelve month period after the project has been completed.

SUMMARY: A review of the competitive environment the project will be operating in shows that there are signs of good demand for such units. Further, on the qualitative side, the project meets or exceeds a number of renter preferences, particularly the two most important -- good location, new construction and sensible design.

XII. ABSORPTION ANALYSIS

Housing absorption analysis is performed here in order to be able to project the point at which supply meets demand -- where equilibrium is achieved at a particular moment for both price and units.

For this project, the most important factor appears to be large demand for rental units, which has impacted the prices of rents on the open market significantly over the last 24 months.

The second most important factor appears to be a limitation of the supply of rental units suitable for the target market. This lack of supply is indicated, as noted above, by firstly, conditions in the affordable rental market, as manifested by long wait lists and the lack of vacancies in the competing projects. It is supported by conditions in the open market rental market.

Factors on the demand side that are acting in support of the projection of quick occupancy for the proposed development include the following:

- There is a lengthening of the wait lists those projects that serve the lower income household applicants, plus the aforementioned dearth of vacancies in the existing projects.
- There is demographic analysis showing a growing population on the island, many of whom will demand affordable rental units.
- There is demand also coming from the present group of affordable unit renters, who would transfer to this development in order to upgrade their accommodations and/or relocate to improve their access to desirable jobs, services and facilities.
- There is 'pent-up' or unsatisfied demand historically, of people out there who are living with relatives or in less-than-desirable accommodations because there has been nothing offered to them in the price range they can afford.

In consideration of the supply constraints and of the demand pressures, it is likely that the project will be given strong consideration by a large number of potential renters in a very short span of time.

CONCLUSIONS: Relative to most other affordable rental projects, Kalepa Village offers a superior location and new facilities. It will also be accorded the additional benefit of paying significantly less than most of the other rental properties. Thus, it is likely that much of the current and future demand will be directed to the proposed project.

lists that the individual managers are looking at have, in the last several months, lengthened considerably. The reason they say is that demand has picked up, but there is no significant relief available in terms of supply.

PROJECTED NEW INVENTORY: Within the target market area, currently there is only one new affordable rental project planned to be built. This is for some 20 single-family rental units, to be located in West Kauai, near Port Allen. For the following reasons, this project is not considered competitive with the proposed development here:

- It is not a significant number of rentals,
- It is not in a very desirable area (indeed, it is outside of the target market area defined in the one, two and three bedroom comparison above), and
- It will rent at rates higher than those contemplated here.

There may be other projects in the works that are not mentioned here –there is always the possibility that other local investment entities may be researching the opportunities in the affordable rental market. That said, the process of applying and being accorded tax credits takes about 12 months, and is a competitive process. Add to that the 12-month period for build-out, and you have a two-year timeline before any competitive project would be ready for occupancy.

XI. COMPETITION WITHIN THE AFFORDABLE RENTAL MARKET

WAIT LISTS: Rental agents specializing in the market have indicated that demand for affordable rental housing on Kauai has noticeably tightened overall in the last twelve to eighteen months, particularly in the target area. Indeed, they say that demand at most levels for rental units is quite strong.

Importantly, a survey of the affordable rental projects on Kauai done three months after the 9/11 tragedy showed that none of the renters that were in-place at the time of the attack have left their units, due to that or any other event or condition. Furthermore, there have been no job losses within that in-place group of renters at the time of that interview, early December.

Additionally, it was noted that only one out of four households receiving Section 8 vouchers on Kauai were able to locate a rental unit. That implies a degree of unfulfilled demand, which bodes well for this or any other affordable rental project.

RENTER PREFERENCES: In terms of meeting the qualitative needs of affordable renters, rental agents and other professionals have made the following observations:

- The 'location' is very important to renters. The preference here is determined by proximity to family and friends, proximity (or the facility of access) to the necessities of shopping, recreation, medical services, etc.
- The condition of their living facilities is very important: in general, the physical housing plant on Kauai, and particularly those in and around Lihue that would house these families, has aged over the last decade -- the economic slowdown has retarded the impetus to either build new facilities, or upgrade present ones.

IX. THE CURRENT SUPPLY OF RENTAL UNITS

ATTACHED HOUSING INVENTORY: Here is provided a description of the stock of residential housing on Kauai, with an emphasis on Lihue, where the subject property is located.

There are some 7,500 residential living units on Kauai that are attached (apartment, town home or condominium).

- Of those, 75% are located within 20 miles of the subject property, with Poipu – Koloa (zone 2) having the highest concentration of such units on the island, some 28% (about 2,200 units), with Lihue (zone 3) being next (about 2,100 units).
- While 36% of attached units on the island are fee-simple, there is a higher concentration of leasehold in Lihue, over 45%.
- Most these units are configured as one and two bedroom units, 37% and 45% respectively, both for the island and Lihue.
- The bulk of the units in Lihue were built in the last decade (over 50%), which is in stark contrast to the rest of the island – only 27% were built in the 90s and 43% were built in the 70s. Hence, Lihue is the most modern housing stock on the island.

Much of this housing stock is oriented towards rentals: only 10% of attached housing stock on the island is classified as 'owner-occupant,' with Lihue coming in a bit higher, at 20%. As such, most of supply of condominium units on Kauai can be characterized as being primarily oriented towards rental purposes. Furthermore, many are oriented to serve visitor demand, for short-term rentals, rather than long-term, or residential, rental demand. One way of understanding this is by classifying these units by their assessed value. Only 1% of all units have an assessed value of under \$100,000, and almost all are located in Lihue, Zone 3.

AVERAGE ASSESSED VALUE OF UNITS (\$000s)

Zone	<\$100	\$100-\$150	\$150-\$200	>\$200
2	0.0%	9.8%	26.8%	63.4%
3	3.2%	21.8%	42.0%	33.0%
4	0.1%	38.3%	31.3%	30.3%
Total	0.9%	18.6%	35.8%	44.7%

X. THE CURRENT SUPPLY OF AFFORDABLE RENTAL UNITS

CURRENT INVENTORY: The state Hawaii Housing Authority manages ten low-income rental projects on Kauai, totaling some 350 units. They are all 100% rented out, with long waiting lists in place.

CURRENT MARKET CONDITIONS: A survey of those managing the current inventory of affordable rental projects indicated the market began to tighten about 18 months ago, and has remained tight through to the beginning of this year, 2002. This includes projects with one, two and three bedrooms, as well as those with smaller units. The wait

For the island, these rents are up by over 30% in the last four years, while availabilities are down by about a fifth.

ADS AND RATES FOR TARGET AREA PER MONTH

	Ads	Rents
1997	0.3	\$ 751
1998	4.4	\$ 807
1999	1.8	\$ 859
2000	0.9	\$ 977
2001	0.8	\$ 950

In terms of the target area, the rents are up by a quarter over the last four years, although down last year by 3%. In terms of availabilities, they are down by a quarter. The slight falloff last year may be due to inferior units becoming available.

CONCLUSIONS: A number of indices of the rental market were analyzed and, in general, were found to indicate there would be a further tightening in the rental market.

VIII. CURRENT MARKET RENTALS COMPARED TO PROJECT RENTALS

OVERVIEW: Here, we want to look specifically at the relationship between the multi-year data series describing the rental market by one, two and three bedroom units, and what the proposed development is proposing to provide.

The table below describes this, using the more conservative rental levels from the target market (rather than for the whole island):

MARKET RENTS COMPARED TO PROJECT RENTAL RATES

	One Bedroom	Two Bedrooms	Three Bedrooms
Rents @ 30% AMI	\$ 279	\$ 321	\$ 365
Rents @ 50% AMI	\$ 495	\$ 595	\$ 695
Upper Limit of 50% AMI	\$ 520	\$ 611	\$ 701
Ave. Market Rents 2000-2001	\$ 640	\$ 780	\$ 964
Spread between Affordables & Markets	\$120	\$ 169	\$ 263

Note that, in an attempt to be even more conservative, the market rental rates are an average of the last two years. This would more than negate any short-term affect on the market from the 9/11 tragedy.

As can be seen, the market will be charging a rental premium of between \$120 (one bedrooms) to \$260 (three bedrooms) in comparison with the UPPER limit of the proposed development's units.

CONCLUSION: The proposed pricing of the project appears to be well sheltered from price competition from the open market.

TWO BEDROOM MARKET: Like the one bedroom market, the rental market for two-bedroom units is on a downward trend in terms of the level of the inventory of rental units, and an upward one in terms of rental rates.

ADS AND RATES FOR KAUAI PER MONTH

	Ads	Rents
1994	10.0	\$ 945
1995	13.6	\$ 813
1996	13.1	\$ 784
1997	8.8	\$ 764
1998	13.0	\$ 769
1999	6.2	\$ 778
2000	5.0	\$ 821
2001	3.0	\$ 980

Overall, Kauai two bedroom rentals are up over 25% the last four years, while the availability is down by a factor of over three.

ADS AND RATES FOR TARGET AREA PER MONTH

	Ads	Rents
1994	9.5	\$ 942
1995	10.3	\$ 789
1996	10.8	\$ 771
1997	7.2	\$ 729
1998	9.7	\$ 749
1999	5.7	\$ 756
2000	3.9	\$ 764
2001	2.3	\$ 797

Within the target area, the same trend of lower rents but less availabilities is observable.

THREE BEDROOMS: This market shows that until a few years ago, there were no three-bedroom units advertised for rent.

ADS AND RATES FOR KAUAI PER MONTH

	Ads	Rents
1997	0.3	\$ 751
1998	5.3	\$ 835
1999	2.1	\$ 874
2000	0.9	\$ 977
2001	0.8	\$ 1,050

VII. THE RESIDENTIAL RENTAL MARKET COMPARABLES BY BEDROOM COUNTS

ONE BEDROOM MARKET: When the one bedroom market is looked at in terms of the distribution by price range, the market for these rentals island-wide has been rising: rents are up to around \$800 a unit last year, some 40% higher than where they were three years ago. Similarly, availabilities are way down, off almost by a factor of four from 1998.

ADS AND RATES FOR KAUAI PER MONTH

	Ads	Rents
1994	7.5	\$ 786
1995	8.1	\$ 684
1996	12.2	\$ 595
1997	8.5	\$ 590
1998	12.7	\$ 558
1999	7.2	\$ 605
2000	5.1	\$ 586
2001	3.5	\$ 799

In terms of the demand for one-bedroom units in the target market surrounding Lihue, which runs from Anahola to Kalaheo, that demand is described below:

ADS AND RATES FOR TARGET AREA PER MONTH

	Ads	Rents
1994	7.0	\$ 743
1995	7.4	\$ 680
1996	9.2	\$ 589
1997	7.1	\$ 590
1998	10.3	\$ 565
1999	6.2	\$ 620
2000	3.5	\$ 623
2001	2.3	\$ 657

While the level of rents demanded for one-bedroom rentals is higher outside the market area, the availability seems to be lower.

In terms of the frequency that these units are advertised, itself a surrogate measure of the depth of supply and demand in the market of each of these bedroom types, the following table describes the average number of units that comes to market every month.

THE FREQUENCY OF MULTIFAMILY ADS PER MONTH

	1 Bedroom	2 Bedroom	3 Bedroom
1994	7.5	10.0	-
1995	8.1	13.6	-
1996	12.2	13.1	-
1997	8.5	8.8	0.3
1998	12.7	13.0	5.3
1999	7.2	6.2	2.1
2000	5.1	5.0	0.9
2001	3.5	3.0	0.8

This table shows that the supply of units coming to market is being kept quite low by strong demand in the marketplace. The average number of rentals being advertised is very low in 2001 relative to earlier years: almost a quarter of what it was for the one and two bedrooms in 1998, and almost a fifth of what it was for the three bedrooms in 1998. This could show that demand (in terms of both word of mouth and quick absorption) is overly strong, relative to earlier times.

Turning to the other measure of supply and demand, rental rates, the table below shows the distribution of rents charged by the different bedroom types.

AVERAGE MULTIFAMILY RENTAL RATES FOR KAUAI PER MONTH

	1 Bedroom	2 Bedroom	3 Bedroom
1985	\$ 455	\$ 494	\$ 706
1987	\$ 589	\$ 787	\$ 900
1989	\$ 610	\$ 1,050	\$ 1,000
1991	\$ 749	\$ 1,000	\$ 1,070
1993	\$ 1,000	\$ 1,193	\$ 1,120
1995	\$ 684	\$ 813	\$ 1,048
1997	\$ 590	\$ 764	\$ 751
1999	\$ 605	\$ 778	\$ 874
2000	\$ 586	\$ 821	\$ 977
2001	\$ 799	\$ 980	\$ 1,050

Mirroring the trends illustrated in the advertisement frequency table immediately above, the market has tightened significantly in recent years.

Rates are generally at or above the peak of the market, if you exclude the levels reached in 1993, a year which was affected by Hurricane Iniki.

CONCLUSIONS: A number of inducers of the rental market that were found indicate there could be a further tightening in the rental market.

Anecdotally, the reason for this is the rise in traffic: the commute into Lihue from these surrounding areas has significantly lengthened in recent years (due to the economic recovery, no doubt).

THE MARKET SUPPLY BY NUMBER OF BEDROOMS: As the proposed development envisions producing three different units in terms of bedroom counts, we now turn to look at the rental rates on the open market in terms of number of bedrooms. The weighting of units by bedroom count for the proposed development is 10% for one bedrooms, 40% for two bedrooms and 50% for three bedrooms. This works out to 4 one bedrooms, 16 two bedrooms and 20 three bedrooms.

We looked at this distribution relative to the overall marketplace, to get an idea of the depth of the market in each category of bedroom count.

The stock (supply) of the multifamily inventory for the entire island (Total) and for each of the five TMK zones is described below:

THE SUPPLY OF MULTIFAMILY AVERAGE RENTS BY LOCATION

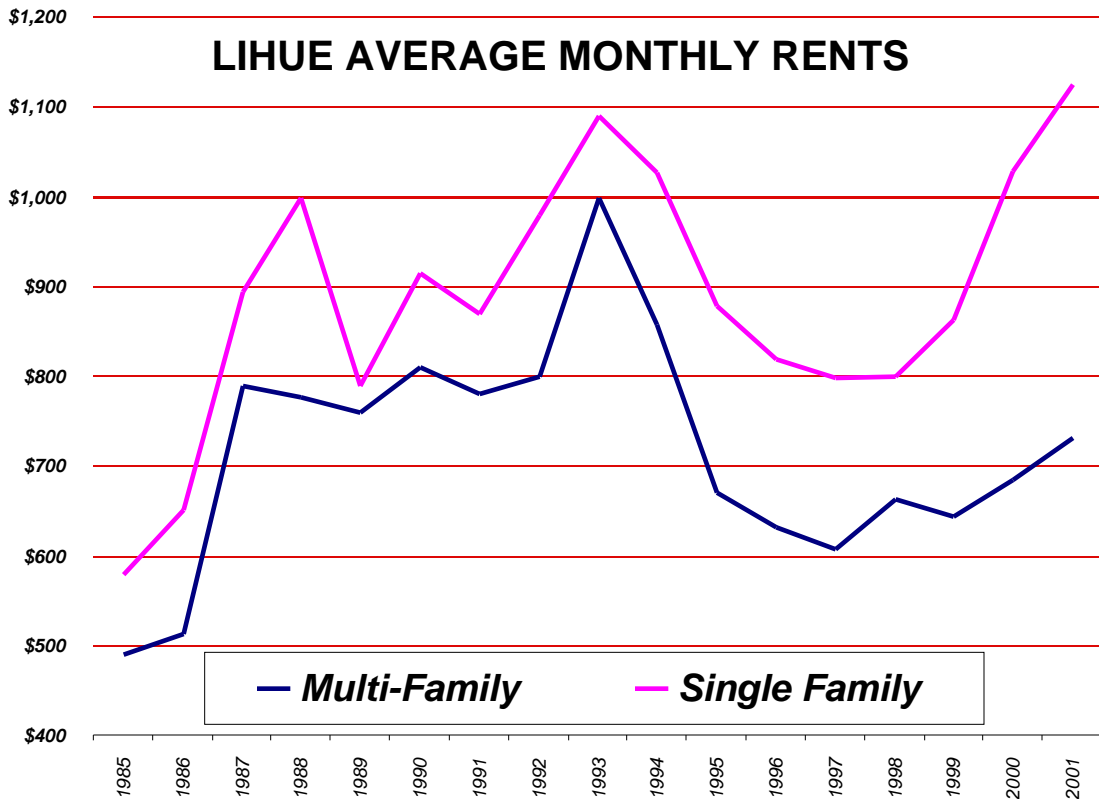
Zone	Zone	1 Bedroom	2 Bedroom	3 Bedroom
West Kauai	1	2	34	19
Poipu-Koloa	2	763	899	182
Lihue	3	614	809	78
Kapaa	4	516	290	145
North Shore	5	553	865	162
Total	Total	2,448	2,897	586

Zone	Zone	1 Bedroom	2 Bedroom	3 Bedroom
West Kauai	1	0.8%	13.0%	7.3%
Poipu-Koloa	2	36.0%	42.4%	8.6%
Lihue	3	29.4%	38.8%	3.7%
Kapaa	4	36.1%	20.3%	10.2%
North Shore	5	33.4%	52.2%	9.8%
Total	Total	32.4%	38.4%	7.8%

As can be seen, Lihue has significantly fewer three-bedroom units (78 units, or 3.7% of the total) than any of the surrounding areas. It would seem that the proposed project would help to remedy that imbalance by providing more such units to the market.

Relative to the other bedroom types, Lihue has slightly fewer one-bedroom units than anywhere else on the island, save West Kauai. It also has less two bedrooms than the Poipu area, but more than the Kapaa area.

As a result, rental rates for Lihue now are at a premium to those found in the greater (Koloa-Kapaa) area. This is interesting, given that the composition of rental units in the Koloa-Kapaa area includes a good number that target the visitor market... and, as such, are normally accorded a higher rental rate premium than the units in Lihue, which do not in general have many such short-term rentals.

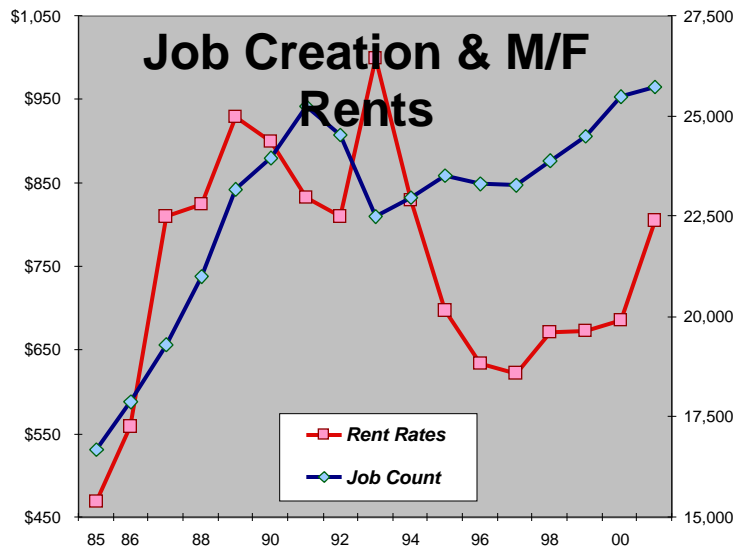


Here, we will make a further distinction in the market between the average rents charged in different locations. In terms of the level of average rents, Lihue is generally positioned to be in between Wailua-Anahola and Poipu-Kalheo.

Lihue's average rental rate over the last 8 years is \$658/month, as opposed to Poipu's \$731 and Wailua's \$597. This translates to a differential of a 10% price premium for an apartment rental in Poipu (relative to Lihue) and minus 10% in Wailua. In other words, rental units in the Poipu area are generally accorded a premium, due to the greater number of vacation rentals there... and vice versa, in terms of Wailua-Anahola.

However, over the last two years, the trend shows that the premium favoring Poipu over Lihue has been shrinking (from a ratio of Lihue garnering only 92% of the average rental rate of Poipu to a ratio of 98%) and that disfavoring Wailua spreading (from a ratio of Lihue earning 117% of the average rental rate of Wailua-Anahola to a ratio of 137%). Again, this speaks to the rising desirability of living in Lihue, relative to the surrounding communities.

This can be seen in the chart comparing job creation and rental levels: the year the hurricane hit rents went sky high (storm damage resulted in a lack of inventory) and jobs fell off significantly (with widespread destruction throughout the visitor industry, there was no need for those jobs). If one were to take an average of the three years on either side of the hurricane, then trend would be consistent with our earlier observation that rents are positively related to economic activity.



Having said that, the growth in jobs over the last eight-years or so has finally begun to have an effect on multifamily unit rental rents.

This can be seen clearly in the following table. Please note that the rental rates are separated into Kauai, i.e., the island as a whole; the Kapaa-Koloa area, in general; and, Lihue, in particular.

THE DISTRIBUTION OF MULTIFAMILY AVERAGE RENTS BY LOCATION

	Kauai	Koloa-Kapaa	Lihue
1985	\$ 470	\$ 510	\$ 490
1987	\$ 810	\$ 790	\$ 790
1989	\$ 929	\$ 870	\$ 760
1991	\$ 833	\$ 866	\$ 780
1993	\$ 1,000	\$ 1,033	\$ 1,000
1995	\$ 698	\$ 687	\$ 671
1997	\$ 622	\$ 611	\$ 608
1999	\$ 673	\$ 672	\$ 645
2000	\$ 687	\$ 684	\$ 685
2001	\$ 805	\$ 694	\$ 733

Looking at the trends in the table, it appears that Lihue has traditionally been accorded a lower level of rents by the market, relative to the surrounding area. However, of late, it appears to have been enjoying a newfound appreciation amongst renters.

The table below describes average monthly count of rental advertisements placed in the local Kauai newspaper, THE GARDEN ISLAND, for both single family and multifamily rental units. As can be seen, a trend in higher rents occurs after the monthly ad count number declines in a sustained fashion for a number of years.

For instance, monthly ad counts declined by 50% from 1998 to 2000, while rents rose by over 30%.

COMBINED M/F & S/F RENTAL MARKET CONDITIONS

	Ave. Ad Count	Average Rents
1994	58	\$1,093
1995	89	\$888
1996	76	\$795
1997	58	\$792
1998	70	\$761
1999	35	\$842
2000	36	\$1,011
2001	22	\$1,203

For the multifamily market, this trend is also in evidence, albeit somewhat diminished in terms of the rise in rental rates to a tightening in rental ads (i.e., rental supply). Here, it wasn't until after several years of shrinking ad counts, 1998-2001, that the rental rates rose. Last year, these rates went up about 17%.

M/F RENTAL MARKET CONDITIONS ONLY

	Ave. Ad Count	Average Rents
1994	21	\$830
1995	29	\$698
1996	34	\$635
1997	23	\$622
1998	34	\$671
1999	15	\$673
2000	13	\$687
2001	9	\$805

We note that currently (January 2002) there is about half last year's average ad count of nine: in the two weeks immediately prior to writing this, there were only three to five rental ads in the Kauai newspaper's classified section. Furthermore, there was only one ad for a unit in Lihue: a one-bedroom for \$650/month.

RENTAL RATES: Over the past 15 years, rental rates appear to reflect general economic activity throughout the county, with the one caveat encompassing the effect of Hurricane Iniki's devastation.

Relative to the other major population centers on the island, Lihue has the highest level of rental activity: there has been, in Lihue, an average of 6.4 apartments per month for rent on average over the last 8 years. By contrast, the next highest level of rental activity occurred in Wailua-Anahola and Poipu-Kalaheo, where in each locality, there were 5.7 apartments available for rent in any one month.

The other major distinction to make is the difference in the type of renters: vacation renters (short-term rentals) or local residents (long-term rentals). Due to the attractiveness of lifestyle on the island, coupled with its reputation as a high-quality vacation destination, there are a great number of rental units targeting visitors only. This market is characterized by high rental rates and quick turnover. It is also subject to drastic swings in demand, most recently demonstrated by the rise in cancellations of vacation rentals following the 9/11 tragedy.

The other component of the market consists of those units that cater to the local residential renter. These units do not enjoy as high rental rates, but have instead the benefit of having a much longer average period of time per rental agreement. As such, they are commonly known as 'long-term rentals' (in contrast to the vacation rental's moniker as 'short-term rentals').

It is a fact that Kauai's stock (supply) of rental units is relatively fixed in the short-run (inasmuch as development, providing new units to the market, takes a couple of years at the minimum). As such, the variable that most affects the market is changes in demand. Over the latter part of the 1990's, Kauai enjoyed strong growth in the demand for vacation rentals, thanks to the booming US economy. That caused many of Kauai's multifamily unit owners to consider catering to this demand, which brought with it higher rents. As they did so, they began to reduce the number of rentals available to local residents.

This is a trend that could well continue in the future, either at current levels or greater. Again, this would have an effect of making it more difficult for local residents, particularly at the low end, to obtain rental housing.

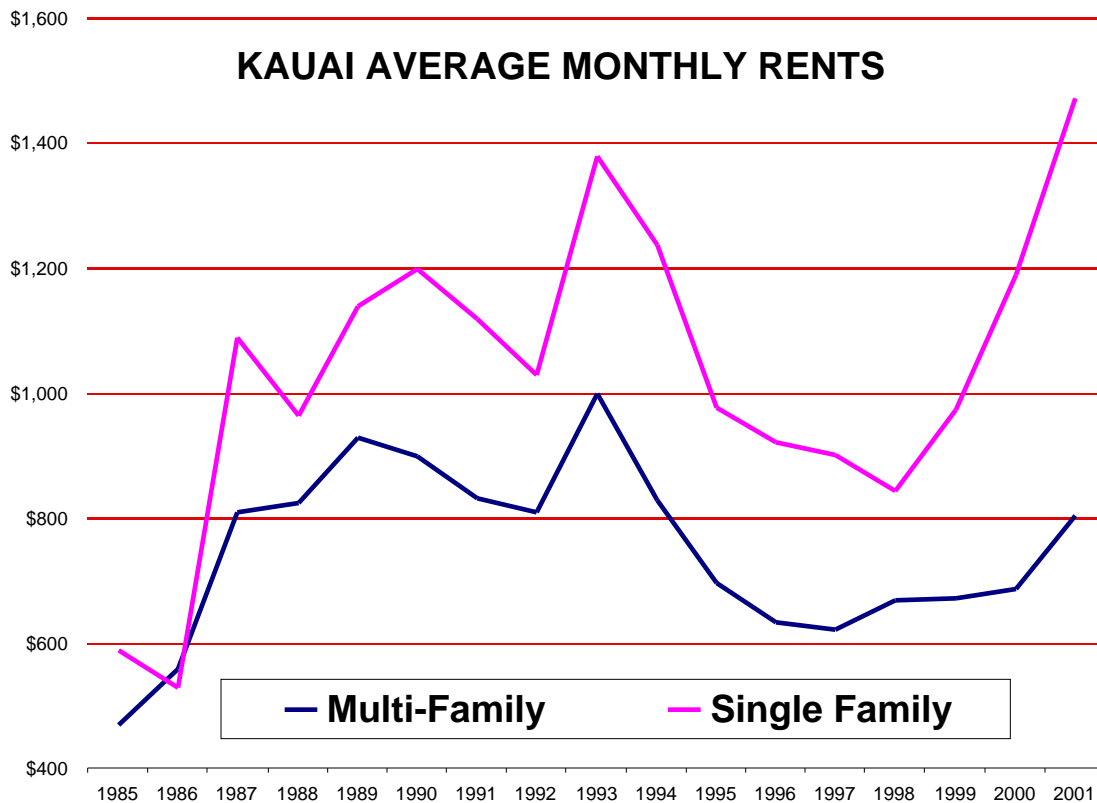
OVERALL: In reviewing conditions in the overall market for rental units on Kauai, one looks at a number of different indicators of supply and demand, including: Levels of Advertisements and Average Rental Rates.

RENTAL ADVERTISEMENTS: An excellent indicator of rental market supply conditions is the number of apartments that are advertised for rent in the local newspaper. This will be called "Ad Counts" in the following tables and charts, and we use it here as an indicator of the supply of rental units available to the market. In general, advertisement count is a counter-cyclical indicator: low numbers of advertisements are associated with strong (tight) rental market conditions while a high ad count number suggests there is excess supply relative to demand (a weak rental market: i.e., low rental prices).

VI. THE RESIDENTIAL RENTAL MARKET

BACKGROUND: Apartment living has been an important part of the county's housing market since the late 1960's. With developable land both limited and expensive, multi-family units have been the most efficient way to provide affordable housing for a significant percentage of residents. In general, multi-family means either apartments or condominiums... but it is defined here as attached housing units.

Multifamily renters include those households who are newly formed (such as moving out of their parent's homes to be on their own), established households that are downsizing (such as retired persons, those whose children have 'left the nest'), and others who do not have the desire or the ability to purchase real estate: all of them rely on the supply of available rental units for their housing needs. This applies, even more so, to those who are living on a fixed income: apartment living offers security, convenience, community and (hopefully) affordability.



Kauai's rental market can be divided into building type: there is multi-family (with a 24%-33% share of market), and also single family (67%-76%). The five-year average market share in the island for attached units is around 28%. When looking only at the area surrounding the proposed development, Lihue, that mix shifts in favor of attached units by 11 points: in other words, 39% of all rental unit types are attached, on average. In relation to the other major population concentrations on Kauai, Lihue has the highest mix of attached units.

future (1-3 years) is permits. This shows that residential permitting has jumped since 1998 to almost double that of earlier years. However, this hasn't translated to more condominium development: it has been concentrated heavily in the single-family development market.

By the same token, the permitting activity for residential additions and alterations (remodeling) grew sharply in 1998 and 1999, but has fallen the last two years. This says that there has been a drop in the creation of residential living space that low-income families could be housed within.

VALUE OF RESIDENTIAL CONSTRUCTION ON KAUAI (\$1,000)

	Residential Permits	Additions/Alterations Permits
1995	\$3,194	\$1,419
1996	\$5,032	\$1,586
1997	\$3,636	\$1,290
1998	\$4,033	\$2,044
1999	\$7,490	\$3,968
2000	\$8,102	\$2,737
2001	\$8,990	\$2,212
	<i>Annual Change</i>	<i>Annual Change</i>
1997	-28%	-19%
1998	11%	58%
1999	86%	94%
2000	8%	-31%
2001	11%	-19%

CONCLUSION & EXPECTATIONS: As described earlier in the section on the economy, jobs and personal income for those living on Kauai over the longer run are slated to grow, and grow well. This expansion of buying power will stimulate the island's housing demand in several ways.

- First, it will give those presently housed the confidence and wherewithal to move to a better home.
- Second, it will give those who are not current homeowners the means to go out and purchase a new home.
- And, finally, it will stimulate household formation, via job formation (which causes immigration), which will again put pressure on the real estate market to provide housing.

What can be said regarding homeownership can be said of rental housing demand: as the economy grows, so grows the number of households and individuals that need and can afford rental housing. Given this demand, as well as no readily apparent new sources of supply, rental rates should be moving upwards.

factors: a falling inventory of condominium housing, a lack of new condominium development and a rising level of rental rates. While the 9/11 surprise attack has reduced our certainty that prices would continue to rise year, it has not changed it. Hand-in-hand, single-family home prices also rose the last two years.

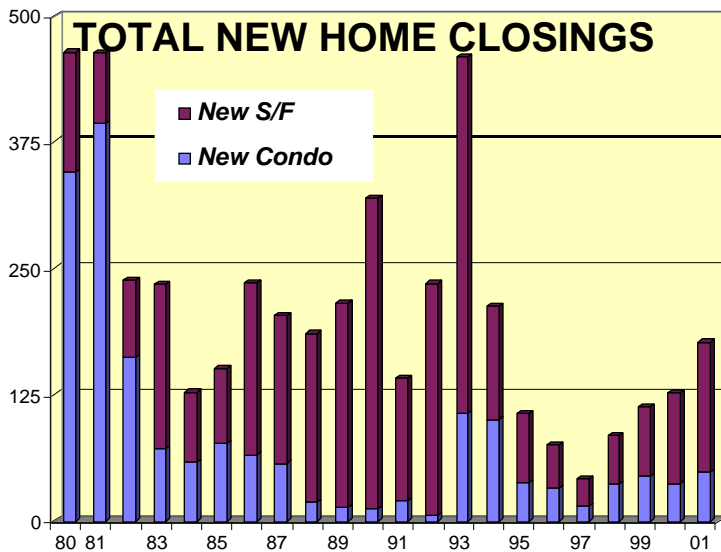
TREND AND FORECAST: In terms of the direction of housing demand on Kauai, we expected it to move higher in 2001-2002. This was underwritten by a growing local economy and confident consumers, who had been able to replenish their financial position after the 1991 hurricane and the business doldrums, 1991-1997. Over the last two years, for instance, jobs grew by 3-4%; GET and Income Tax revenues were up 6-12%; hotel occupancies were up 6-7%; and room rates have grown 4-8%. (See Economic Charts in the Appendix).

While the 9/11 tragedy has shaken our faith in this upward trend temporarily, it does not appear to have done away with any of the underlying growth in Kauai resident's income and job counts. Further, it hasn't done away with the strength in the overseas visitor's demand for Kauai's recreational goods and services. As such, we expect the county to show rising growth in 2002-2004. This, in turn, will put upward pressure on the cost of housing and downward pressure on the availability of housing, particularly at the lower ends of the price spectrum. Once again, this could contribute to a tight rental market.

V. KAUAI CONDOMINIUM SUPPLY

Given that conditions are developing that will underwrite a rental housing shortage (and put pressure on rental rates), we turn to look at the new home market, specifically that segment that would affect the demand for low end rental housing, the condominium development market.

HISTORICAL TREND: Over the last twenty years, most development activity has been concentrated in the single-family market. In terms of new condominium development, that appears to be stimulated either by the need to replace housing after a major hurricane, or by demand from offshore buyers.



Over the last five years, it appears that the new condo market has been relatively steady, albeit low. This condition of a low level of supply contributes to pressures for a rise in rental rates, given economically driven higher demand for housing on the island.

While new home production is a good indicator of supply conditions in the past and in the present, a good indicator as to supply conditions in the near and the medium

As such, we expect the county’s economy to grow faster than the state, itself forecast to grow at about 2.5% to 3.5% (real GSP) over the next 3 years. The effect of that on the county’s rental market is expected to put pressure on rental rates to rise. As seen in the chart above, there is a relationship between economic growth, as demonstrated by the growth in the job count (creation), in conjunction with the growth in the level of rents. This suggests that rents will continue to follow jobs upward, with the likelihood that pressures will build for higher rents. If so, then there will be a rental housing shortage at the lower end of the rental market within the near future.

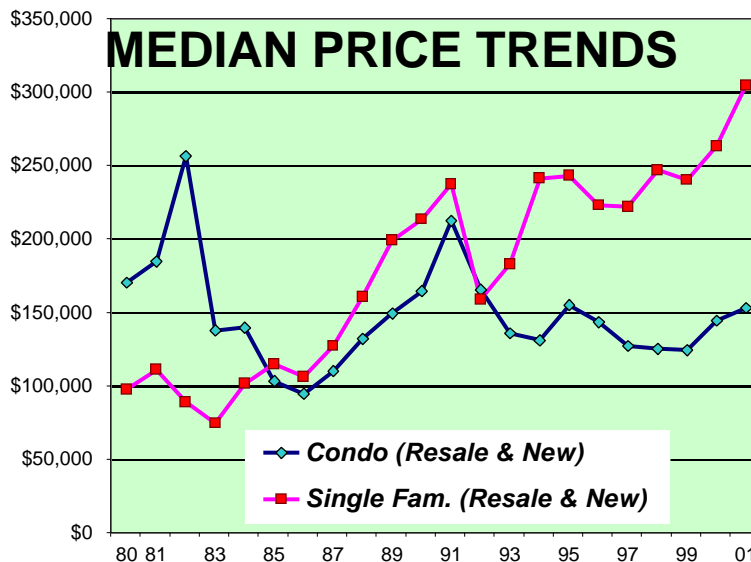
IV. KAUAI RESIDENTIAL REAL ESTATE MARKET

Here, we want to look at the real estate market in general, in order to put a context over (as well as have a benchmark to look at) the rental market.

In the year 2000, the housing market enjoyed closings of over 1,000 homes, an all-time record and one well ahead last, set in 1990, when there was a lot of hurricane-damage related reconstruction. Last year, closings came in at around 970 units, around 4% lower than 2000. However, given that the overall market has risen three-fold from the floor in 1995, such a respite is not out of order.

The mainstay of the market is the resale market, which was up 37% higher in 2000. For 2001, it was off some 8%. Indeed, this up trend has revived the island’s new home developers... who are now beginning to take up advantage of the opportunity given by higher resale prices. Overall, new home closings are predominately single-family homes, driven by local and offshore buyer demand. Condominium demand is also higher, but nowhere near single family levels.

The single-family component of the residential real estate market is the strongest sector, up by over 40% in 2000 and by over 2% again in 2001. The condominium market also has performed well, but much of its growth came in an earlier time frame (1998-2000) when it rose 86%, 19% and 23% respectively. Growth last year was negative by over 3%.



PRICES: The overall median price for homes on Kauai has climbed by around 14% both this year and last. Single-family median prices are up some 10% and 16% over the last 2 years, while median condominium prices are up 17% and 4% for 2000 and 2001.

Against this background, there is an expectation that prices would continue to rise this year. This is due to a number of

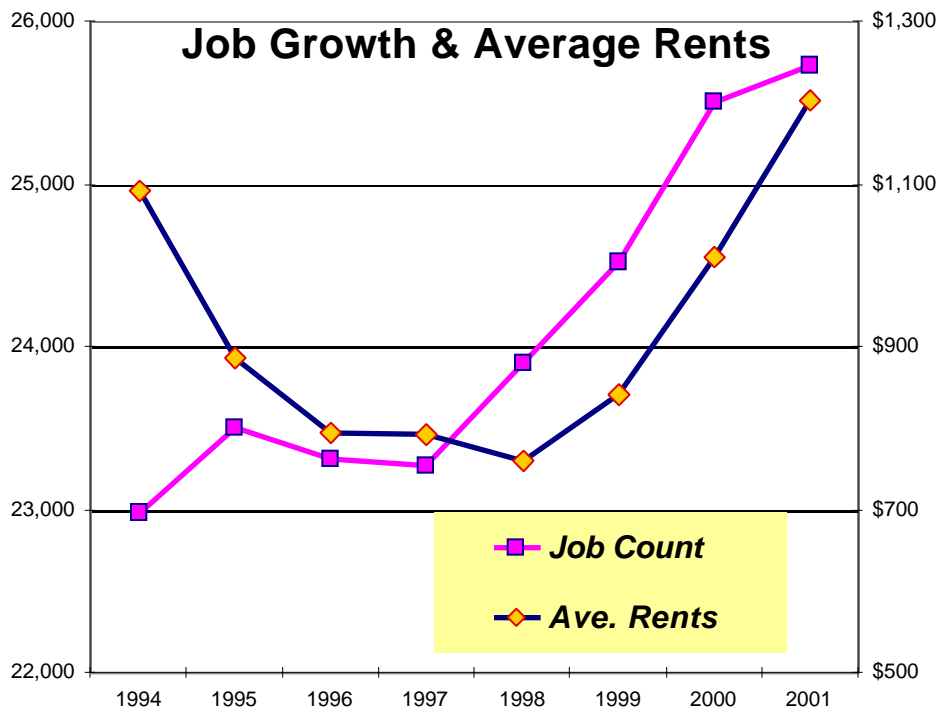
understanding of this market by looking at not just the overall real estate market, but the island economy as well.

In the first place, this allows one to take account of those sectors impacting housing. By doing so, one would be better able to set up some expectations about the viability of the project, as it is affected by economic trends. In the second place, we do this because each of the residential real estate segments are interlinked, with conditions existing in one part of the market often spilling over into other sectors.

ECONOMIC CONDITIONS: The island economy in 2002 is poised to outperform the rest of the state, particularly Oahu. This will be due to a combination of the strength of demand for Kauai's goods and services (particularly recreational and visitor industry related ones) and the weakness of the same for Oahu's goods and services.

A review of recent job and income growth induces for the county indicates very good economic activity. It shows that 1997 was the last year non-agricultural job counts fell (up an average 2.6% p.a. since); that 1995 was the last year that personal income tax levels fell (up an average of 24% p.a. since); and that 1998 was the last year that the GET level fell (up 8% p.a. since). (See Economic Charts in the Appendix).

SIX YEAR COMPARISON BETWEEN JOB COUNTS AND AVERAGE RENTS



The slowdown in the nationwide economy is, of course, a risk to the continued growth of the county economy, but it has yet had a significant impact. In fact, the national economy shows good signs of recovering. Furthermore, the industrial sectors from whence many of Kauai's visitors are connected – electronics and entertainment – are looking ahead to strong prosperity in 2003+.

guidelines. This will be targeting individuals or couples making 60% of the Kauai County area median income or less.

The project's initial rental rates will be set as follows:

- 4 units at 30% of the AMI Level will have a monthly rents of \$279 for a one bedroom, \$321 for a two bedroom, and \$365 for a three bedroom, and
- 16 units at 60% of the AMI Level will have a monthly rent of \$495 for a one bedroom, \$595 for a two bedroom, and \$695 for a three bedroom.

The following table summarizes the proposed project:

KALEPA VILLAGE, PHASE II

	One Bedroom	Two Bedrooms	Three Bedrooms
Total Unit Count	4	16	20
Units @ 30% AMI	1	1	2
Units @ 50% AMI (<60% required)	3	15	18
Rents @ 30% AMI	\$ 279	\$ 321	\$ 365
Rents @ 50% AMI (<60% required)	\$ 495	\$ 595	\$ 695

III. MARKET AREA

The site is located along Kuhio Highway in Hanamaulu, one and one-half miles north of the county center in Lihue. In determining the parameters of the market area, the geography of the island was first considered. It is notable that well over three quarters of all households on the island fall within a 15-mile radius, running from Anahola to the north to Kalaheo to the south and west. That said, the market area should extend well beyond this artificial boundary and extend to the whole county (island). The rationale for this is that it serves only low-income households on Kauai, a group that would be amenable to relocating to another location on the island, given the need for affordability in securing housing. This is particularly pertinent, given the paucity of low priced rental units on the island.

Furthermore, the subject property can be considered to be in a highly desirable location since it is close to any number of important or vital services. For families with children, these would include proximity to public schools, as well as good transportation facilities. For all families, there is the convenience of being close to shopping, personal health and support services, recreational facilities (such as parks), and other important commercial and government services. In addition, it lies at the epicenter of Kauai's population and employment base.

III. OVERVIEW OF THE KAUAI COUNTY ECONOMY

While the target market for this development is relatively narrow (i.e., households needing rental housing in and around Lihue appropriate for families whose incomes are at or below the target area median income), we think it important to arrive at an

I. INTRODUCTION

The Data@Work, a market research firm that specializes in analyzing residential real estate markets for developers, has been retained by the Kauai Housing Development Corporation to perform a study analyzing the market for affordable housing rentals on Kauai for the Kalepa Village Affordable Rental project. This study focuses on the historical, current, and projected rental market conditions and trends to help forecast the absorption for the proposed expansion of the project.

The study entailed collecting, comparing and analyzing information that has a bearing on the numerous aspects of market demand for the proposed project, including but not limited to publicly available real property, economic and commercial data. Rental information was collected from rental agencies, condominium resident managers, and the classified ads in the Kauai newspaper, THE GARDEN ISLAND. Income and demographic information was obtained from the State of Hawaii, City and County of Kauai, Bureau of the Census, and a demographic data provider, Claritas. Finally, qualitative information concerning the rental market both in general and specific to this project was solicited from State & County housing officials, resident managers of public and private housing complexes, property managers, rental agencies and real estate professionals. The data and statements herein are based on independent research and are in no way contingent upon outside findings or recommendations.

II. PROJECT DESCRIPTION

The subject property, known as the Kalepa Village Phase II, is located on the southeast corner of the island of Kauai, immediately adjacent to the county seat of Lihue, both the major commercial and political center of the island.

It is zoned R-20, suitable for multi-level attached residential housing development. It is the extension of an already existing affordable rental project of 60 units serving low-income families. The overall development is known as the Kalepa Village, and has the entire infrastructure in place, including an existing Community Center Facility on the property.

The project consists of 40 rental units, with four units targeting individuals or couples making 30% of the Kauai County area median income or less and 36 units targeting individuals or couples making 60% of the Kauai County area median income or less.

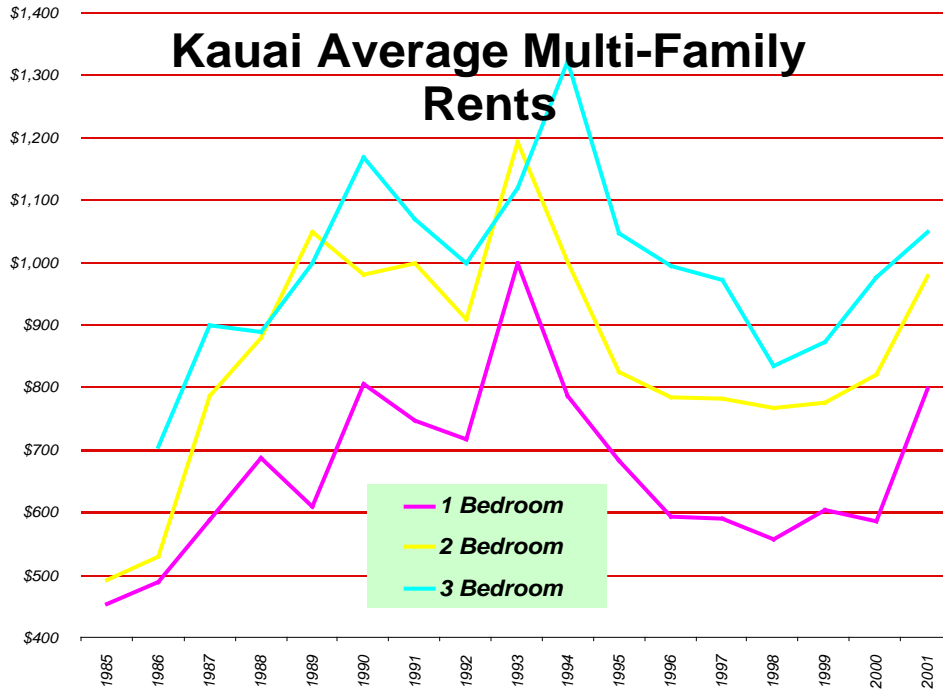
There will be:

- 20 units will be configured as 3-bedroom units, with approximately 978 sq. ft., and
- 16 units will be configured as 2-bedroom units, with approximately 813 sq. ft., and
- 4 units will be configured as 1-bedroom units, with approximately 671sq. ft.

Target Market: In order to qualify, the rental candidates will have to demonstrate that their annual incomes fall within the limits established by the affordable housing policy

*Affordable Rental Housing
Market Study*

“Kalepa Village Affordable Rental”



PREPARED FOR

KAUAI HOUSING DEVELOPMENT CORPORATION

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BY DATA@WORK INC.
RESEARCH & CONSULTING