



Specialists in sales, financing and leasing of office buildings, hotels, retail centers, industrial buildings and investment properties.



One South King Street Building

A number of office condominiums and small buildings are available for sale which has prompted many tenants to look seriously at owning their own space even though the initial mortgage payments may be higher than comparable rents.

The Honolulu office market resumed its occupancy slide in the 1st quarter with 34,733 square feet of negative absorption (more space returned by tenants than leased by tenants). The negative absorption pushed vacancy up to 10.5% vacant, a half percentage point higher than the same time in 2009. The island-wide average asking full service gross rent increased slightly to \$3.03/sf/mth. Operating expenses, which are included in the gross rent, declined slightly to \$1.24/sf/mth. Landlords increased incentives as they competed for a very limited pool of tenants.

## TENANT DEMAND ASSOCIATED WITH GOVERNMENT WORK

New tenant demand continues to be largely associated with Honolulu's rail project and federal government spending ranging from military work in Hawaii and Guam to general federal services. Tenant demand associated with tourism, real estate and support services remains weak as those industries struggle to emerge from the recession.

With job growth forecast to be negative for 2010, we expect that office demand will remain negative throughout 2010 and pickup in 2011.

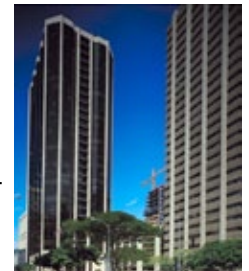
Several large blocks of space will become vacant exacerbating the weak demand: AECOM's 14,802 square foot 5th floor sublease at Davies Pacific Center, Smith Barney will vacate 20,000 square feet when they move to Pacific Guardian Center, and MetLife Home Loans will close their 12,000 square foot office at Alii Place.

The wild card is the federal government which could come to the office market's rescue again in 2010 with demand for private office space.

Most other businesses are continuing their relentless drive to reduce costs including rent. Tenants with near term expirations are trying to downsize and reduce their rental rate, while those with longer term expirations are considering subleasing excess space. It is notable that the square footage available for sublease is very low in historical terms.

## INVESTOR OPTIMISM?

When Bishop Square was quietly put on the market in late 2009, investor interest was tepid. With the revival of the CMBS market in early 2010, a solid number of



Bishop Square

## Honolulu CBD Class A Office Snapshot 1<sup>st</sup> Quarter, 2010

	Building SF	Direct	Vacant	Total	Total	Qtr	YTD	Asking Full Service Gross Rents (\$/rsf/mth)	Operating Expenses (\$/rsf/mth)
		Vacancy	Sublease	Vacancy	Vacancy	Absorption	Absorption		
Alii Place	316,040	12,794	2,952	15,746	5.0%	644	644	\$3.01 - \$3.16	\$1.26
Bishop Place	462,072	71,457	0	71,457	15.5%	(144)	(144)	\$2.47 - \$2.97	\$1.32
Bishop Square / ASB Tower	483,455	36,168	0	36,168	7.5%	(688)	(688)	\$2.64 - \$3.04	\$1.34
Bishop Square/Pauahi Tower	438,596	35,353	2,971	38,324	8.7%	(4,426)	(4,426)	\$2.70 - \$3.10	\$1.40
Central Pacific Plaza	209,821	23,923	0	23,923	11.4%	(4,692)	(4,692)	\$2.87 - \$2.87	\$1.17
City Financial Tower	180,563	20,829	0	20,829	11.5%	4,616	4,616	\$2.82 - \$2.82	\$1.32
Davies Pacific Center	354,322	51,627	1,380	53,007	15.0%	(11,220)	(11,220)	\$2.60 - \$3.00	\$1.45
First Hawaiian Center	379,336	47,362	0	47,362	12.5%	0	0	\$3.23 - \$3.23	\$1.23
Harbor Court - Office Tower	186,138	3,575	7,789	11,364	6.1%	5,588	5,588	\$2.90 - \$3.00	\$1.45
Pacific Guardian Center	629,518	102,804	0	102,804	16.3%	(16,049)	(16,049)	\$2.71 - \$3.16	\$1.36
Pioneer Plaza	245,000	11,968	0	11,968	4.9%	5,016	5,016	\$2.90 - \$2.90	\$1.25
TOPA Financial Center	483,776	49,728	5,410	55,138	11.4%	(5,530)	(5,530)	\$3.19 - \$3.24	\$1.34
Waterfront Plaza (Office Portion)	455,600	17,013	0	17,013	3.7%	(3,230)	(3,230)	\$3.04 - \$3.09	\$1.44
<b>Totals</b>	<b>4,824,237</b>	<b>484,601</b>	<b>20,502</b>	<b>505,103</b>		<b>(30,115)</b>	<b>(30,115)</b>	<b>Average</b>	<b>\$1.33</b>
<b>Vacancy rates</b>		<b>10.0%</b>	<b>0.4%</b>	<b>10.5%</b>				<b>Range</b>	<b>\$2.47 - \$3.24</b>

**Notes:**

<sup>1</sup> Vacancies are from Loopnet, broker fact sheets, and/or telephone surveys.

<sup>2</sup> Base rents typically escalate annually from 3% to 5%



James M. Brown (B)  
President, CCIM SIOR  
808-440-2772  
jammie@hawaiiire.com



Katerina "Cathy"  
Delaporta, CSM (S)  
Vice President  
808-440-2770  
Cathy@hawaiiire.com



John Donaldson  
Selby (S)  
Vice President  
808-440-4303  
John@hawaiiire.com



Victor Arcayena (S)  
Vice President  
808-440-2708  
Victor@hawaiiire.com



Kathryn M. Rehg (B)  
Vice President  
808-440-2794  
kathyrehg@hawaiiire.com



Ryoji Urushibata (S)  
Associate  
Market Research  
808-441-9757  
Ryoji@hawaiiire.com

investors armed with huge amounts of pent-up capital are bidding on the asset. They are betting that Honolulu's office market is at or very near the bottom, and that with a relatively low vacancy rate and no new office space under construction, rents will turn back up soon.

### MANY OPTIONS FOR TENANTS

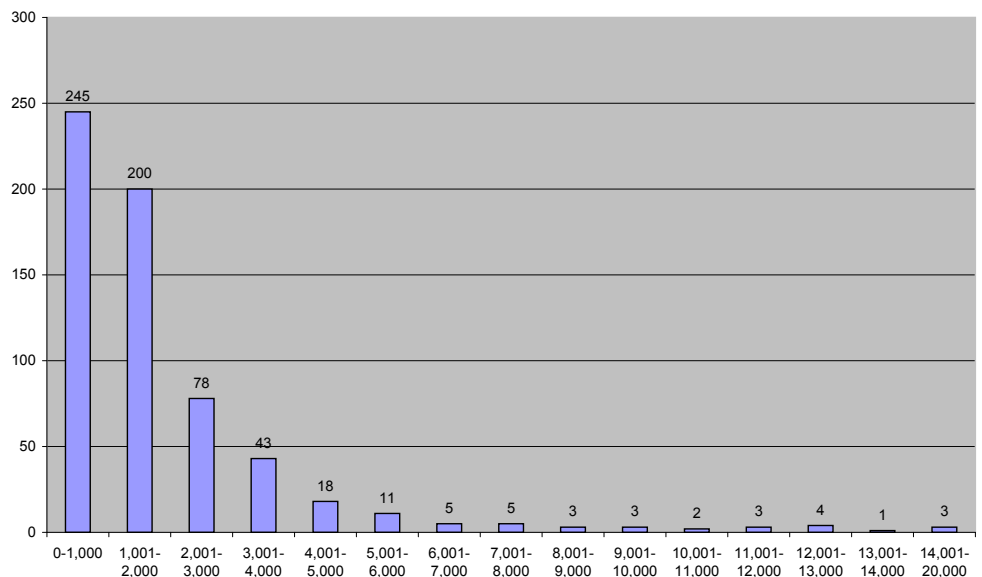
Hawaii Commercial Real Estate's index of available spaces increased from 588 to 624 spaces across the island. Except for very large spaces, tenants generally have multiple options which can force landlords to compete for their tenancy.

The result has been significant landlord concessions for tenants willing to move, including lower base rent or free base rent, smaller annual rent increases, and improvement allowances. However, even if an existing tenant finds a cheaper rental rate at another building, moving and

tenant improvement expenses are still so high that paying an existing landlord a higher rate can be cheaper than moving. And, for tenants willing to limit their improvement requirements some landlords are willing to cut better deals.

A number of office condominiums and small buildings are available for sale which has prompted many tenants to look seriously at owning their own space even though the initial mortgage payments may be higher than comparable rents. The trick is arranging financing and negotiating a purchase price that will be at or below the appraisal value.

Islandwide Vacancy by Size and Number of Spaces - 1Q 2010



### Oahu Office Market Snapshot - 1Q2010

SUBMARKET	TOTAL SF	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
Airport	575,042	20.7%	61	\$2.42	5,064	5,064
CBD	5,724,623	10.5%	274	\$2.69	(27,047)	(27,047)
East Oahu	257,586	5.4%	15	\$3.32	3,407	3,407
Kakaako	1,338,687	6.7%	41	\$3.26	(5,498)	(5,498)
Kalihi/Iwilei	569,529	11.5%	24	\$2.48	18,162	18,162
Kapiolani	1,249,565	11.4%	88	\$3.44	(21,707)	(21,707)
King	78,547	18.5%	8	\$2.77	(4,527)	(4,527)
Leeward	603,712	0.7%	11	\$3.73	5,280	5,280
Waikiki	782,395	18.1%	92	\$3.00	(6,707)	(6,707)
Windward Oahu	110,165	10.8%	10	\$3.20	(1,160)	(1,160)
<b>TOTAL</b>	<b>11,289,851</b>	<b>10.7%</b>	<b>624</b>	<b>\$3.03</b>	<b>(34,733)</b>	<b>(34,733)</b>

BLDG CLASS	TOTAL SF	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
A*	4,824,237	10.5%	201	\$2.95	(30,115)	(30,115)
B	6,465,614	10.8%	423	\$3.03	(4,618)	(4,618)
<b>TOTAL</b>	<b>11,289,851</b>	<b>10.7%</b>	<b>624</b>		<b>(34,733)</b>	<b>(34,733)</b>

\* Class A Buildings are exclusively in CBD



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One South King Street Building

Many tenants are looking seriously at owning their own space even though the initial mortgage payments may be higher than comparable rents. The trick is arranging financing and negotiating a purchase price that will be at or below the appraisal value.

The Honolulu office market continued its occupancy slide in the 2nd quarter with 45,255 square feet of negative absorption (more space returned by tenants than leased by tenants). Vacancy increased to 11.3% vacant, half a point higher than the previous quarter and 1.3% higher than the same time in 2009. The island-wide average asking full service gross rent declined slightly during the quarter to \$2.98/sf/month. Operating expenses, which are included in the gross rent figure, stayed unchanged at \$1.24/sf/month. The market continues to be a tenant's market for those tenants that can afford to move.

### Downtown Hit Hardest

Downtown continues to be hit hard as tenants consolidate and/or move to lower cost facilities leaving behind large blocks of space. Several currently occupied large blocks of space will be vacated in the next two quarters: Morgan Stanley Smith Barney will vacate 20,000 square feet at Alii Place when they consolidate their operations at Pacific Guardian Center, Kiewit will vacate a floor at Harbor Court when it moves to Iwilei, Ferraro Choi will leave behind 5,000 square feet at Pacific Guardian Center as it moves to the IBM Building, KPMG

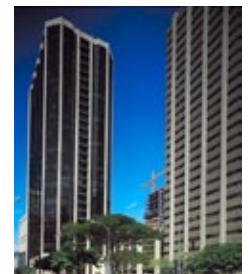
will be downsizing by about 6,000 square feet and several other large, unnamed tenants are downsizing with their impending lease renewal.

With job growth forecast to be flat, and most businesses relentless about reducing costs including rent, we expect that vacancy will continue to increase for the next several quarters.

The wild card is the federal government which could bail out the office market with demand for private space as it did in 2009.

### Bishop Square Sale

Bishop Square sold in late June for \$230,000,000 or \$247/sf to DEI, an office building REIT based in Los Angeles. The per square foot price is about the same as the fee simple prices DEI for Bishop Place and Harbor Court in 2004. The high valuation can be attributed to a lack of supply and DEI's strategy of controlling the submarket. With Bishop Square, DEI controls about 1/3 of downtown's class A office supply. Pacific Office



Bishop Square

## Honolulu CBD Class A Office Snapshot 2nd Quarter, 2010

	Building SF	Direct	Vacant	Total	Total	Qtr	YTD	Asking Full Service		Operating
		Vacancy	Sublease	Vacancy	Vacancy					
Alii Place	316,040	15,428	2,952	18,380	5.8%	(2,634)	(1,990)	\$3.01 -	\$3.16	\$1.26
Bishop Place	462,072	70,611	8,092	78,703	17.0%	(7,246)	(7,390)	\$2.47 -	\$2.97	\$1.32
Bishop Square / ASB Tower	483,455	38,359	0	38,359	7.9%	(2,191)	(2,879)	\$2.64 -	\$3.04	\$1.34
Bishop Square/Pauahi Tower	438,596	37,761	2,971	40,732	9.3%	(2,408)	(6,834)	\$2.70 -	\$3.10	\$1.40
Central Pacific Plaza	209,821	22,380	0	22,380	10.7%	1,543	(3,149)	\$2.87 -	\$2.87	\$1.17
City Financial Tower	180,563	26,510	1,667	28,177	15.6%	(7,348)	(2,732)	\$2.82 -	\$2.82	\$1.32
Davies Pacific Center	354,322	47,722	16,182	63,904	18.0%	(10,897)	(22,117)	\$2.60 -	\$3.00	\$1.45
First Hawaiian Center	379,336	47,362	0	47,362	12.5%	0	0	\$3.28 -	\$3.28	\$1.28
Harbor Court - Office Tower	186,138	15,750	7,789	23,539	12.6%	(12,175)	(6,587)	\$3.10 -	\$3.10	\$1.45
Pacific Guardian Center	629,518	100,399	0	100,399	15.9%	2,405	(13,644)	\$2.71 -	\$3.16	\$1.36
Pioneer Plaza	245,000	15,860	3,059	18,919	7.7%	(6,951)	(1,935)	\$2.85 -	\$2.90	\$1.25
TOPA Financial Center	483,776	75,593	5,410	81,003	16.7%	(25,865)	(31,395)	\$3.19 -	\$3.24	\$1.34
Waterfront Plaza (Office Portion)	455,600	14,872	0	14,872	3.3%	2,141	(1,089)	\$2.94 -	\$3.19	\$1.44
<b>Totals</b>	<b>4,824,237</b>	<b>528,607</b>	<b>48,122</b>	<b>576,729</b>		<b>(71,626)</b>	<b>(101,741)</b>	<b>Average</b>	<b>\$2.86 - \$3.06</b>	<b>\$1.34</b>
<b>Vacancy rates</b>		<b>11.0%</b>	<b>1.0%</b>	<b>12.0%</b>				<b>Range</b>	<b>\$2.47 - \$3.28</b>	

Notes:

<sup>1</sup> Vacancies are from Loopnet, broker fact sheets, and/or telephone surveys.

<sup>2</sup> Base rents typically escalate annually from 3% to 5%



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Market Research  
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Individual Membership



Properties, Honolulu's other large office building owner, also owns about 1.6 million square feet, but it is spread over more submarkets.

## Many Options for Tenants

Hawaii Commercial Real Estate's index of available spaces increased from 624 to 631 spaces across the island. Except for very large spaces, tenants generally have multiple options which can force landlords to compete for their tenancy.

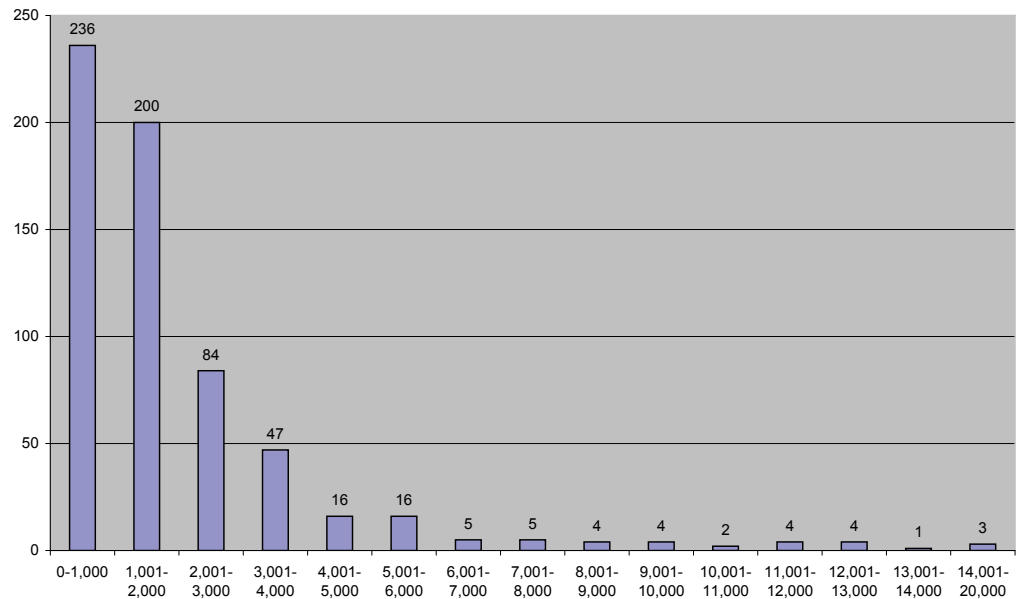
The result has been significant landlord concessions for tenants willing to move, including lower base rent or free base rent, smaller annual rent

increases, and improvement allowances. However, even if an existing tenant finds a cheaper rental rate at another building, moving and tenant improvement expenses

are still so high that paying an existing landlord a higher rate can be cheaper than moving. And, for tenants willing to limit their improvement requirements some landlords are willing to cut better deals.

Many tenants are looking seriously at owning their own space even though the initial mortgage payments may be higher than comparable rents. The trick is arranging financing and negotiating a purchase price that will be at or below the appraisal value.

Islandwide Vacancy by Size and Number of Spaces - 2nd Quarter 2010



Oahu Office Market Snapshot - 2nd Quarter 2010

SUBMARKET	TOTAL SF	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
Airport	575,042	20.2%	57	\$2.42	2,624	7,688
CBD	5,724,623	11.9%	293	\$2.71	(77,398)	(108,167)
East Oahu	257,586	6.1%	14	\$3.32	(1,808)	1,599
Kakaako	1,338,687	6.2%	40	\$3.26	7,032	1,534
Kalihi/Iwilei	569,529	11.1%	22	\$2.48	21,378	20,512
Kapiolani	1,249,565	11.5%	93	\$3.32	(955)	(22,662)
King	78,547	21.2%	9	\$2.77	(2,119)	(6,646)
Leeward	603,712	0.7%	8	\$3.51	(297)	4,983
Waikiki	782,395	17.6%	88	\$3.00	3,990	(2,717)
Windward Oahu	110,165	8.7%	7	\$3.05	2,298	1,138
<b>TOTAL</b>	<b>11,289,851</b>	<b>11.3%</b>	<b>631</b>	<b>\$2.98</b>	<b>(45,255)</b>	<b>(102,738)</b>

BLDG CLASS	TOTAL SF	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
A*	4,824,237	12.0%	216	\$2.96	(71,626)	(101,741)
B	6,465,614	10.8%	415	\$2.98	26,371	(997)
<b>TOTAL</b>	<b>11,289,851</b>	<b>11.3%</b>	<b>631</b>		<b>(45,255)</b>	<b>(102,738)</b>

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### Hidden Vacancy

One of our competitors missed about 35,000 square feet of downtown class A vacancy in their survey.



The Honolulu office market continued its occupancy slide in the 3rd quarter with 30,127 square feet of negative absorption (more space returned by tenants than leased by tenants). Eight of the last nine quarters have seen negative absorption. Vacancy increased to 11.5%, 0.2% higher than the previous quarter and 1.2% higher than the same time in 2009. The island-wide average asking full service gross rent declined slightly during the quarter to \$2.96/sf/mth. Operating expenses, which are included in the gross rent figure, increased to \$1.26/sf/mth which means the asking base rent declined by \$0.04/sf/mth during the quarter. The market

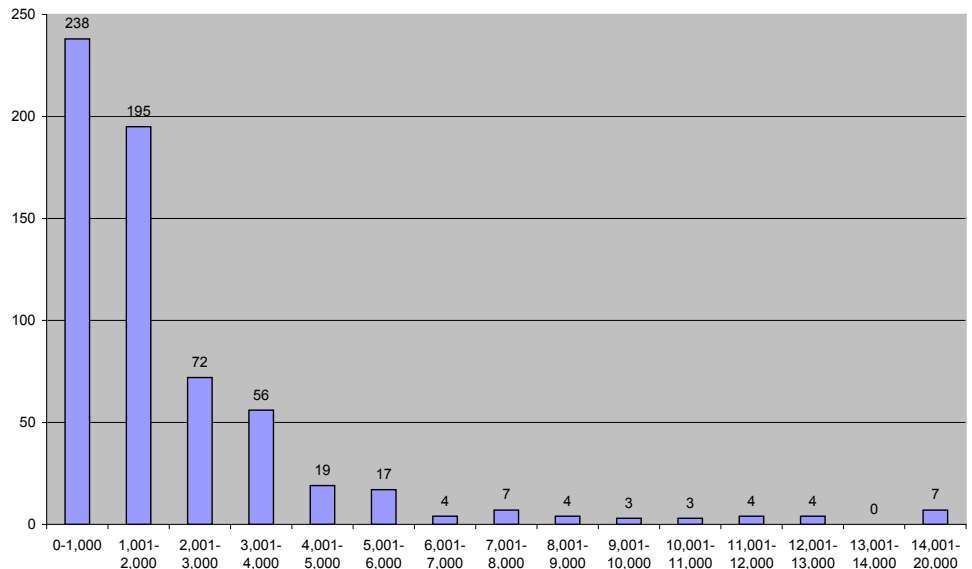
continues to be a tenant's market for those tenants that are willing to move.

### HIDDEN VACANCY

DEI, who owns four downtown class A office buildings: Pauahi Tower, ASB Tower, Bishop Place, and Harbor Court; no longer includes all its vacancy on its fact sheets.

As a result, one of our competitors missed about 35,000 square feet of downtown class A vacancy in

Islandwide Vacancy by Size and Number of Spaces - 3rd Quarter 2010



## Honolulu CBD Class A Office Snapshot - 3rd Quarter, 2010

Building SF	Direct Vacancy	Vacant Sublease	Total Vacancy	Total Vacancy	Qtr Absorption	YTD Absorption	Asking Full Service Gross Rents (\$/rsf/mth)		Operating Expenses (\$/rsf/mth)	
				Rate			Range			
Alii Place	316,040	13,634	2,952	16,586	5.2%	1,794	(196)	\$3.01 - \$3.16	\$1.26	
Bishop Place	462,072	59,201	8,092	67,293	14.6%	11,410	4,020	\$2.47 - \$2.97	\$1.32	
Bishop Square / ASB Tower	483,455	49,542	0	49,542	10.2%	(11,183)	(14,062)	\$2.74 - \$2.94	\$1.34	
Bishop Square/Pauahi Tower	438,596	38,484	2,971	41,455	9.5%	(723)	(7,557)	\$2.80 - \$3.00	\$1.40	
Central Pacific Plaza	209,821	15,585	0	15,585	7.4%	6,795	3,646	\$2.87 - \$2.87	\$1.17	
City Financial Tower	180,563	21,092	2,567	23,659	13.1%	4,518	1,786	\$2.82 - \$2.82	\$1.32	
Davies Pacific Center	354,322	53,123	16,576	69,699	19.7%	(5,795)	(27,912)	\$2.60 - \$3.05	\$1.45	
First Hawaiian Center	379,336	47,362	3,840	51,202	13.5%	(3,840)	(3,840)	\$3.28 - \$3.28	\$1.28	
Harbor Court - Office Tower	186,138	925	8,489	9,414	5.1%	14,125	7,538	\$3.00 - \$3.00	\$1.45	
Pacific Guardian Center	629,518	101,694	0	101,694	16.2%	(1,295)	(14,939)	\$2.71 - \$3.11	\$1.36	
Pioneer Plaza	245,000	15,860	3,059	18,919	7.7%	0	(1,935)	\$2.85 - \$2.90	\$1.25	
TOPA Financial Center	483,776	86,502	5,410	91,912	19.0%	(10,909)	(42,304)	\$3.19 - \$3.24	\$1.34	
Waterfront Plaza (Office Portion)	455,600	25,775	0	25,775	5.7%	(10,903)	(11,992)	\$2.94 - \$3.09	\$1.44	
<b>Totals</b>	<b>4,824,237</b>	<b>528,779</b>	<b>53,956</b>	<b>582,735</b>		<b>(6,006)</b>	<b>(107,747)</b>	<b>Average</b>	<b>\$2.87 - \$3.03</b>	<b>\$1.34</b>
<b>Vacancy rates</b>		<b>11.0%</b>	<b>1.1%</b>	<b>12.1%</b>				<b>Range</b>	<b>\$2.47 - \$3.28</b>	

Notes:

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john@hawaiiicre.com



Victor Arcayena (S)  
Vice President  
808-440-2708  
victor@hawaiiicre.com



Kathryn M. Rehg (B)  
Vice President  
808-440-2794  
kathyrehg@hawaiiicre.com



Ted R. Ketcham (S)  
Financing Specialist  
808-292-0356  
ted@hawaiiicre.com

Individual Membership



their survey as they rushed to get their market report out by the end of the quarter.

Hawaii Commercial Real Estate, LLC's office leasing team knew the numbers didn't look right, confirmed the true vacancy at those buildings, and included the figures in our survey.

### MORE VACANCY ON THE HORIZON

With job growth forecast to be flat, and most businesses relentless about reducing costs including rent, we expect that vacancy will continue to increase for the next several quarters.

Space being vacated downtown in the 4th quarter includes: Morgan Stanley Smith Barney will vacate 20,000 square feet at Alii Place when they consolidate their operations at Pacific Guardian Center, Envision Networked Solutions will vacate about 10,000 square feet at 1000 Bishop as it consolidates its office and warehouse outside of downtown, Kiewit will vacate a floor at Harbor Court when it moves to Iwilei, KPMG will be downsizing by about 10,000 square feet, and a temporary film production company is vacating about 25,000 square feet at One South King Street.

Outside of downtown, Bank of Hawaii will be putting up to 40,000 square feet of space on the market in Kapolei, and DFS will be vacating about 35,000 square feet at Waikiki Trade Center in 2nd quarter of 2011.

The federal government has not bailed out the office market with demand for private space as it did in 2009.

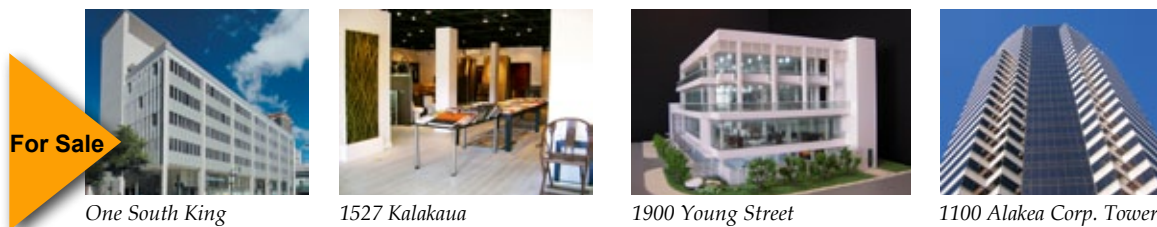
On a bright note, several very small startup firms leased space at Pacific Guardian Center.

### MANY OPTIONS FOR TENANTS

Hawaii Commercial Real Estate's index of available spaces increased to 636 spaces across the island. Except for very large spaces, tenants generally have multiple options which can force landlords to compete for their tenancy.

The result has been significant landlord concessions for tenants willing to move, including lower base rent or free base rent, smaller annual rent increases, and improvement allowances. However, moving and tenant improvement expenses are still so high that paying an existing landlord a higher rate can sometimes be cheaper than moving. And, for tenants willing to limit their improvement requirements some landlords are willing to cut better deals.

Many tenants are looking seriously at owning their own space even though the initial mortgage payments may be higher than comparable rents. The trick is arranging financing and negotiating a purchase price that will be at or below the appraisal value.



### Oahu Office Market Snapshot - 3rd Quarter 2010

SUBMARKET	TOTAL SF	VACANT SF	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
Airport	575,042	112,492	19.6%	52	\$2.42	3,773	11,461
CBD	5,724,623	739,959	12.9%	298	\$2.68	(57,572)	(169,461)
East Oahu	257,586	15,354	6.0%	14	\$3.32	295	1,894
Kakaako	1,338,687	74,132	5.5%	36	\$3.26	9,104	10,638
Kalihi/Iwilei	569,529	55,873	9.8%	18	\$2.48	7,171	8,655
Kapiolani	1,249,565	139,216	11.1%	92	\$3.32	4,066	(18,596)
King	78,547	6,901	8.8%	5	\$2.77	9,729	3,083
Leeward	603,712	5,420	0.9%	9	\$3.51	(1,098)	3,885
Waikiki	782,395	143,159	18.3%	90	\$2.85	(5,451)	(8,168)
Windward Oahu	110,165	9,780	8.9%	7	\$3.05	(144)	994
<b>TOTAL</b>	<b>11,289,851</b>	<b>1,302,286</b>	<b>11.5%</b>	<b>621</b>	<b>\$2.96</b>	<b>(30,127)</b>	<b>(155,615)</b>

BLDG CLASS	TOTAL SF	VACANT SF	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
A*	4,824,237	582,735	12.1%	203	\$2.95	(6,006)	(107,747)
B	6,465,614	719,551	11.1%	418	\$2.96	(24,121)	(47,868)
<b>TOTAL</b>	<b>11,289,851</b>	<b>1,302,286</b>	<b>11.5%</b>	<b>621</b>		<b>(30,127)</b>	<b>(155,615)</b>

\* Class A Buildings are exclusively in CBD



4th Quarter, 2010

# Honolulu Office Market Report

The Honolulu office market ended 2010 by continuing its occupancy slide. Nine of the last ten quarters have seen negative absorption. The 4th quarter saw 61,382 square feet of negative absorption bringing the 2010 total to negative 216,997 square feet. Vacancy increased to 12.1% vacant, 0.6% higher than the previous quarter and 1.9% higher than the same time in 2009. The island-wide average asking full service gross rent increased \$0.03 during the quarter to \$2.99/sf/mth. Operating expenses, which are included in the gross rent figure, decreased by \$0.02 to \$1.26/sf/mth. Asking base rent increased by \$0.05/sf/mth during

the quarter, however the spread between asking and taking base rents is larger than in recent memory.

## Weak Job Growth and Limited Tenant Demand

Although job growth turned positive in the 3rd quarter of 2010, it is forecast to remain weak through 2011. Because of a relentless push to reduce costs including rent, most businesses are putting more people in fewer square feet. The result is that the market needs slight job growth to offset this effect.

*Many tenants are looking seriously at owning their own space even though the initial mortgage payments may be higher than comparable rents.*

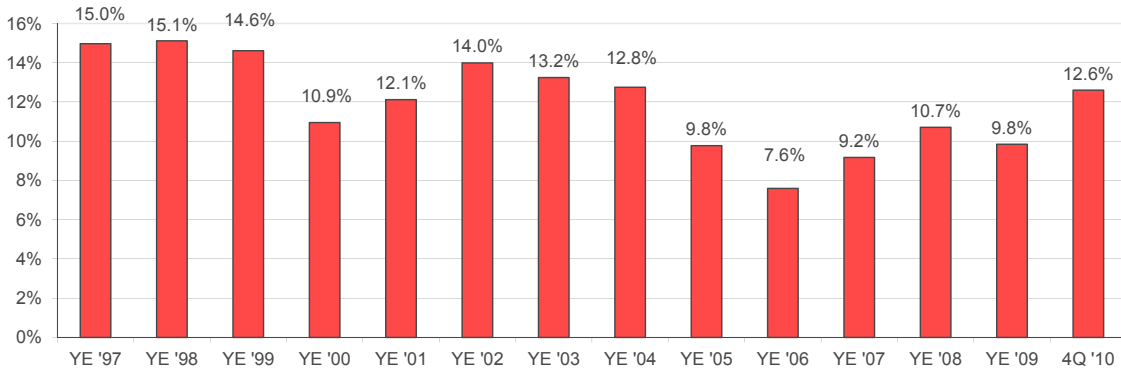


**For Sale:**  
One South King



**For Sale:**  
1900 Young Street

## CBD Class A Office Vacancy Rates



## Honolulu CBD Class A Office Snapshot - 4th Quarter, 2010

	Building SF	Direct		Total		Qtr Absorption	YTD Absorption	Asking Full Service Gross Rents (\$/rsf/mth)	Operating Expenses (\$/rsf/mth)
		Vacancy	Sublease	Vacancy	Vacancy Rate				
Alii Place	316,040	20,369	2,952	23,321	7.4%	(6,735)	(6,931)	\$3.01 - \$3.16	\$1.26
Bishop Place	462,072	66,994	8,092	75,086	16.2%	(7,793)	(3,773)	\$2.47 - \$2.97	\$1.32
Bishop Square / ASB Tov	483,455	58,669	0	58,669	12.1%	(9,127)	(23,189)	\$2.74 - \$3.04	\$1.34
Bishop Square/Pauahi Tc	438,596	40,945	2,971	43,916	10.0%	(2,461)	(10,018)	\$2.80 - \$3.00	\$1.40
Central Pacific Plaza	209,821	4,152	0	4,152	2.0%	11,433	15,079	\$2.87 - \$2.87	\$1.17
City Financial Tower	180,563	22,987	0	22,987	12.7%	672	2,458	\$2.82 - \$2.82	\$1.32
Davies Pacific Center	354,322	66,271	1,774	68,045	19.2%	1,654	(26,258)	\$2.45 - \$3.10	\$1.45
First Hawaiian Center	379,336	47,362	3,840	51,202	13.5%	0	(3,840)	\$3.28 - \$3.28	\$1.28
Harbor Court - Office Tov	186,138	7,093	7,498	14,591	7.8%	(5,177)	2,361	\$2.90 - \$3.10	\$1.45
Pacific Guardian Center	629,518	111,332	0	111,332	17.7%	(9,638)	(24,577)	\$2.71 - \$3.11	\$1.36
Pioneer Plaza	245,000	21,352	3,059	24,411	10.0%	(5,492)	(7,427)	\$2.85 - \$2.90	\$1.25
TOPA Financial Center	483,776	82,343	0	82,343	17.0%	9,569	(32,735)	\$3.19 - \$3.24	\$1.34
Waterfront Plaza (Office I	455,600	27,812	0	27,812	6.1%	(2,037)	(14,029)	\$2.94 - \$3.09	\$1.44
<b>Totals</b>	<b>4,824,237</b>	<b>577,681</b>	<b>30,186</b>	<b>607,867</b>		<b>(25,132)</b>	<b>(132,879)</b>	<b>Average Range</b>	
<b>Vacancy rates</b>		<b>12.0%</b>	<b>0.6%</b>	<b>12.6%</b>				<b>\$2.85 - \$3.05</b>	<b>\$1.34</b>
								<b>\$2.45 - \$3.28</b>	

**Notes:**

<sup>1</sup> Vacancies are from Loopnet, broker fact sheets, and/or telephone surveys.

<sup>2</sup> Base rents typically escalate annually by 3%



Pacific Guardian Center

## Why Hawaii Commercial Real Estate?

*Our focus and client loyalty provides superior service and results for our clients, agents and employees. We won't take a listing or tenant/buyer assignment unless we know we can meet your goals.*

Individual Membership



The federal government and private companies with government contracts, one of the few office growth industries in the past couple of years, had minimal impact in 2010. With the exception of the rail project, we don't anticipate any demand from this sector in the near term.

On a bright note, we have seen several very small startup firms lease space at Pacific Guardian Center.

### More Vacancy Before Recovery

We expect vacancy increases for the next several quarters before declining in late 2011 or early 2012 as tenant downsizing continues to outpace weak tenant demand. Fortunately for landlords, there is no new office space under construction to exacerbate the vacancy increases.

The downtown Class A office buildings lost another 25,000 square feet of tenancy during the quarter with nearly every building impacted. The exceptions were Central Pacific Plaza which had a HECO and CPB expansion, Topa which had a sublease removed from the market, Davies Pacific Center which subleased a full floor, and First Hawaiian Center and City Financial Center which each remained flat. Pacific Guardian Center's vacancy could have been worse, but it had some positive leasing that offset the loss of a full floor tenant who moved most of its operations to San Diego. Bishop Square had several large downsizes.

### Still A Tenant's Market for Those Willing to Move

Hawaii Commercial Real Estate's index of available spaces increased from 636 to 644 spaces across the island. Except for very large spaces (over 30,000sf), tenants generally have multiple options which can force landlords to compete for their tenancy. A recent survey of large spaces identified 29 spaces over 10,000sf, nearly double the number on a survey at this time last year.

The result has been significant landlord concessions for tenants willing to move, including lower base rent or free base rent, smaller annual rent increases, improvement allowances, and occasionally moving allowances and parking discounts. However, moving and tenant improvement expenses are still so high for some tenants that paying an existing landlord a higher rate can sometimes be cheaper than moving. And, for tenants willing to limit their improvement requirements some landlords are willing to cut better deals.

Many tenants are looking seriously at owning their own space even though the initial mortgage payments may be higher than comparable rents. The trick is arranging financing and negotiating a purchase price that will be at or below the appraisal value.

## Oahu Office Market Snapshot - 4th Quarter 2010

SUBMARKET	TOTAL SF	VACANT SF	NO. BLDG	% VACANCY	# SPACES	AVG LOW FSG (\$/SF/MTH)	AVG HI FSG (\$/SF/MTH)	AVG FSG (\$/SF/MTH)	AVG Operating Expenses	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
Airport	575,042	94,426	4	16.4%	50	\$2.10	\$2.82	\$2.46	\$1.19	18,066	29,527
CBD	5,724,623	781,089	24	13.6%	296	\$2.08	\$3.28	\$2.68	\$1.35	(41,130)	(210,591)
East Oahu	257,586	13,505	6	5.2%	14	\$2.75	\$4.58	\$3.67	\$1.23	1,849	3,743
Kakaako	1,338,687	81,563	6	6.1%	42	\$2.70	\$3.82	\$3.26	\$1.37	(7,431)	3,207
Kalihi/Iwilei	569,529	60,006	4	10.5%	26	\$2.27	\$2.54	\$2.41	\$1.03	(4,133)	4,522
Kapiolani	1,249,565	129,069	9	10.3%	89	\$2.74	\$3.84	\$3.29	\$1.55	10,147	(8,449)
King	78,547	15,942	2	20.3%	8	\$2.35	\$3.18	\$2.77	\$0.33	(9,041)	(5,958)
Leeward	603,712	16,113	8	2.7%	13	\$2.89	\$4.12	\$3.51	\$1.27	(10,693)	(6,808)
Waikiki	782,395	163,854	7	20.9%	100	\$2.10	\$3.60	\$2.85	\$1.78	(20,695)	(28,863)
Windward Oahu	110,165	8,101	3	7.4%	6	\$2.58	\$3.52	\$3.05	\$1.27	1,679	2,673
<b>TOTAL</b>	<b>11,289,851</b>	<b>1,363,668</b>	<b>73</b>	<b>12.1%</b>	<b>644</b>	<b>\$2.46</b>	<b>\$3.53</b>	<b>\$2.99</b>	<b>\$1.24</b>	<b>(61,382)</b>	<b>(216,997)</b>



James M. Brown (B)  
President, CCIM SIOR  
808-440-2772  
jamie@hawaiiacre.com



Victor Arcayena (S)  
Vice President  
808-440-2708  
victor@hawaiiacre.com



Katerina "Cathy"  
Delaporta, CSM (S)  
Vice President  
808-440-2770  
cathy@hawaiiacre.com



John Donaldson  
Selby (S)  
Vice President  
808-440-4303  
john@hawaiiacre.com



Kathryn M. Rehg (B)  
Vice President  
808-440-2794  
kathyrehg@hawaiiacre.com



Dave Ameen (B)  
Senior Associate, CCIM  
808-294-6464  
dave@hawaiiacre.com



Ted R. Ketcham (S)  
Financing Specialist  
808-292-0356  
ted@hawaiiacre.com



Ryoji Urushibata (S)  
Market Research &  
Investment Analyst  
ryoji@hawaiiacre.com