



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

The federal government bailed out Honolulu's Class A office market by leasing 77,000 square feet during the 3rd quarter. The rest of Honolulu's office market was hit hard and lost nearly 91,000 square feet of occupancy. Rents remained stable during the quarter with the island-wide average asking full service gross rent unchanged at \$3.06/sf/mth and the class A buildings increasing by \$0.02 to \$3.01/sf/mth. However, rents are down from the end of 2008 when the island-wide asking rate was \$3.05/sf/mth and CBD class A was \$3.13/sf/mth.

With the exception of the huge federal government impact on the CBD (Central Business District) class A submarket and a small increase in occupancy in the airport area, every submarket had negative absorption. Without the unprecedented federal government stimulus, the CBD class A submarket would have lost 15,000 square feet of occupancy as private tenants continued their downsizing. And it is important to note that Morgan Stanley's occupancy is being counted by two buildings – Bishop Square (28,000sf) where they are a tenant through January, 2010, and Pacific Guardian Center (33,000sf) where they will move into 2 1/2 floors in February, 2010. There is a deal in play to backfill Morgan Stanley's current space in Bishop Square, but that tenant move would vacate about 30,000 square feet in Davies Pacific Center.



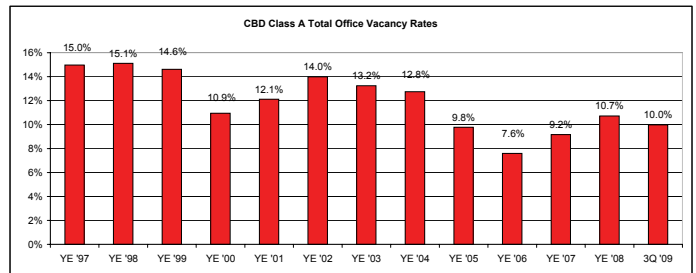
Pacific Guardian Center

The total number of distinct office spaces available for lease on Oahu increased from 576 to 607, and like increases in vacancy, virtually every submarket has more vacant spaces when compared to the second quarter.

The federal government leasing occurred in just two buildings. Alii Place secured about 35,000 square feet of tenancy from the IRS who will be relocating from the federal building to make way for upgrades to that facility. Waterfront Plaza secured the FBI, Small Business Administration and Coast Guard from the federal building and the Immigration and Naturalization Service from across Ala Moana Boulevard. All of these tenants will take occupancy some time in 2010, but because their leases have been signed, buildings are counting those spaces as not vacant.

Outside the CBD, the hardest hit (and largest) submarkets were Kapiolani and Kakaako which lost 30,000 and 26,000 square feet respectively. In Kapiolani most of the vacancy increase was in General Growth's Ala Moana Pacific Center. Kakaako saw most of its vacancy increase in 677 Ala Moana. First Insurance Center and Pacific Park Plaza, which have traditionally had very low vacancies, saw sizable increases.

It is clear that Honolulu's office reflects the national economy with positive tenant demand coming primarily from the federal government and private tenants with federal government contracts. Most other private tenants are staying the same size or downsizing, and the state government which occupies a



Honolulu CBD Class A Office Snapshot — 3rd Quarter, 2009

	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	11,836	8,273	20,109	6.4%	22,834	23,566	\$3.01 - \$3.16	\$1.26	
Bishop Place	462,072	59,169	7,010	66,179	14.3%	1,363	(6,896)	\$2.62 - \$2.92	\$1.27	
Bishop Square / ASB Tower	483,455	32,720	0	32,720	6.8%	12,830	4,203	\$2.86 - \$3.16	\$1.31	
Bishop Square/Pauahi Tower	438,596	34,020	2,971	36,991	8.4%	(2,026)	(3,015)	\$2.93 - \$3.23	\$1.38	
Central Pacific Plaza	209,821	20,328	0	20,328	9.7%	(6,695)	(11,374)	\$2.93 - \$2.93	\$1.23	
City Financial Tower	180,563	26,664	0	26,664	14.8%	3,520	(1,301)	\$2.82 - \$2.82	\$1.32	
Davies Pacific Center	354,322	42,086	1,380	43,466	12.3%	(6,241)	(8,307)	\$2.52 - \$3.87	\$1.37	
First Hawaiian Center	379,336	47,362	0	47,362	12.5%	2,500	3,966	\$3.30 - \$3.30	\$1.30	
Harbor Court - Office Tower	186,138	5,738	15,139	20,877	11.2%	1,295	(7,449)	\$2.84 - \$3.04	\$1.39	
Pacific Guardian Center	629,518	80,439	0	80,439	12.8%	(8,704)	(19,461)	\$2.67 - \$3.12	\$1.32	
Pioneer Plaza	245,000	13,992	836	14,828	6.1%	68	13,263	\$2.90 - \$2.95	\$1.25	
TOPA Financial Center	483,776	38,081	17,980	56,061	11.6%	9,683	(2,063)	\$3.23 - \$3.28	\$1.38	
Waterfront Plaza (Office Portion)	455,600	15,008	0	15,008	3.3%	31,106	50,616	\$2.95 - \$2.95	\$1.35	
Totals	4,824,237	427,443	53,589	481,032		61,533	35,748	Average	\$2.89 - \$3.13	\$1.32
Vacancy rates		8.9%	1.1%	10.0%				Range	\$2.52 - \$3.87	

Notes:

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

² Base rents typically escalate annually from 3% to 5%



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relatively small amount of private space has reportedly asked landlords for rent reductions.

Even with the vacancy increases, Honolulu's market is strong when compared to many mainland markets. Vacancy is 10% or lower in most submarkets with the exception of Waikiki and two very small areas – King Street and Airport. Most industry observers feel that 10% vacancy represents a point at which a market is equally balanced between landlords and tenants. The result is that most landlords have not had to “give away the

farm” when negotiating with tenants. Even if an existing tenant finds a cheaper rental rate at another building, moving expenses and tenant improvements are still so high that paying their existing landlord a higher rate is cheaper than moving.

Looking ahead, many of the same dynamics drive the Honolulu market: no new multi-tenant office building construction (except for Hale Pawa, a medical building), large tenants are largely confined to the CBD, very large tenants have very few choices, if any, the CBD is comparably priced with the other submarkets except for parking, tenant improvement costs are extremely high, and CAM costs are driven by real property tax increases and energy costs. We hope the worst is over and that “right-sizing” by tenants will result in expansions when the economy recovers. The Waikiki submarket is waiting for a tourism rebound, and we expect there to be additional impact from the federal government as the federal stimulus package takes effect.

Oahu Office Market Snapshot - 3Q2009

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)
Airport	575,042	122,857	4	21.4%	43	\$1.90	\$3.13	\$2.52	\$1.31	4,553
CBD	5,724,623	592,473	24	10.3%	295	\$2.10	\$3.87	\$2.99	\$1.32	37,063
East Oahu	257,586	17,945	6	7.0%	18	\$2.75	\$3.87	\$3.31	\$1.45	(842)
Kakaako	1,338,687	79,011	6	5.9%	36	\$2.40	\$3.82	\$3.11	\$1.35	(26,422)
Kalihi/Iwilei	569,529	42,275	4	7.4%	15	\$2.42	\$2.49	\$2.46	\$0.99	(1,443)
Kapiolani	1,249,565	134,426	9	10.8%	78	\$2.80	\$4.68	\$3.74	\$1.74	(29,617)
King	78,547	9,984	2	12.7%	6	\$2.35	\$3.14	\$2.75	\$0.65	(3,035)
Leeward	603,712	18,705	8	3.1%	17	\$2.70	\$4.56	\$3.63	\$1.25	(4,941)
Waikiki	782,395	133,643	7	17.1%	91	\$2.40	\$3.60	\$3.00	\$1.77	(3,061)
Windward Oahu	110,165	8,733	3	7.9%	8	\$2.42	\$3.82	\$3.12	\$1.25	(1,615)
TOTAL	11,289,851	1,160,052	73	10.3%	607	\$2.42	\$3.70	\$3.06	\$1.31	(29,360)

BLDG CLASS	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)
A*	4,824,237	481,032	13	10.0%	219	\$2.89	\$3.13	\$3.01	\$1.32	61,533
B	6,465,614	679,020	60	10.5%	388	\$2.42	\$3.63	\$3.03	\$1.48	(90,893)
TOTAL	11,289,851	1,160,052	73	10.3%	607					(29,360)

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