Honolulu CBD Class A Office Market Report

2nd Quarter, 2008

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

Honolulu's CBD Class A office market continued its slide in occupancy in the 1st quarter of 2008 with negative absorption of nearly 46,000 square feet. The range of average asking full service gross rents grew slightly, however most of that growth was a result of a nearly 6% increase in operating expenses. Asking base rents (the bottom line for landlords) remained virtually unchanged from the end of 2007. This is in contrast to the last three years when landlords raised base rents 5-10% at the beginning of each calendar year.

We saw landlords become more negotiable with their "asking" rental rates, tenant improvement allowances and have even heard of landlords considering free base rent as an incentive.

High tenant improvement costs continue to be an obstacle to leasing. Downtown Honolulu has not seen a new office building since 1996, so many office spaces are on their 2nd, 3rd, 4th or older generation tenants. As a result, these spaces need extensive renovations to make them tenable. Contractors tell us that labor costs have stabilized, however material prices are still increasing because of shipping, energy costs and competition from overseas demand. As a result, the cost of renovating office space keeps climbing. Combine the increased improvement expenses with base rents going sideways, and landlords are seeing a drop in their returns. The one bright spot for landlords is the continued growth in parking rates.

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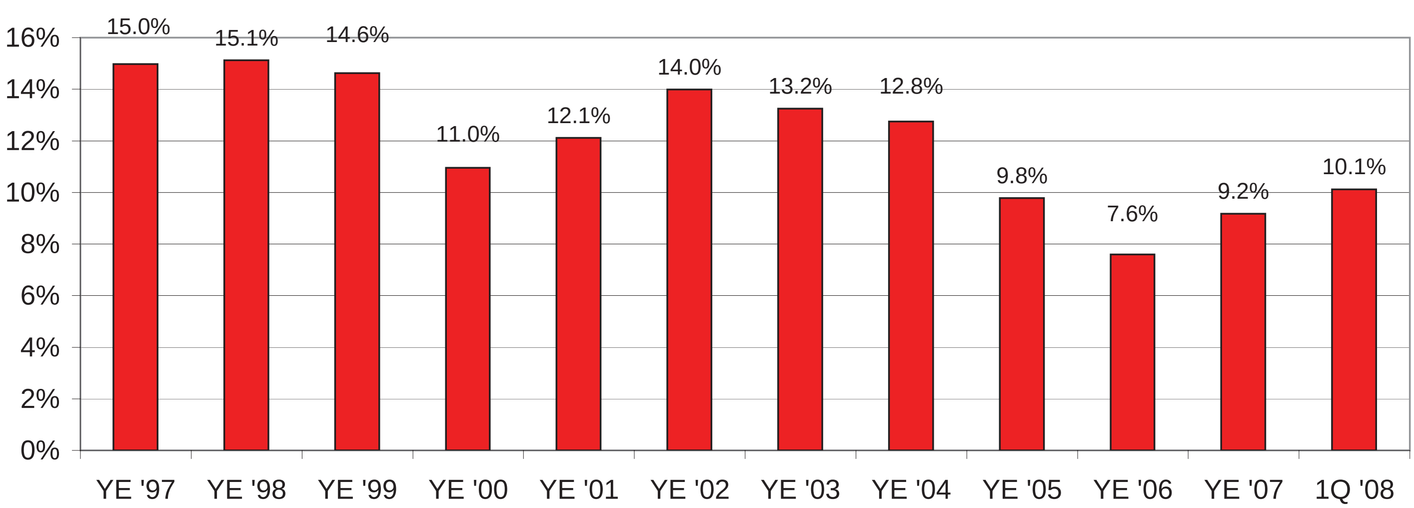
Leasing Activity

Leasing activity during the 1st quarter consisted of existing tenants both expanding and contracting. Much of the contraction was due to continued cuts in the mortgage industry. There was virtually no new tenancy in the market.

Alii Place saw positive absorption with 2 leases of its 25th floor spec space reportedly to a law firm and a mortgage firm (bucking the downward trend of leases by mortgage companies).

Bishop Place also registered positive absorption as HDR, an engineering company expanded. Grant Thornton moved within the building and expanded slightly.

CBD Class A Total Office Vacancy Rates



Honolulu CBD Class A Office Market Report

Hawaii Commercial Real Estate, LLC

2nd Quarter, 2008

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

Bishop Square saw large negative absorption as the merger of two ad agencies gave back a full floor in the ASB Tower. Fremont Capital bought out their lease and gave back a small space. Option One Mortgage and a national insurance company put their spaces on the market for sublease.

Central Pacific Plaza remained full. Central Pacific Bank, the building's owner and largest tenant is reportedly looking to expand as non-bank tenants expire.

City Financial Tower occupancy remained nearly unchanged, and its owner is reportedly looking to expand. Most of CFT's vacancy is a full floor sublease that will come back to the building as direct lease in early 2009. CFT still has significant exposure to lending industry tenants, and the two floor sublease to Hawaiian Dredging expires in 2009.

Why Hawaii Commercial Real Estate, LLC?

- *Broad Marketing Reach*
- *Extensive Experience*
- *Focused Service*

Market Snapshot

Central Business District, Class A: 1st Quarter, 2008

	Building SF	Direct Vacancy	Vacant Sublease	Total Vacancy	Total Vacancy Rate	YTD Absorption		Asking Full Service Gross Rents ($/rsf/mth)			Operating Expenses ($/rsf/mth)
Alii Place	316,040	15,794	2,722	18,516	5.9%	4,898		$3.07	-	$3.92	$1.17
Bishop Place	462,072	58,446	5,090	63,536	13.8%	3,772		$2.74	-	$2.99	$1.24
Bishop Square / ASB Tower	483,455	52,611	4,974	57,585	11.9%	(20,670)		$3.09	-	$3.09	$1.29
Bishop Square/Pauahi Tower	438,596	23,818	4,440	28,258	6.4%	(3,426)		$3.14	-	$3.14	$1.34
Central Pacific Plaza	209,821	0	0	0	0.0%	0		$2.56	-	$2.96	$1.11
City Financial Tower	180,563	10,787	10,941	21,728	12.0%	(573)		$2.84	-	$2.96	$1.19
Davies Pacific Center	354,322	40,837	2,501	43,338	12.2%	5,007		$2.41	-	$2.96	$1.26
First Hawaiian Center	379,336	51,338	3,966	55,304	14.6%	(3,202)		$3.94	-	$3.94	$1.19
Harbor Court - Office Tower	186,138	2,906	15,597	18,503	9.9%	(4,906)		$3.04	-	$3.04	$1.29
Pacific Guardian Center	628,268	60,369	13,730	74,099	11.8%	3,161		$2.65	-	$3.20	$1.30
Pioneer Plaza	245,000	31,430	0	31,430	12.8%	(22,686)		$2.75	-	$2.95	$1.15
TOPA Financial Center	483,776	53,540	7,536	61,076	12.6%	(8,881)		$2.84	-	$3.04	$1.24
Waterfront Plaza (Office Portion)	455,600	14,749	0	14,749	3.2%	1,708		$3.10	-	$3.25	$1.30
Totals	**4,822,987**	**416,625**	**71,497**	**488,122**		**(45,798)**	**Avg**	**$2.94**	**-**	**$3.19**	**$1.24**
Vacancy rates		**8.6%**	**1.5%**	**10.1%**			**Range**	**$2.41**	**-**	**$3.94**	

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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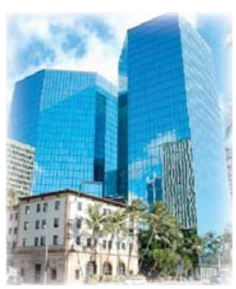
Davies Pacific Center saw several existing tenants expand including an engineering company. They lost a small mortgage company, and a small professional services firm left to work out of their home.

First Hawaiian Center vacancy increased during the quarter. In the last two quarters, FHC has seen its vacancy increase dramatically as tenants left the building for several reasons. Spirent downsized and moved to Pacific Guardian Center, JAL moved to the airport and Bearing Point closed its office.

Harbor Court saw its office vacancy increase as a result of a small mortgage company not renewing, and the addition of a 7,808 square foot sublease put on the market by Mortgage IT. In addition, the 12,000 square foot Cassis restaurant closed, however the restaurant square footage is not included in our office space statistics for Harbor Court.



Pacific Guardian Center's occupancy increased with the expansion of Watts Constructors, TD Ameritrade and Mobi PCS.

Pioneer Plaza's vacancy increased as PREL gave back a full floor and several un-named tenants gave back space as they renewed their leases.

Topa Financial Center vacancy increased significantly. NCL took a cruise ship out of Hawaii service, and it gave back a full floor. Countrywide Home Loans gave back both office and retail space. BNC Mortgage also gave back nearly half a floor. The building did see some new tenancy as DHHL took a short term lease of office space while it completes its office building in Ewa, however that space is expected to be vacated in several months. Molokai Ranch announced closure of its operations on Molokai, but is still leasing space at Topa.

Waterfront Plaza vacancy decreased slightly during the quarter. However Aloha Airlines' lease about 30,000 square feet of office space has been returned to the building as a result of its bankruptcy. Waterfront is reportedly in discussions with existing tenants to lease about half of that square footage.

Based on Market Survey Data from End of March, 2008

Why HCRE? Broad Marketing Reach, Extensive Experience, Focused Service

"Your excellent job in researching the market and making recommendations, was invaluable and highly instrumental in securing of favorable terms for our lease."

— Michel Vinet, Insurance Factors

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Oahu Office Market Snapshot - 1Q2008

SUBMARKET	TOTAL SF	VACANT SF	NO. BLDG	% VACANCY	# SPACES	AVG LOW FSG ($/SF/MTH)	AVG HI FSG ($/SF/MTH)	AVG FSG ($/SF/MTH)	YTD ABSORPTION (SF)
Airport	575,042	70,093	4	12.2%	32	$2.03	$2.94	$2.49	(707)
CBD	5,723,373	557,369	24	9.7%	200	$1.95	$3.94	$2.95	(9,478)
East Oahu	257,586	850	6	0.3%	6	$3.21	$3.44	$3.33	3,853
Kakaako	1,338,687	80,109	6	6.0%	38	$2.45	$3.68	$3.07	27,646
Kalihi/Iwilei	569,529	25,726	4	4.5%	8	$2.10	$2.87	$2.49	7,629
Kapiolani	1,249,565	65,605	9	5.3%	42	$2.39	$4.98	$3.69	10,637
King	78,547	2,938	2	3.7%	4	$2.25	$3.09	$2.67	(1,448)
Leeward	603,712	30,261	8	5.0%	15	$2.65	$4.15	$3.40	(23,505)
Waikiki	782,395	116,551	7	14.9%	71	$2.50	$4.20	$3.35	2,088
Windward Oahu	110,165	2,581	3	2.3%	5	$2.42	$3.08	$2.75	(2,581)
TOTAL	**11,288,601**	**952,083**	**73**	**8.4%**	**421**	**$2.40**	**$3.64**	**$3.02**	**14,134**

BLDG CLASS	TOTAL SF	VACANT SF	NO. BLDG	% VACANCY	# SPACES	AVG LOW FSG ($/SF/MTH)	AVG HI FSG ($/SF/MTH)	AVG FSG ($/SF/MTH)	YTD ABSORPTION (SF)
A*	4,822,987	488,122	13	10.1%	163	$2.94	$3.19	$3.06	(45,798)
B	6,465,614	463,961	60	7.2%	258	$2.40	$3.56	$2.98	59,932
TOTAL	**11,288,601**	**952,083**	**73**	**8.4%**	**421**				**14,134**

* Class A Buildings are exclusively in CBD
** FSG means Full Service Gross rent (base rent plus operating expenses)

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Why Hawaii Commercial Real Estate, LLC?

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