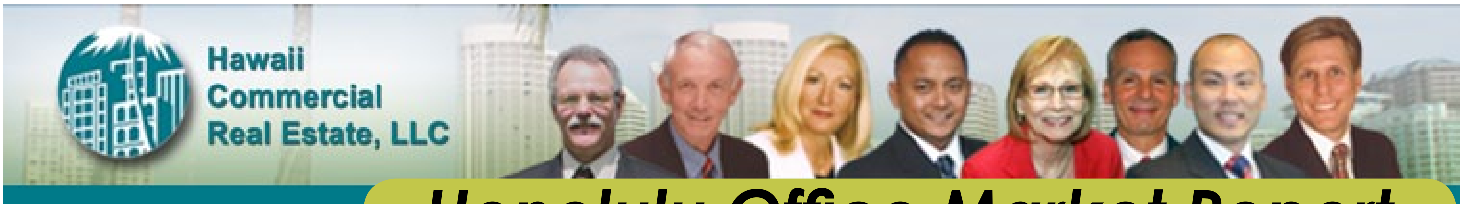


May, 2011

Honolulu Office Market Report

The Honolulu office market continued its occupancy slide that started in mid-2008. The 1st quarter saw 76,185 square feet of negative absorption which was spread amongst nearly all the ten sub-markets tracked by our survey bringing the island-wide vacancy rate to 12.8%. With the exception of federal government leasing in late 2009, the news has been gloomy for Honolulu landlords since the beginning of the 2008 recession.

Asking gross rents (base rent plus full operating expenses) dropped slightly to $2.97/sf/mth. Average operating expenses increased by $0.07/sf/mth or 5.6% over 2010 year-end levels to $1.31/sf/mth. These increases continue to eat into base rents and pushed many landlords to embark on energy conservation programs.

Because of the increase in operating expenses, asking base rent decreased by $0.09/sf/mth or 5.1% from 2010 year end levels.

Landlords continue to compete fiercely for tenants, and the uncertainty of Pacific Office Properties future make it unlikely that we will see an office market recovery until 2012.

TENANT DEMAND?

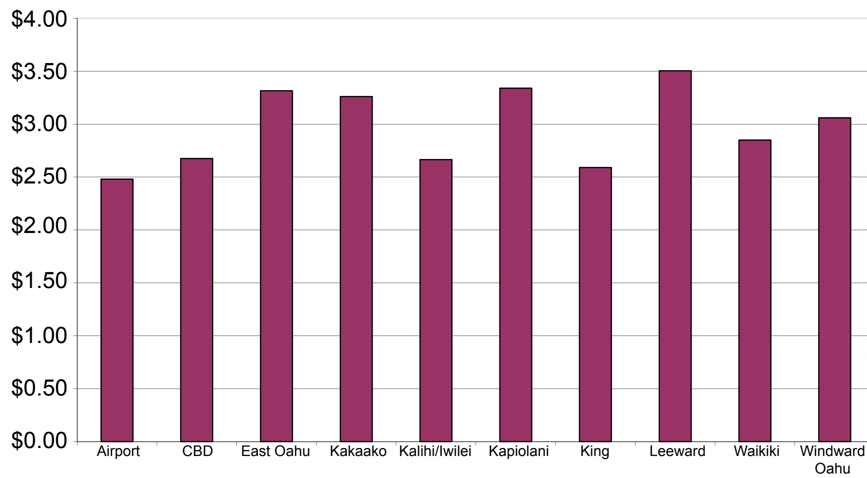
Job growth turned positive in the 3rd quarter of 2010, and UHERO is forecasting a 1.6% increase in payroll jobs in 2011 followed by a 2.2% increase in 2012 and 2.3% increase in 2013.

While job growth generally fills office space, most businesses continue to put more people in fewer square feet, so new jobs are not necessarily translating into more office space leased. We believe the current job growth forecasts are not large enough to significantly change Honolulu's current office occupancy. Instead job growth will only stop vacancy increases in the near term.

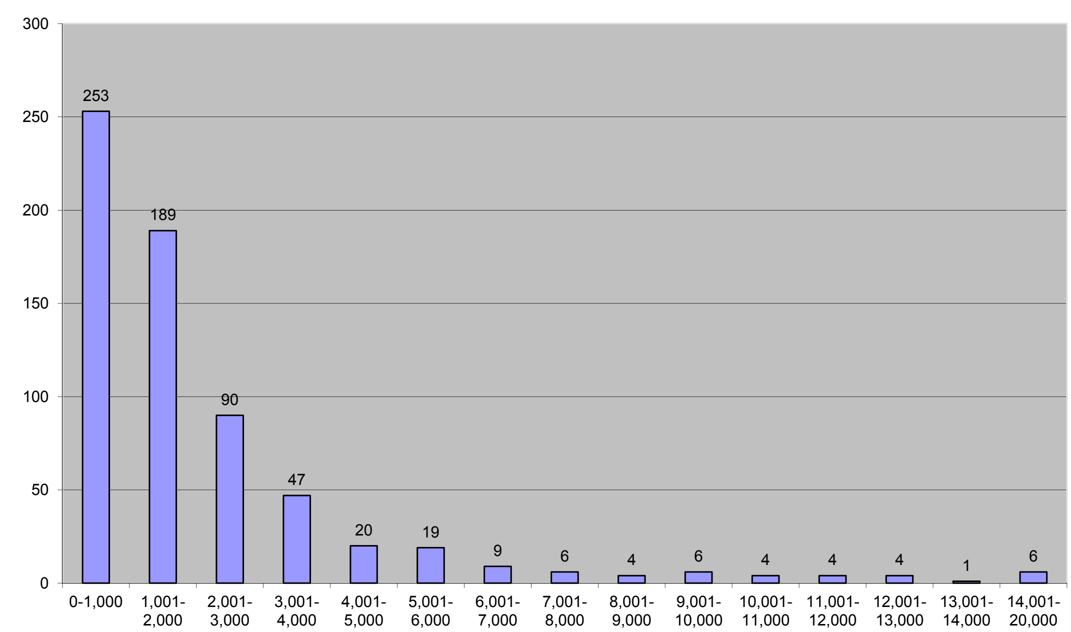
We have not seen the visitor industry rebound translate into office occupancy as Waikiki vacancy increased to 21.4%.

The rail project could have a measurable impact on tenant demand, especially for the nearly 60,000 square feet of vacancy at Bank of Hawaii's Hale O Kapolei, but we haven't seen a significant impact yet, and it may be slowed or stalled by a recent lawsuit.

Honolulu Office Gross Rents ($/sf/mth)



Islandwide Vacancy by Size and Number of Spaces - 1st Quarter 2011



For Sale:
1900 Young Street

Many tenants are looking seriously at owning their own space. The trick is arranging financing and negotiating a purchase price that will be at or below the appraisal value.

For Sale:
One South King

Pacific Guardian Center

Still a tenant's market for those willing to move. Except for very large spaces (over 30,000sf), tenants generally have multiple options which can force landlords to compete for their tenancy.

Even though the medical services industry is under huge cost pressures, we have seen a small number of service providers expand or move to new facilities in Waterfront Plaza and Hale Pawaa. The turmoil at Hawaii Medical Center East and West could result in doctors moving to other facilities. Please note that dedicated medical office buildings such as Hale Pawaa and Queen's POBs are not included in inventory surveys.

DOWNTOWN CLASS A BUILDINGS ARE A MARKET INDICATOR

The downtown Class A office buildings comprise about 40% of Oahu's office inventory, are home to Honolulu's larger tenants, and are typically seen as an indicator of the entire market. They lost a disproportionate share of occupancy during the quarter with nearly every building impacted and their vacancy increased to 13.2%.

Fortunately there is no new office space under construction and the general economic recovery appears to have taken hold. However, there is typically a lag time between economic growth and office occupancy growth. We expect more business downsizing and right-sizing to increase vacancy through the balance of 2011 before the market bottoms in 2012 and returns to growth.

STILL A TENANT'S MARKET FOR THOSE WILLING TO MOVE

Hawaii Commercial Real Estate's index of available spaces increased from 644 to 662 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.

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.

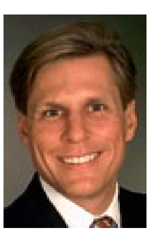
Many tenants are looking seriously at owning their own space even though the initial mortgage payments may be higher than comparable rents. The trick is arranging financing and negotiating a purchase price that will be at or below the appraisal value.

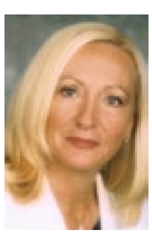
Oahu Office Market Snapshot - 1st Quarter 2011

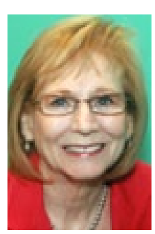
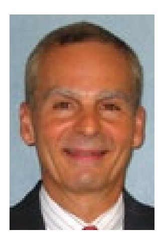
SUBMARKET	TOTAL SF	VACANT SF	% VACANCY	# SPACES	AVG FSG ($/SF/MTH)	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
Airport	575,042	107,449	18.7%	49	$2.48	(13,023)	(13,023)
CBD	5,724,623	813,860	14.2%	318	$2.68	(32,771)	(32,771)
East Oahu	257,586	6,265	2.4%	10	$3.32	7,240	7,240
Kakaako	1,338,687	86,589	6.5%	41	$3.26	(5,026)	(5,026)
Kalihi/Iwilei	569,529	75,478	13.3%	29	$2.67	(15,472)	(15,472)
Kapiolani	1,249,565	113,361	9.1%	80	$3.34	15,708	15,708
King	78,547	17,089	21.8%	14	$2.59	(1,147)	(1,147)
Leeward	603,712	46,452	7.7%	21	$3.51	(30,339)	(30,339)
Waikiki	782,395	167,815	21.4%	96	$2.85	(3,961)	(3,961)
Windward Oahu	110,165	5,495	5.0%	4	$3.06	2,606	2,606
TOTAL	**11,289,851**	**1,439,853**	**12.8%**	**662**	**$2.97**	**(76,185)**	**(76,185)**

BLDG CLASS	TOTAL SF	VACANT SF	% VACANCY	# SPACES	AVG FSG ($/SF/MTH)	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
A*	4,824,237	638,303	13.2%	221	$2.93	(30,436)	(30,436)
B	6,465,614	801,550	12.4%	441	$2.95	(45,749)	(45,749)
TOTAL	**11,289,851**	**1,439,853**	**12.8%**	**662**		**(76,185)**	**(76,185)**

* Class A Buildings are exclusively in CBD





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

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

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

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

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

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

Ted Ketcham (S)
Vice President
808-292-0356
ted@hawaiicre.com

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