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The Honolulu office market stopped its occupancy slide in the 4th quarter with 13,381 square feet of positive absorption (more space leased than returned by tenants). Calendar 2009 had 80,203 square feet of negative absorption and ended the year at 10.2% vacant, a full percentage point higher than 9.2% vacancy at the end of 2008. Asking rents remained stable during the 4th quarter with the island-wide average asking full service gross rent declining slightly to \$3.01/sf/mth which compares to \$3.05/sf/mth at the end of 2008. Despite declining vacancy, the gap between asking and taking rental rates increased as landlords provided incentives when competing for tenants.

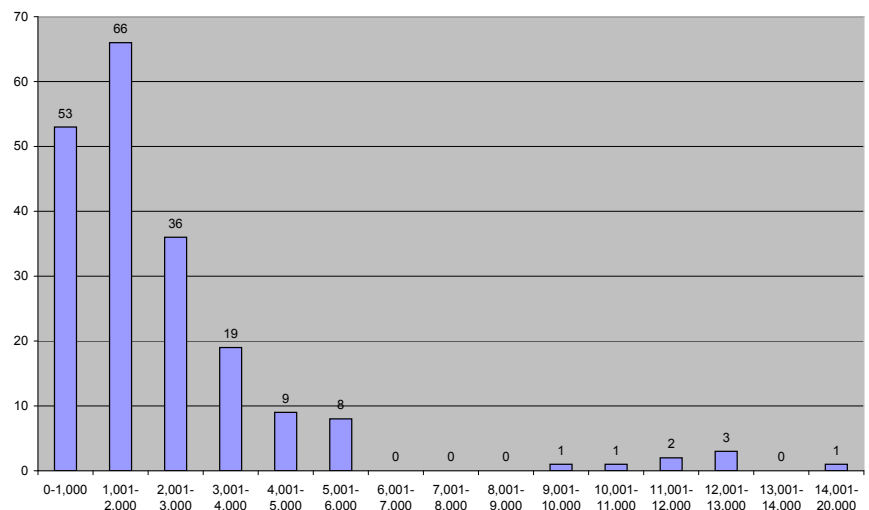
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GOVERNMENT BAILOUT

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 and real estate remains weak as those industries struggle to emerge from the recession.

CBD Class A Vacancy by Size and Number of Spaces - 4Q 2009



Honolulu CBD Class A Office Snapshot 4th Quarter, 2009

Building	SF	Vacancy		Total Vacancy		Qtr Absorption	YTD Absorption	Asking Full Service Gross Rents (\$/rsf/mth)	Operating Expenses (\$/rsf/mth)
		Direct	Vacant	Total	Total				
Alii Place	316,040	10,839	5,551	16,390	5.2%	3,719	27,285	\$3.01 - \$3.16	\$1.26
Bishop Place	462,072	68,343	2,970	71,313	15.4%	(5,134)	(12,030)	\$2.42 - \$2.77	\$1.27
Bishop Square / ASB Tower	483,455	35,480	0	35,480	7.3%	(2,760)	1,443	\$2.86 - \$3.16	\$1.31
Bishop Square/Pauahi Tower	438,596	30,927	2,971	33,898	7.7%	3,093	78	\$2.93 - \$3.23	\$1.38
Central Pacific Plaza	209,821	19,231	0	19,231	9.2%	1,097	(10,277)	\$2.93 - \$2.93	\$1.23
City Financial Tower	180,563	25,445	0	25,445	14.1%	1,219	(82)	\$2.82 - \$2.82	\$1.32
Davies Pacific Center	354,322	40,407	1,380	41,787	11.8%	1,679	(6,628)	\$2.52 - \$2.92	\$1.37
First Hawaiian Center	379,336	47,362	0	47,362	12.5%	0	3,966	\$3.23 - \$3.23	\$1.23
Harbor Court - Office Tower	186,138	4,346	12,606	16,952	9.1%	3,925	(3,524)	\$2.84 - \$2.94	\$1.39
Pacific Guardian Center	629,518	86,755	0	86,755	13.8%	(6,316)	(25,777)	\$2.67 - \$3.12	\$1.32
Pioneer Plaza	245,000	16,148	836	16,984	6.9%	(2,156)	11,107	\$2.90 - \$2.90	\$1.25
TOPA Financial Center	483,776	49,608	0	49,608	10.3%	6,453	4,390	\$3.23 - \$3.28	\$1.38
Waterfront Plaza (Office Portion)	455,600	13,783	0	13,783	3.0%	1,225	51,841	\$2.95 - \$2.95	\$1.35
Totals	4,824,237	448,674	26,314	474,988		6,044	41,792	Average	\$1.31
Vacancy rates		9.3%	0.5%	9.8%				Range	\$2.42 - \$3.28



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With job growth forecast to be flat, we expect that office demand will remain flat or negative throughout 2010 and pickup in 2011. Several large blocks of space will become vacant and exacerbate the weak demand: Morgan Stanley's occupancy is currently double-counted and their move to Pacific Guardian Center will create a domino effect leaving 32,000 square feet vacant in Davies Pacific Center (AECOM will move from Davies to fill Morgan Stanley's space in Bishop Square), Smith Barney will vacate 20,000 square feet when they move to Pacific Guardian Center; Metlife Home Loans will close their 12,000 square foot office at Alii Place; Pacific Health Research Institute will close their 11,500 square foot office at Topa Financial Center; and a title company and accounting firm may give back some or all of their office space downtown.

2009 LEASING SUCCESS STORY

The largest leasing story of 2009 belongs to Pacific Guardian Center. Tesoro vacated 68,650 square feet as their 30 year old lease expired, and not one employee remained downtown. Through aggressive and proactive leasing, Pacific Guardian Center has managed to lease ALL of the former Tesoro space except for 4,643 square feet.

Downtown Honolulu led the way with positive absorption and was followed by the Leeward and Kapiolani corridor as Campbell Square leased up in Kapolei and the Pan Am Building filled some vacant space. The hardest hit submarket was Iwilei which saw significant vacancy increases in Gentry Pacific Center and Dole Office Building.

Oahu Office Market Snapshot - 4Q2009

SUBMARKET	TOTAL SF	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
Airport	575,042	21.6%	45	\$2.38	(1,096)	(51,120)
CBD	5,724,623	10.0%	270	\$2.71	21,975	37,965
East Oahu	257,586	6.7%	16	\$3.31	697	(9,506)
Kakaako	1,338,687	6.3%	34	\$3.26	(5,759)	7,526
Kalihi/Iwilei	569,529	11.3%	24	\$2.46	(22,253)	(7,378)
Kapiolani	1,249,565	9.7%	81	\$3.44	13,806	(54,816)
King	78,547	12.7%	6	\$2.77	0	(2,881)
Leeward	603,712	1.5%	12	\$3.63	9,400	20,597
Waikiki	782,395	17.3%	91	\$3.00	(1,348)	(14,657)
Windward Oahu	110,165	9.8%	9	\$3.12	(2,041)	(5,933)
TOTAL	11,289,851	10.2%	588	\$3.01	13,381	(80,203)

BLDG CLASS	TOTAL SF	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
A*	4,824,237	9.8%	199	\$2.95	6,044	41,792
B	6,465,614	10.4%	389	\$3.00	7,337	(121,995)
TOTAL	11,289,851	10.2%	588		13,381	(80,203)

* Class A Buildings are exclusively in CBD

MANY OPTIONS FOR TENANTS

The large number of available spaces in virtually every size category has given tenants multiple options and forced landlords to compete for 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 their 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.

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.