



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.

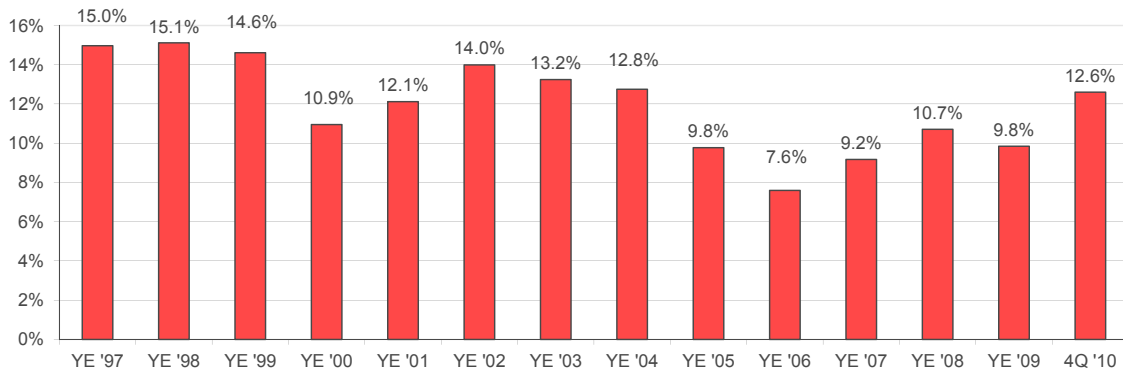


For Sale:
One South King



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
Totals	4,824,237	577,681	30,186	607,867		(25,132)	(132,879)	Average Range	
Vacancy rates		12.0%	0.6%	12.6%				\$2.85 - \$3.05	\$1.34
								\$2.45 - \$3.28	

Notes:

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

² 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
TOTAL	11,289,851	1,363,668	73	12.1%	644	\$2.46	\$3.53	\$2.99	\$1.24	(61,382)	(216,997)



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