



Hawaii
Commercial
Real Estate, LLC

4th Quarter, 2011



February, 2012

Tenants are staying downtown when their leases expire, and several significant tenants have moved from other submarkets to downtown. Find out why in this report.



Honolulu Office Market Report

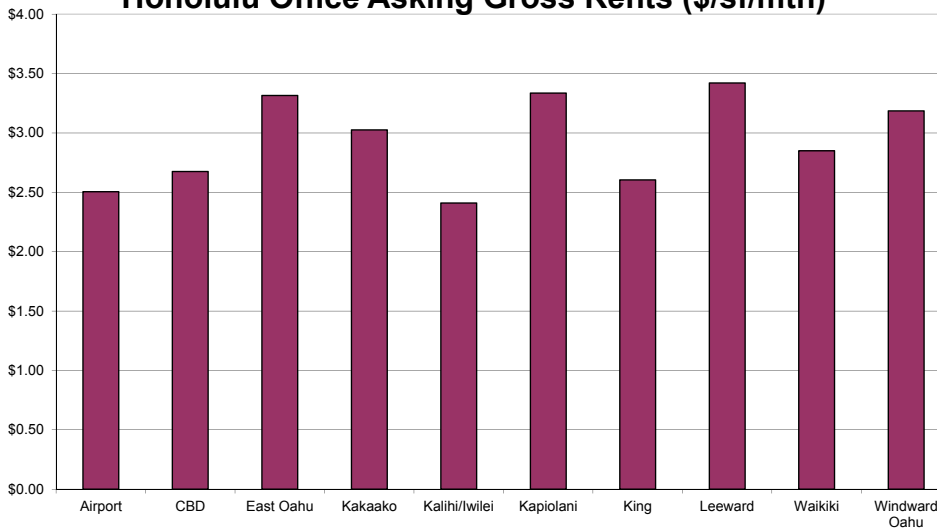
Honolulu's office market continued to lose occupancy in the 4th quarter. The market, which has been losing occupancy since mid-2008, saw 54,025 square feet of negative absorption during the 4th quarter, an increase from 38,612 in the 3rd quarter, but down from 98,605 in the 2nd quarter and 76,185 in the 1st quarter. Of the ten sub-markets tracked by our survey, seven lost occupancy, one remained flat and two markets increased occupancy. The island-wide vacancy rate now stands at 14.4%, with a range of 5.7% (East Honolulu) to 25.4% (Waikiki).

Average asking gross rents (base rent plus full service operating expenses) dropped to \$2.93/sf/mth from \$2.98/sf/mth in the 3rd quarter and \$2.99/sf/mth at the end of 2010.

Hawaii Commercial Real Estate's index of available spaces decreased slightly from 713 to 710 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 combination of slow job growth and office tenants' relentless drive to put more people in fewer square feet makes it unlikely that we will see an office market recovery until 2013.

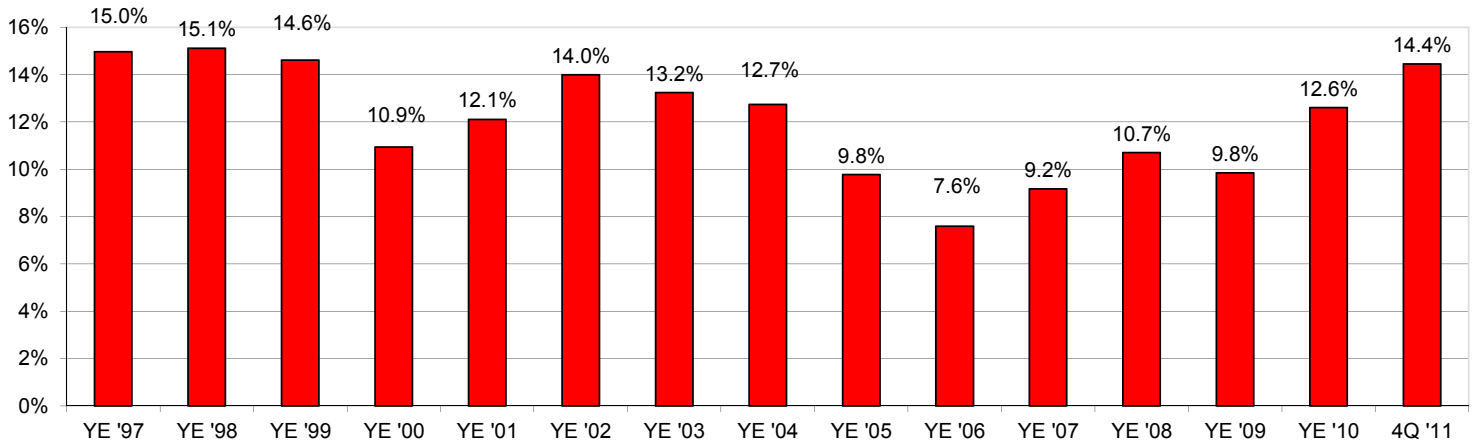
Honolulu Office Asking Gross Rents (\$/sf/mth)



JOB GROWTH TOO SLOW TO MOVE THE NEEDLE

Job growth has been positive since the 3rd quarter of 2010, but a combination of jobs going to non-office users, and office tenants putting more people in fewer square feet has kept office vacancy on the rise. While both UHERO and DBEDT are forecasting increases in job growth in 2012 and 2013, the increases will not be sufficient to reverse Honolulu's current office occupancy paradigm in 2012. Look for occupancy gains when construction and the housing market recover.

CBD Class A Total Office Vacancy Rates





Pacific Guardian Center

There is a significant spread between asking and taking base rents which has been benefitting tenants working with tenant rep brokers. The best space is leasing because it is priced only marginally higher than the worst space which stays vacant for long periods of time.

02/10/12

DOWNTOWN STILL THE CENTER OF ACTION

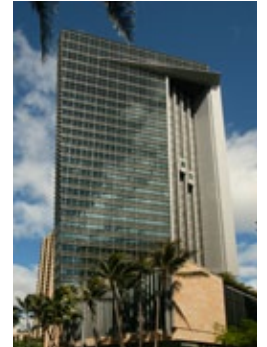
Tenants are staying downtown when their leases expire, and several significant tenants have moved from other submarkets to downtown. Why?

- With half of Honolulu's office space, downtown houses most of the other businesses tenants want to be near.
- Downtown has more choices, higher quality spaces and amenities.
- Occupancy costs are lower downtown, except for parking.

Despite a rebound in the visitor industry, Waikiki continued its vacancy climb to new high of 25.4%.

OTHER TRENDS

There is a significant spread between asking and taking base rents which has been benefitting tenants working with tenant rep



brokers. The best space is leasing because it is priced only marginally higher than the worst space.

Many expiring leases are over market, and renewing tenants are typically seeing their base rental rates lowered as long as they sign a lease for three to five years or more. Because moving and tenant improvement expenses are so high, many renewing tenants pay a slightly higher rental rate to stay in their existing space.

Some 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 2011

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	85,300	4	14.8%	40	\$2.10	\$2.91	\$2.51	\$1.32	(4,837)	9,126
CBD	5,726,733	877,254	24	15.3%	324	\$2.08	\$3.27	\$2.68	\$1.37	(30,212)	(96,165)
East Oahu	257,586	14,698	6	5.7%	14	\$2.75	\$3.88	\$3.32	\$1.25	(5,321)	(1,193)
Kakaako	1,338,687	108,403	6	8.1%	49	\$2.68	\$3.37	\$3.03	\$1.36	10,100	(26,840)
Kalihi/Iwilei	569,529	82,809	4	14.5%	33	\$2.29	\$2.53	\$2.41	\$1.13	2,432	(22,803)
Kapiolani	1,249,565	140,506	9	11.2%	89	\$2.73	\$3.94	\$3.34	\$1.81	(9,815)	(11,437)
King	78,547	15,695	2	20.0%	11	\$2.25	\$2.96	\$2.61	\$1.36	0	247
Leeward	603,712	91,794	8	15.2%	35	\$2.89	\$3.95	\$3.42	\$1.38	(535)	(75,681)
Waikiki	782,395	198,954	7	25.4%	106	\$2.10	\$3.60	\$2.85	\$1.80	(11,238)	(35,100)
Windward Oahu	110,165	15,682	3	14.2%	9	\$2.58	\$3.79	\$3.19	\$1.38	(4,599)	(7,581)
TOTAL	11,291,961	1,631,095	73	14.4%	710	\$2.45	\$3.42	\$2.93	\$1.41	(54,025)	(267,427)

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)	YTD ABSORPTION (SF)
A*	4,826,347	697,332	13	14.4%	229	\$2.85	\$3.00	\$2.92	\$1.37	(37,193)	(89,465)
B	6,465,614	933,763	60	14.4%	481	\$2.45	\$3.38	\$2.91	\$1.50	(16,832)	(177,962)
TOTAL	11,291,961	1,631,095	73	14.4%	710					(54,025)	(267,427)

* Class A Buildings are exclusively in CBD



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



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



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



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



Kathryn M. Reh (B)
Vice President
808-440-2794
kathyreh@hawaiiacre.com



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



Josh Arango
Market Research &
Investment Analyst
josh@hawaiiacre.com



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