

Office Market Report

HONOLULU | YEAR END 2008

“The adoption of conservative business practices for 2009 will likely impede office sector growth.”

*-Sean Tadaki (S), CCIM,
Vice President, Office Division Manager*

MARKET INDICATORS

	YEAR END		
	2007	2008	2009
VACANCY	▼	▲	▲
NET ABSORPTION	▼	▼	▼
CONSTRUCTION	◆	▲	◆
RENTAL RATE	▲	▲	▼

OFFICE HIGHLIGHTS

YTD NET ABSORPTION: (139,509) SF

VACANCY RATES: 8.60%

AVERAGE FULL SERVICE ASKING RENT:

Islandwide:	\$2.84 psf/mo
Class A:	\$3.12 psf/mo
Class B:	\$3.08 psf/mo
Class C:	\$2.51 psf/mo

Office Sector Continues to Soften

The Honolulu office market posted its sixth consecutive quarter of negative net absorption resulting in a steady increase to the island's vacancy rate that has risen from a decade low of 6.5% in mid-2007 to 8.6% currently. Closely corresponding to this 18-month time period, Honolulu's unemployment rate rose from 1.8% for December 2006 to 3.8% for November 2008. More than 150,000 square feet of office space was vacated during the past two years as firms related to real estate, construction, tourism and retailing downsized or closed their offices.

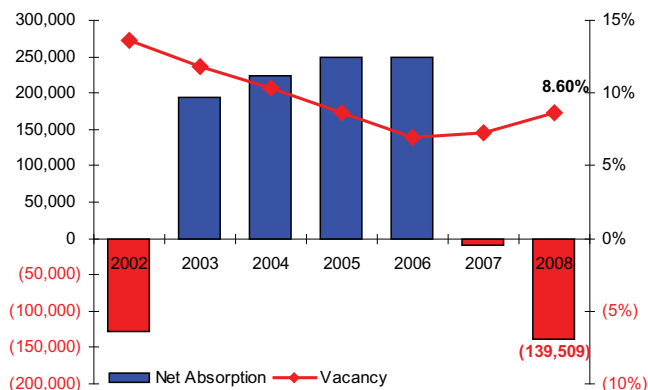
Full service gross rents have increased for the sixth consecutive year rising to \$2.84 per square foot per month (“psf/mo”). Despite this increase, the average net rent actually fell slightly from \$1.71

psf/mo to \$1.70 psf/mo. This indicates that although gross rents rose from last year, all of the rental rate growth over the past year was due to a jump in building operating expenses.

The events that lead to our current recession unfolded before our eyes as concern over the residential subprime situation snowballed into a major financial crisis affecting global markets. Acronyms such as CMBS (Collateralized Mortgage Backed Securities), CDO (Collateralized Debt Obligation), CDS (Credit Default Swap) and SIV (Structured Investment Vehicle) became avidly discussed, as financial firms priced debt by encapsulating various risk levels into tranches and securitized these levels. Nearly all major U.S. financial institutions were involved

in these programs. This unfounded belief that risk was minimized or controlled eventually bankrupted Wall Street giants like Bear Stearns, Lehman Brothers and Washington Mutual.

OAHU OFFICE NET ABSORPTION VS. VACANCY RATE



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Office Market Statistics

Submarket	Number of Buildings	Total Square Feet	Vacant Space	Vacancy Rate	YTD Net Absorption	Low Average Asking Rent	High Average Asking Rent	Average Operating Expenses
Airport/Mapunapuna	5	766,894	90,853	11.85%	(13,904)	\$1.33	\$1.47	\$1.05
Central Business District	62	8,064,293	791,837	9.82%	(49,322)	\$1.47	\$1.61	\$1.18
East Oahu	14	431,548	25,123	5.82%	(13,275)	\$2.02	\$2.07	\$1.27
Kakaako/Kapiolani/King	39	3,366,768	189,540	5.63%	(16,327)	\$1.58	\$1.73	\$1.20
Kalihi/Iwilei/Kapalama	9	954,585	61,284	6.42%	(12,741)	\$1.37	\$1.53	\$0.85
Leeward Oahu	15	886,755	53,728	6.06%	(20,160)	\$2.07	\$2.31	\$1.05
Waikiki	10	947,276	127,715	13.48%	(20,160)	\$1.39	\$1.54	\$1.33
Windward Oahu	9	287,964	10,595	3.68%	(2,755)	\$1.58	\$1.67	\$0.82
Totals	163	15,706,083	1,350,675	8.60%	(139,509)	\$1.62	\$1.77	\$1.14

Building Class	Number of Buildings	Total Square Feet	Vacant Space	Vacancy Rate	YTD Net Absorption	Low Average Asking Rent	High Average Asking Rent	Average Operating Expenses
Class A	13	4,699,502	513,707	10.93%	(57,627)	\$1.70	\$1.85	\$1.34
Class B	78	8,131,006	514,549	6.33%	(37,403)	\$1.79	\$1.94	\$1.21
Class C	72	2,875,575	322,419	11.21%	(44,479)	\$1.43	\$1.56	\$1.02
Totals	163	15,706,083	1,350,675	8.60%	(139,509)	\$1.62	\$1.77	\$1.14

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