



October 2007

HAWAII DEVELOPERS' MONTHLY

Dedicated to the promotion, protection and improvement of real estate development in Hawaii.

HAWAII DEVELOPERS' COUNCIL



President's Message

Lucky You Live Hawaii

Frederic Berg
Kalepa Kona Partners

Lucky You Live Hawaii.

Or so tell us the economists. On September 11th we heard from University of Hawaii Economics Professor Sumner La Croix and EVP and Chief Risk Officer for Central Pacific Bank tell us that Hawaii has limited exposure to the subprime market jitters. Our banks did very little in subprime loans. Our main concern, we are told, is the effect the fallout of the subprime market will have on the general economy affecting vacation decision making for many of our visitors and particularly the California economy. Also we should keep a mindful eye on the federal government's handling of the "crisis". As we have seen the Fed has shown a keen interest in softening the effects by dropping the Fed Funds rate to levels it feels will appropriately balance recessionary and inflationary pressures. We'll all be there to witness the outcome, let's see. We are told the heads at the Federal Reserve Bank are among the best yet.

The ever present force of change is upon us as our markets plateau from sharp increases in recent years. Residential developers are responding with a product to meet the challenge of high real estate prices. Recognizing that many second homes remain empty for the large part of the year, fractional ownership, or ownership of one sixth or more of a property has emerged as a viable exit strategy. Challenges to the developer include availability of financing for a relatively new product, finding the right target market, neighbors less enthusiastic at the prospect of comings and goings and a sales force unfamiliar with the intensive knowledge needed to close this new product. Read about the opportunities to overcome these challenges elsewhere in this publication.

(continued on page 2)

HDC Membership Dues Renewal

It's that time of year! Renewal invoices will be mailed in November!

Our annual meeting and election will be held in conjunction with the November 20, 2007 luncheon meeting...please be sure to sign up when the flyer is distributed...

This is the "FREE" luncheon meeting for all HDC members!

Save the Date!

Tuesday, November 20, 2007
 Panel tbd
 Oahu Country Club
 Nuuanu Valley

11:30 a.m.
 Registration & Lunch
 12 noon—1:00 p.m.
 Program

Reservations & Cancellations
Fax 847-6575

No shows will be billed.

Board Room Series

Tuesday, December 11, 2007

7:30 to 9:00 AM

First Hawaiian Bank
 Tower
 30th floor Board Room

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PRESIDENT'S MESSAGE (continued from page 1)

Frederic Berg
Kalepa Kona Partners

The Hawaii Developers' Council continues to seek out partnerships with organizations that share its goals and objectives. In September we helped sponsor the Urban Land Institute's conference on the "Costs and Benefits of Sustainable Development" Hawaii's own Everett Dowling and Robert McNatt spoke on the challenges

they have faced in Paradise with the implementation of Sustainable Developments along with other developers and financiers from the mainland.

Drop in to our new website when you have a minute at www.hawaiideveloperscouncil.org. Give us your feedback.

Aloha!

HONOLULU ON THE MOVE

UPDATE ON TRANSIT

On December 22, 2006, after careful review of the Alternatives Analysis document and consideration of public comment, the Honolulu City Council selected the "fixed guideway" as the transit project to proceed as the city's Locally Preferred Alternative (LPA). The next phase of work on the Honolulu High Capacity Transit Corridor project includes environmental studies, preparation of a Draft Environmental Impact Statement and seeking FTA approval to proceed into the preliminary engineering phase. Engineering is underway now to provide more detailed engineering drawings and plans for the LPA to support the Draft Environmental Impact Statement. In the upcoming months, general station concepts, support column location, and guideway appearance will start to solidify. A \$20 million authorization for this phase of work is currently moving through Congress.

The fixed guideway system is just one part of an overall integrated, multi-modal transportation system which includes TheBoat, Oahu's commuter ferry system, Honolulu's award-winning bus system and an ever expanding system of bike paths and walkways.

One of the largest potential benefits of a mass transit system is transit oriented development, and community involvement in this is vital. Under the direction of the Department of Planning and Permitting, a Transit Oriented Development workshop was held in Wai-pahu recently, the first of many community meetings that will take place along the transit corridor to define uses around transit stations.

The second annual City and County Transit Symposium 2007 is scheduled for Tuesday, November 13th from 8:30 AM to 5:00 PM at the Neal Blaisdell Exhibition Hall, Pikake Room. The symposium will feature leaders from four cities who successfully developed fixed guideway transit systems for their communities. The cities represented will be Salt Lake City, Vancouver, Los Angeles, and San Francisco. Wellington Webb, the former Mayor of Denver, and Michael Townes, the incoming American Public Transportation Association (APTA) Chairman, will be guest speakers at the symposium.

More information on the Transit Symposium can be obtained on the project website www.honolulutransit.org or 523-3005 to register.

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What Is Smart Growth?

by Dean Uchida
D.R. Horton—Schuler Division

Smart Growth is development that:

- Revitalizes neighborhoods,
 - Protects farmland and open space,
 - Keeps housing affordable, and
- Provides more transportation choices.

Will it work in Hawaii?

The urbanized lands in Hawaii comprise approximately 5% of the total land mass in the state. Because we are an "Island State," historic attempts to limit sprawl are consistent with the objectives of "Smart Growth."

2006	Ag	Con	Urban	Rural	Total Acres
Oahu	128,839 (33%)	158,519 (41%)	100,730 (26%)		388,088
Hawaii	1,214,527	1,304,347	53,722	804	2,573,400
Maui	402,992	311,601	27,981	8,326	750,900
Kauai	185,020	199,169	14,558	1,253	400,000
	1,931,378 (47%)	1,973,636 (48%)	196,991 (5%)	10,383 (<1%)	4,112,388

The population on Oahu is expected to grow from 912,500 today to 1,117,300 by 2030. This growth translates into a rate of 1% per year, which means the island will add about 9,000 new residents annually.

Presently, between 2,000 and 3,000 new homes are constructed annually. At this rate, we are only providing for approximately half of the annual demand or 4,500 new residents per year. Smart growth is a tool for how and where growth will occur.

Historically, development in Hawaii has been either:

1. Green Field Developments (raw-vacant agricultural land); or
2. In-fill/Redevelopment.

Applying Smart Growth principles in Greenfield developments such as the D.R. Horton Ho'opili project allows for the planning of a community that will be:

- "Transit Ready"
- Master Planned as a Mixed Use Community
- Able to Attract High Quality Jobs



What Is Smart Growth? (continued from page 3)

by Dean Uchida

D.R. Horton—Schuler Division

- Planned for extensive "Live-Work" Units
- Less dependent on the Automobile, and more pedestrian friendly

However, on Oahu, the focus will begin to shift over time toward more in-fill and redevelopment projects rather than Greenfield developments. Political (Urban Growth Boundaries) and physical barriers will constrain future Greenfield development opportunities. Thus, there will be a shift over time to provide significantly more in-fill and redevelopment opportunities in order to support planned growth on Oahu. Smart Growth in an in-fill or redevelopment setting is dependent on the infrastructure capacity. In existing urbanized areas, infrastructure will be viewed as a "*Growth Management Tool*" (the assumption being that growth is good). When used effectively infrastructure capacity will allow one to focus growth in areas that have been identified for growth. Alternatively, no infrastructure means no growth.

Examples of government funded infrastructure are:

- Roads
 - ◆ Interstate, Regional Highways/Roads
- Water
 - ◆ Source, Storage & Distribution
- Sewer
 - ◆ Collection, Treatment & Discharge
- Drainage
 - ◆ Collection, Storage & Discharge
- Solid Waste
 - ◆ Recycle and Disposal

Making a Commitment to Smart Growth

In the August 2006 issue of Hawaii Business Magazine Paul Brewbaker's stated that: "The biggest risk to our prosperity is not national or global, but Hawaii's *overburdened infrastructure.*"

In October 2006, the University of Hawaii Economic Research Organization (UHERO) in it's Hawaii's Construction Forecast found: "This construction expansion has been marked by an *unparalleled dearth of public infrastructure spending.* This raises concerns that public commitment to infrastructure investments is falling far short of what is actually needed to support ongoing private development."

This is by no means an isolated problem unique to Hawaii. In March of this year, the U.S. House of Representatives passed the Water Quality Financing Act (H.R. 720), legislation that would provide **\$14 billion** over four years in low cost loans for wastewater infrastructure improvements through the Clean Water State Revolving Loan Fund (CWSRF).

In spite of these findings, during the last two legislative sessions, none of the projected budget surplus (\$600 million and \$682 million) was appropriated to fund government infrastructure.

The City and County of Honolulu only recently has begun to take steps to address the neglected sewer system.

For those of us in the real estate industry, we need to get educated about the details of Smart Growth and what is needed for implementation. If we are committed to provide choices for the next generation to live and work, we need to understand that growth is necessary, and that we can play a large part in providing for quality growth by investing in infrastructure capacity today, and supporting new laws that allow for the development of mixed use, high density, and pedestrian-transit friendly communities. If not, where is the next generation going to live and work?

What Does Smart Growth Mean?

by Bob McNamara

National Association of REALTORS®

People often use the terms "smart growth" and "sprawl" as if their meaning is generally understood and shared. But I find them to be oversimplifications of rather more complex ideas, so that different groups can have contrasting concepts of what these terms imply. In addition, over the years interest groups have competed to have their own definition of smart growth accepted as the commonly understood meaning. Within the real estate industry itself I find some disagreement about the meaning of smart growth, but hey, it's a big industry.

I'd like to offer here some of my ideas about smart growth, not as an attempt to define it for all time, but more to clarify some important concepts and point out the challenges and opportunities it offers for our industry. It seems to me there are at least two ways to approach the meaning of smart growth. The first is by examining the physical dimensions of development. The best way to do this is to get out, walk through a neighborhood and critically examine it. How



would you decide if it were an example of smart growth, or something else? You might look at the overall street layout and the land use configuration, how the buildings are placed in relation to the street and to each other. You would take note of the intensity of development, the height of buildings and architectural details. You would consider the transportation options that are available. Then you might consider if what you observe fits the context of the place where it is built, - is it appropriate to its rural, suburban, or urban location, to historical precedents of development in that region? So, in this approach you use what you can physically perceive to judge whether it is smart growth.

The second approach is more abstract. Before the first

shovel of dirt is turned in a development project, there had to be a policy in place that permitted the project to happen in the first place, and other policies that put incentives and disincentives in place to encourage the community's vision of smart growth. I call this the policy dimension of smart growth and unless this is in place first, smart growth, if it happens at all, will be an accident. In my view, the cardinal principle of smart growth policy is: place no arbitrary quantitative limits on future growth. Communities that have ignored this principle with building permit caps and moratoria have simply shirked their responsibilities and forced demand (you can put a moratorium on supply but not demand) into the surrounding countryside in the form of sprawl development. That's not smart. What's smart is to accept that growth and change will occur but need not be detrimental to quality of life. Communities can and have devised ways to accommodate growth and change in ways that add value while preserving the essential aspects of community character that attract residents in the first place. As I see it, that



last bit is the crux of the smart growth challenge: to embrace growth and change while preserving essential community character. Not easy, but who said being smart was easy.

One way to meet the challenge of smart growth is to follow certain principles (in both policy and practice). A number of different organizations have promulgated smart growth principles, including the National Association of REALTORS® and they are all roughly similar. I will mention a few here for your consideration.

More efficient land use

In simplest terms this means making a smaller footprint on

"You can put a moratorium on supply but not demand"

What Does Smart Growth Mean? (continued from page 5)

by Bob McNamara

National Association of REALTORS®

the land. In recent decades development has consumed more and more land for the same unit of population growth. For example, between 1982 and 1996 in the Pittsburgh, PA metro area, the urbanized area grew six times faster than the population. This is neither smart nor sustainable. In the early 1990s in Hawaii, land was consumed at roughly twice the rate of population growth. As the price of land increases and the population ages, there may be more demand for housing on smaller lots. Our development regulations should not stand in the way of serving this demand.

Preservation of Open Space and the Environment

Open space is good for real estate. Housing near open space enhances property values. Why? Because home buyers want to be near nature. Maybe a smaller house lot in exchange for more parks and greens is a tradeoff consumers would find attractive. Protecting the environment these days is a given. It's the right thing to do.

More Attractive Development

People want and deserve to be surrounded by beauty, not ugliness. If we develop/redevelop our cities and towns as marvelous places where people long to be, maybe they'll settle there instead of constantly moving outward into the greenfields in search of whatever it is the city lacks. It hardly needs to be said but I'll say it anyway – design matters. Maybe (big maybe) quality design might help diffuse public opposition to new development, particularly if design elements respect the traditions and aesthetic values of the community.

Provide Transportation Options

The automobile is a wonderful invention, if you're old enough and able to drive. But it's nice to have alternatives too, for those too young or too old to drive, or those times when you just don't want to deal with congestion on the roads. Congestion is toxic to quality of life. Wouldn't it be better if you didn't need to drive everywhere, if you could safely and conveniently walk, bike, or take transit?

Build New Neighborhoods that are more Walkable and more Compact

Compact neighborhoods designed on the principle of a 5-minute walk from center to edge can encourage walking. Actually getting out and walking is more likely if the neighborhood has a mix of uses in addition to homes. Most of the trips we take in a car today are non-work-related. What if, instead of driving, we could walk to the café, theater, post office, school, dry cleaners? Older neighborhoods build before modern zoning codes have these features. The key to walkable neighborhoods: mixed use, small lots, and sidewalks. Not rocket science.

The National Association of REALTORS® has adopted the theme "On Common Ground" for its Smart Growth program. This implies that smart growth is a collaborative enterprise involving the real estate industry, government, non-profits, and citizens working together to improve the quality of life for ourselves and future generations.

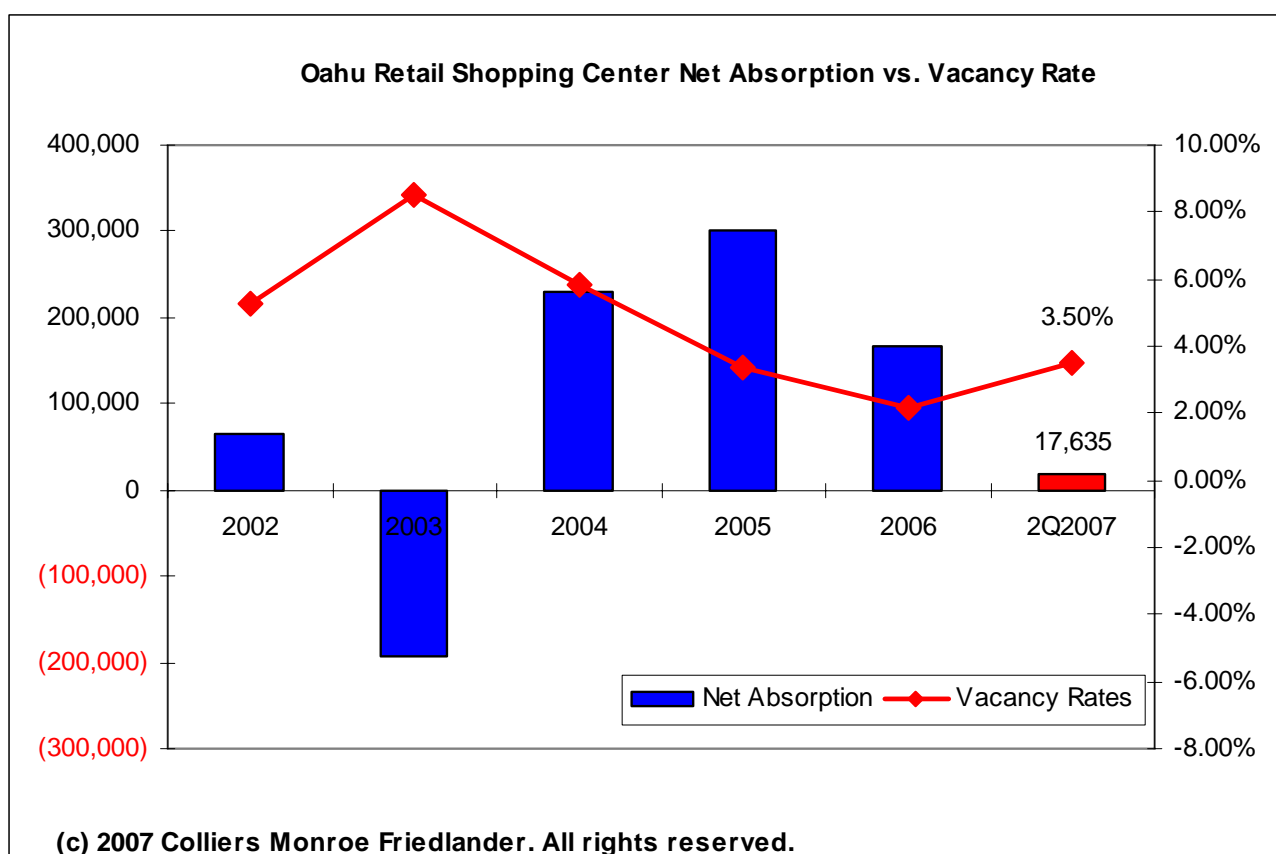




Oahu Retail Development Overview
 by Mark Bratton and Mike Hamasu
 Colliers Monroe Friedlander

Retail shopping center vacancy rates rose for the first time in nearly four years, rising to 3.5% at mid-year 2007. Despite this increase, the retail sector doesn't appear to be suffering from the affects of a slowing economy.

Several new projects recently completed construction and boosted occupancy in the Waikiki marketplace. The opening of the Waikiki Beach Walk and Robertson Properties' Center of Waikiki added more than 130,000 square feet of new retail net absorption over the past six months. Although growth appears to be healthy among the island's resort retail marketplace, the resident market encountered the closure of Ashley Furniture and Marukai \$0.99 Stores, which added roughly 70,000 square feet of newly vacant space to the Leeward market. This tradeoff in occupancy growth resulted in a mid-year 2007 year-to-date absorption of 17,635 square feet, well off the pace that had been established over the past three years.

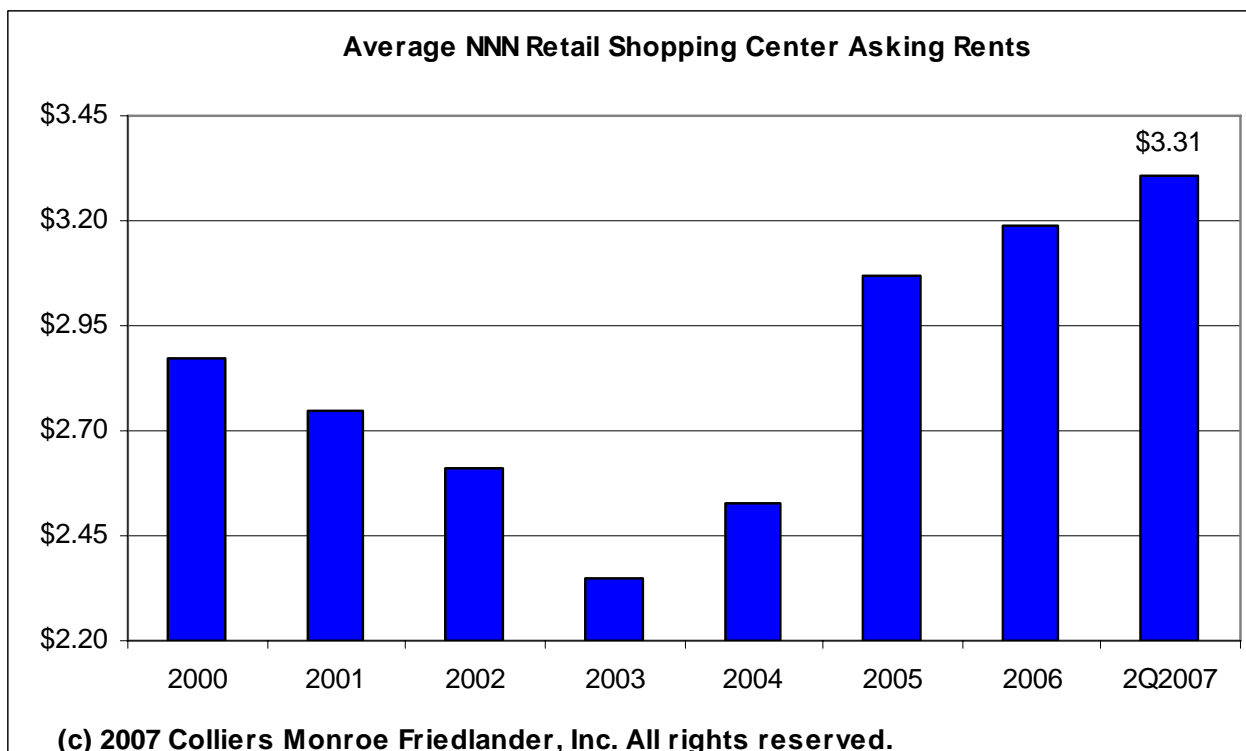


Average rents rose by 3.7% over the past six months to \$3.31 per square foot per month (psf/mo) this increase reflects the competition among retailers for available prime retail space which is still in short supply. Among Oahu's shopping centers, average rents ranged from \$2.81 psf/mo to \$3.58 psf/mo. For properties in Waikiki and the Ala Moana Shopping Center average rents ranged from \$4.13 psf/mo to \$14.53 psf/mo.

Continued on page 8



Oahu Retail Development Overview (continued from page 7)
by Mark Bratton and Mike Hamasu
Colliers Monroe Friedlander



Among the various commercial development sectors, retail continues to be the bright spot and provides the highest likelihood of financial feasibility for new projects. In fact, on the drawing boards are over 7.6 million square feet of commercial projects slated for development for the next fifteen years.

Two principal areas on Oahu are leading the commercial development boom, namely Kapolei in the West Oahu trade area and Pearl City in the Leeward Oahu trade area. Residential growth spurred increased interest in retail development in the Kapolei marketplace. Anticipation of 20,000 new homes to be built over the next twenty years is driving a planned 5.3 million square feet of new retail shopping centers and discount retail warehouse space.

For the Pearl City market, the redevelopment of the former Manana Naval Base generated tremendous development interest when Wal-Mart secured a site in this area for their store. The Shops at Pearl City Wal-Mart recently completed its construction, with Pearl City Gateway and Manana Village Center slated for pre-leasing efforts.

Oahu is not alone in this commercial development frenzy. Both Maui and the Big Island have a combined 3.5 million square feet of development planned for the near future. Large projects are planned for the Wailuku and Kihei markets on Maui, as well as Kona and Waikoloa on the Big Island. The most prolific of these developers is the MacNaughton Group with three projects planned for Kihei, Kona and Kapolei Commons.

For the near term, it appears that developers are moving forward on many of the projects and are actively seeking anchor tenants and national brand names. Several notable tenants seeking Hawaii locations are: Target, Walgreens, Petco, Whole Foods, Babies R Us, Johnny Rockets, Kate Spade, Black Angus and American Apparel.

A combination of tight supply, increased tenant interest, and rising rents support the rise in developer interest. In all likelihood, with nearly eight million square feet of proposed development planned, not every project will be built. Until a saturation point is achieved, consumers will soon have more locations to go shopping.

Allure Waikiki Leads the Way to Add Sewer Capacity

by Ben Ortega
Fifield Co.

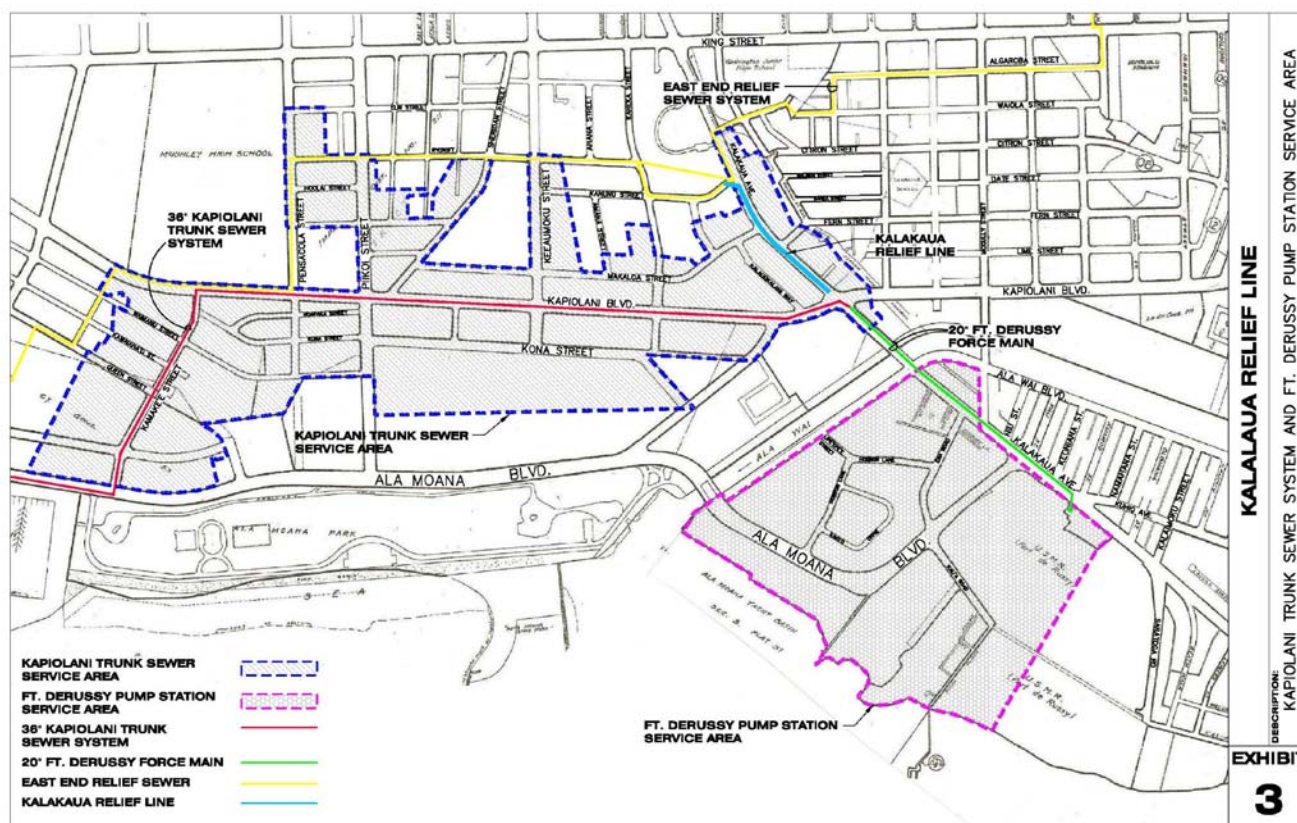
The Fifield Company recently pulled a foundation permit to start construction of their 300 -unit, high-end luxury condominium on a now vacant 2.3 acre site at the corner of Ena Road and Kalakaua (the former Wave Waikiki site). Construction by Pankow General Contractors will start in November 2007 and will take about 2 years to complete. To develop the site, the project consolidated 12 underlying parcels of land and two former private lanes. The project includes a 16,000 square foot park for public use, a memorial garden for burial remains to be preserved in place, a 9,000 square foot sit-down dinner house restaurant and vast array of state of the art recreational and community amenities.

"The development approval process was not a cake walk," according to Ben Ortega, VP of Development, but he was able to secure a Waikiki Special District permit, neighborhood support and SHPD commendations for addressing burial remains all within 6 months of filing his completed application. After two meetings at the Waikiki Neighborhood Board, the project secured favorable recommendations and final Design Board Approval with only 10 conditions of approval, none of which required any project redesign. Ultimately the company gave back to the community the following enhancements, a new through lane and new free right-turn lane along the project's Kalakaua street frontage, a new left turn

pocket from Ena Road onto Kalakaua, a new public park to be privately maintained and soon a new 2,000 foot long sewer line as part of a Hui of 5 other developers.

The Sewer Hui will benefit any developer (currently 6 members) seeking sewer connections under today's capacity constrained sewer infrastructure. For participating members, the sewer project will lock in sewer impact fees at today's rates for the next 20 years and lock-in credits for future development on these sites or for other eligible sites, in perpetuity. Once constructed, the City in turn will lift the current sewer connection moratorium on any participating members, and at the same time benefit from diverting some 8 million gallons of sewer a day away from the now over-capacity Kapiolani Main Sewer Trunk - currently undergoing lining.

The Hui window for membership participation will be closing soon in order to start design and construction. Should any landowner or developer in the two service areas designated below be faced with a limitation on development due to a sewer moratorium, now is the time to join in and vest your property rights for future development. Ben Ortega can be reached at (949) 293-0828 or via email at bortega@fifieldco.com.



KALAKAUA RELIEF LINE
 DESCRIPTION: KAPIOLANI TRUNK SEWER SYSTEM AND FT. DERUSSY PUMP STATION SERVICE AREA
EXHIBIT 3



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Honolulu Office Market Mid-Year 2007

The Honolulu Office Market saw asking net rents and operating expenses continue to increase despite negative absorption in the first half of 2007. As a result tenants are having “sticker shock” when looking at renewing or signing new leases.

Hawaii Commercial Real Estate, LLC tracks about 11 million square feet of Honolulu’s class A and B multi-tenant office buildings. Fifty percent of the island’s inventory is in the Central Business District, and Honolulu’s urban core, a 3.5 mile corridor from downtown to Waikiki accounts for 82% of the island’s inventory.

Supply

With office rents still far below development cost in the urban core and somewhat below development cost in the suburbs, there is still no new multi-tenant supply completed or under construction. However the market has seen several small owner-user, mixed-use or specialty buildings built which include a medical building on Kapahulu and a professional building in Waikale.

Our estimates of full service gross rents necessary to justify new construction in the urban core are north of \$6.00 per square foot per month and north of \$4.00 per square foot in the Leeward Oahu submarket.

With full service gross rents in the Leeward submarket exceeding \$3.00 per square foot, and the availability of B zoned land, several developers are planning three office projects in Kapolei and at several office projects in Mililani Tech Park. The significance of B zoned land is that does not allow residential, and therefore the land values are restrained. Mixed use zoning sites are generally priced higher for higher yielding, high-rise, luxury residential condominiums.

Another area attracting serious interest for office development is medical office space. These projects include the Highmark Medical Building adjacent to Chinatown and Healthcare Realty Trust’s Beretania Street project. Kahl & Goveia’s Kapolei City Plaza is also courting medical tenants for one of it’s two towers in Kapolei. A challenge for these developers is the fact that medical space rents in Honolulu are not priced at a premium to general office use space.



Kapolei City Plaza



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Honolulu Office Market Mid-Year 2007

Lastly, there is still interest in capitalizing on demand for biotech and life sciences space near the University of Hawaii's Medical School and Cancer Research Center in Kakaako, although the developers are having a very tough time trying to make the leasehold development on Kamehameha Schools land pencil.

Office development in the urban core is likely a long way off.

Absorption

After four years of positive absorption of office space, the first half of 2007 turned negative with office occupancy declining by about 87,000 square feet or 0.8%. Nearly every submarket was negative with the exception of Kakaako and King Street with each having nominal positive growth. The biggest losers were downtown and Kapiolani, and the hardest hit submarket was the CBD Class A which saw nearly 60,000 square feet of space put on the market.

Most of the CBD Class A negative absorption (27,641 square feet) occurred as sublease space. Two large blocks of sublease space were put on the market, a full floor in Topa Financial Center (downsizing Torkildson Katz law firm) and nearly a floor at Alii Place (Goodsill law firm is reclaiming excess space and losing DHHL to its owner-user building in Kapolei).

Bishop Square saw significant negative absorption, primarily from several tenants moving to other buildings in downtown. These moves included Insurance Factors' move to Topa and Ernst & Young's move to Harbor Court.

Topa saw its direct vacancy increase as a result of the Rush Moore law firm downsizing, Community Planning moved to an office condo in 1100 Alakea, and a hoped for expansion by Communications Pacific did not occur. Pacific Guardian Center vacancy increased largely as a result of Pacific Lightnet's move to 1132 Bishop Street.



Alii Place



Bishop Square



Davies Pacific Center



TOPA Financial Center



Waterfront Plaza



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Honolulu Office Market Mid-Year 2007

Waterfront Plaza's vacancy decrease was a result of tenants renewing in space that had been marketed as vacant and available, so it cannot be viewed as positive leasing activity.

Davies Pacific Center lost about 10,000 square feet of tenancy from the collapse of New Century, a subprime lender.

Other occupancy losses can be attributed to efficiency related downsizing and real estate related downsizing as our residential real estate market slows and the impact of the lending crisis affects mortgage related tenants.

On a positive note, Honolulu's rapid transit project is creating demand for nearly 30,000 square feet of occupancy in the CBD Class A. We expect to see that impact in the third quarter numbers.

Vacancy

No new supply was added to the submarket, so the negative absorption resulted in total islandwide vacancy (direct lease and sublease) increasing from 880,468 rsf to 967,650 rsf. That translates to a vacancy increase from 7.9% to 8.7%.

The CBD Class A vacancy (direct lease and sublease) increased from 366,522 rsf to 426,259 rsf. That translates to a vacancy increase from 7.6% to 8.8%.

It should be noted that while sublease vacancy increased, the total amount of sublease vacancy is still very low – only 58,887 rsf or 1.2% of the CBD Class A submarket.

Islandwide there were 366 distinct spaces available with 136 of them being in the CBD Class A. The distribution of the spaces is similar to the distribution of office tenant demand with the bulk of spaces under 4,000 square feet, so typical Honolulu tenants needing 1,000-3,000 square feet still have many choices. Even the large tenants up to 25,000 square feet have alternatives. However the very large tenants over 25,000 square feet have no options.



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Honolulu Office Market Mid-Year 2007

Rents

All measures of rent saw increases from the end of 2006. Honolulu's CBD Class A asking base rents increased 2.1% to \$1.74/rsf/mth after 9.5% and 9.3% increases in 2005 and 2006 respectively.

Operating expenses increased 7.3% during the first half of 2007 to \$1.17/rsf/mth after an 11.2% increase in 2006.

Parking rates have increased and a combination of all these costs has made a fairly significant increase in cost of occupancy for tenants. Additionally, annual rent increases have gone up from about 3% to as much as 5%.

Needless to say, lease renewals can be contentious with tenants seeing large increases in their monthly costs.

Looking Ahead

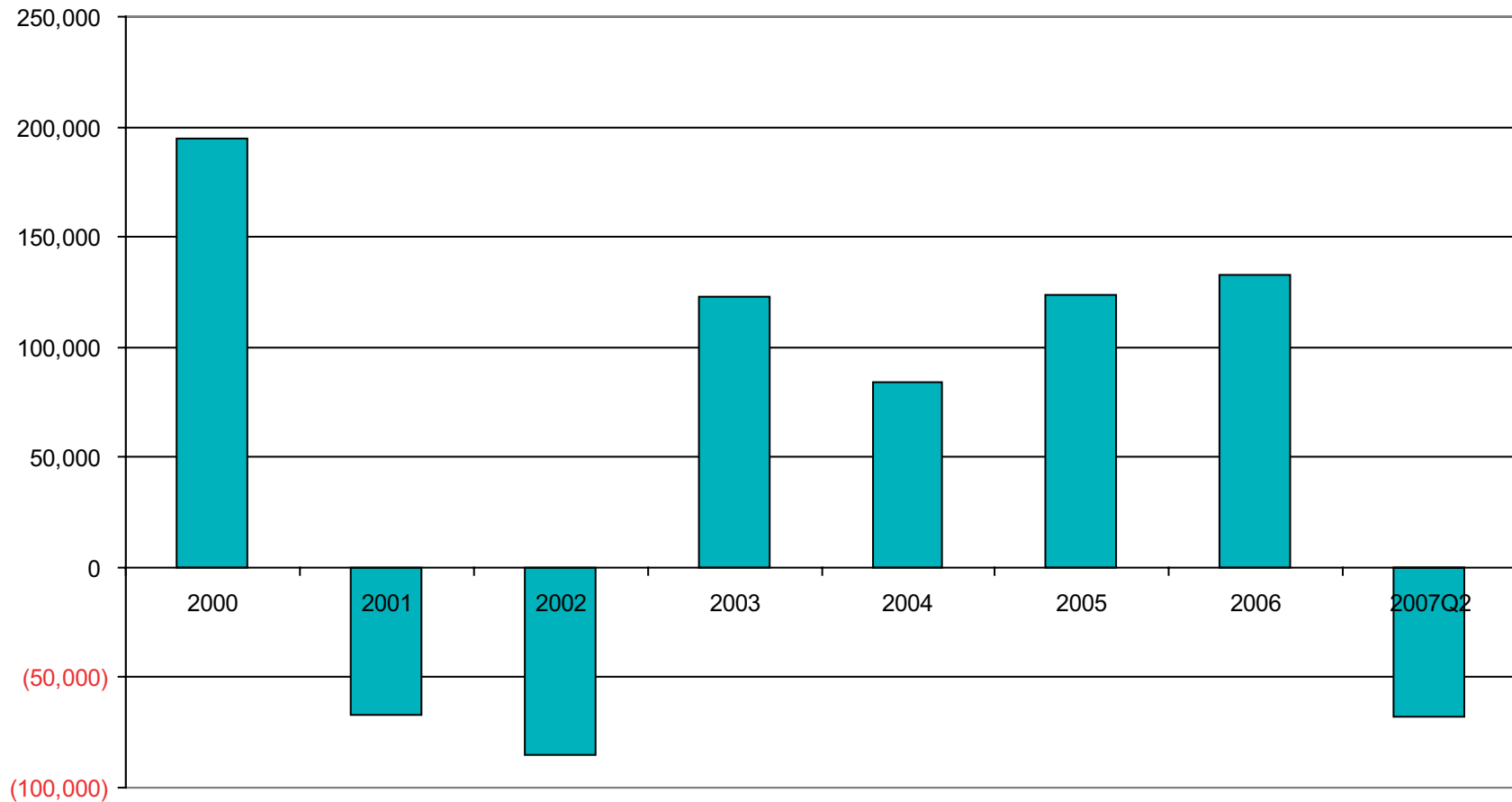
The rental rate increases have momentum, and we expect landlords to continue trying to raise rates. We are concerned, however, that tenant demand is slowing due to a slowing local economy, leveling of tourism, extremely low unemployment that hampers employers' ability to hire workers and thereby lease more space, and the impact of a slowing residential real estate market. The sub-prime lending market and increasingly the prime lending market is creating a cloud on the horizon.

For Honolulu's typical tenants who are 3,000 square feet and smaller, the CBD class A submarket still offers many choices, and therefore, smart tenants will force landlords to compete for their tenancy. Very large, multi-floor tenants, on the other hand, have fewer options and less negotiating leverage.

With tenants striving for fewer square-feet-per-person, the availability of parking in downtown combined with escalating parking rates are forcing many tenants to consider other submarkets.

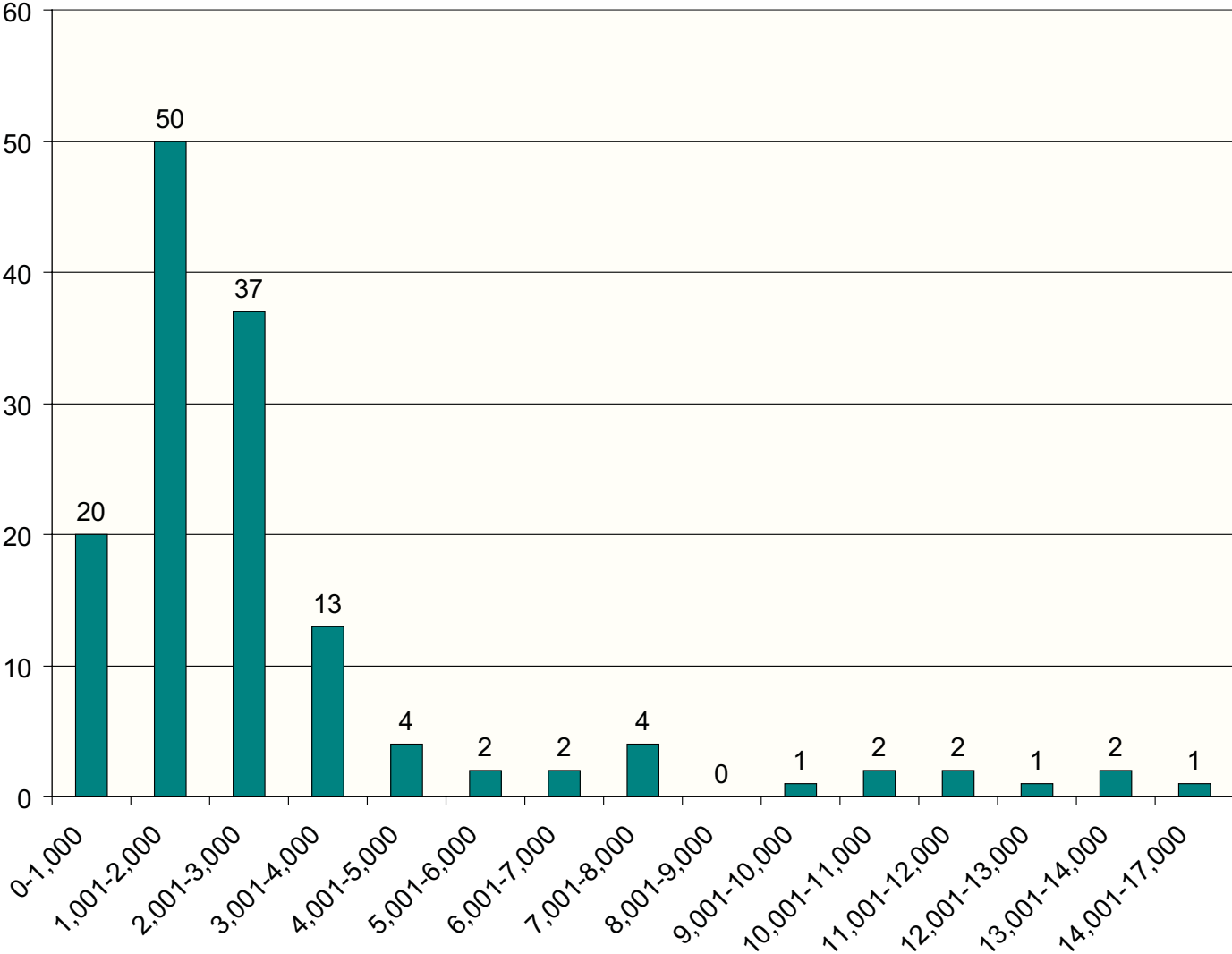
The spread in rental rates from low cost (typically low floor) to high cost (typically high floor) is increasing which is providing more rational pricing for tenants. With several landlords including Alii Place and Pioneer Plaza pushing asking rates even higher, there will be an opportunity for more aggressive landlords to win deals, but this will require strategic negotiating.

Honolulu CBD Class A Office Absorption



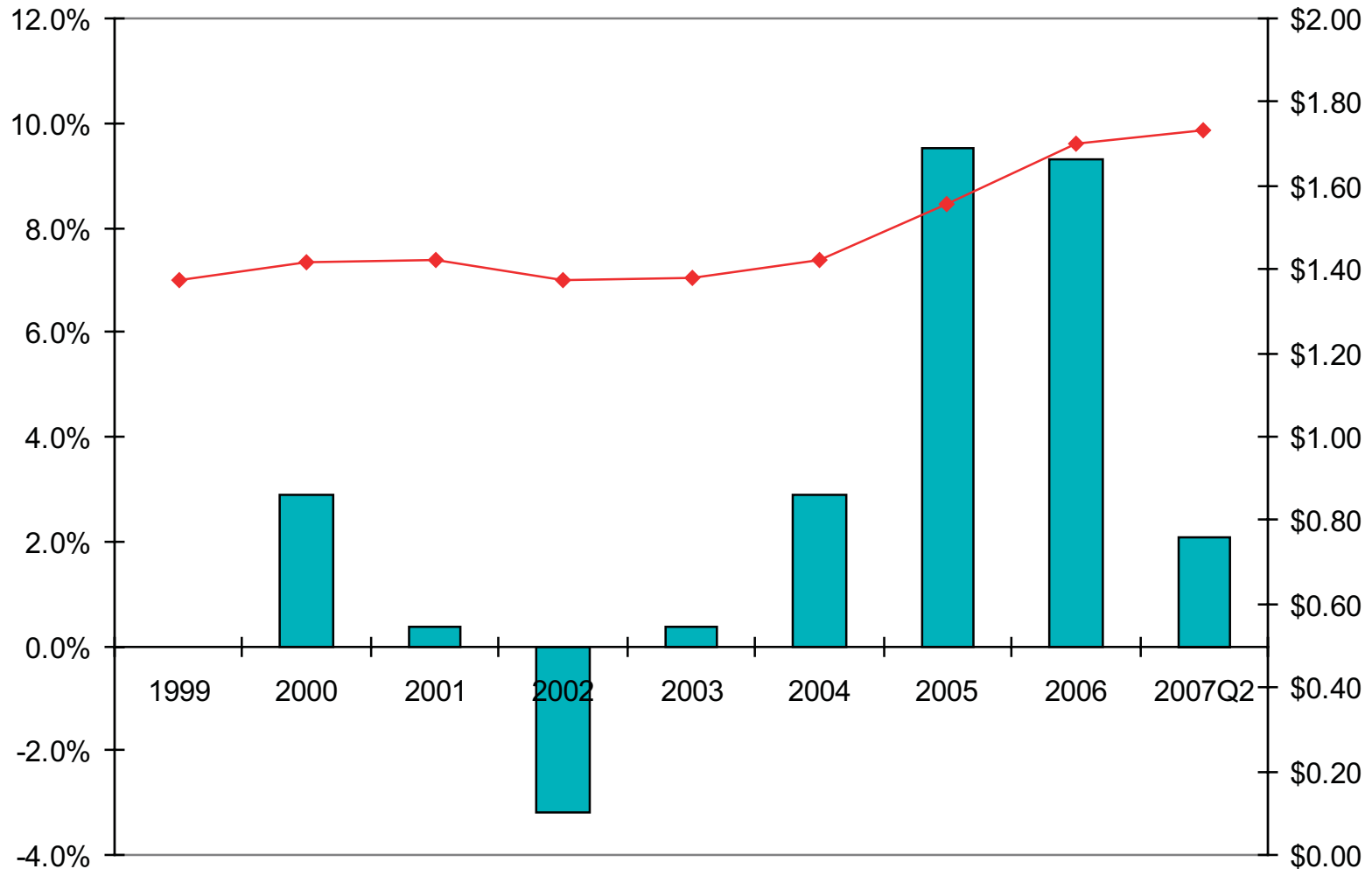
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CBD Class A Vacancy by Size and Number of Spaces



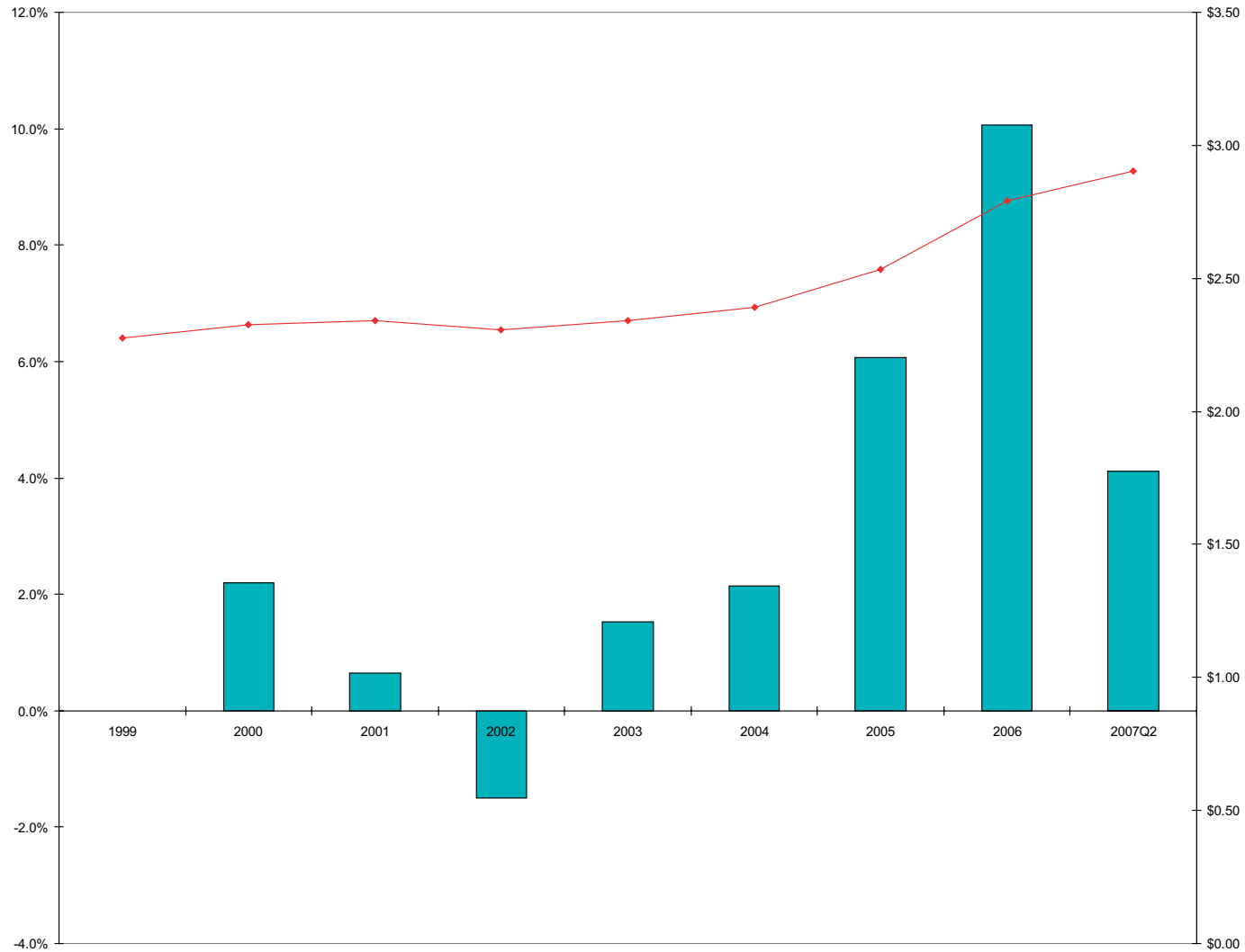
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Honolulu CBD Class A Office Base Rent



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Honolulu CBD Class A Office FSG



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Market Snapshot

Central Business District, Class A
2007 2nd Qtr



Asking Full Service Gross Rents (\$/rsf/mth)	Operating Expenses (\$/rsf/mth)
\$3.13 - \$3.38	\$1.13
\$2.36 - \$2.96	\$1.16
\$2.84 - \$2.99	\$1.19
\$2.87 - \$3.02	\$1.22
\$2.56 - \$2.56	\$1.11
\$2.66 - \$2.86	\$1.16
\$2.31 - \$2.86	\$1.16
\$3.69 - \$3.69	\$1.19
\$2.80 - \$2.80	\$1.15
\$2.55 - \$3.10	\$1.20
\$2.77 - \$2.98	\$1.15
\$2.89 - \$2.99	\$1.19
\$3.00 - \$3.05	\$1.20

	<u>Building SF</u>	<u>Direct Vacancy</u>	<u>Vacant Sublease</u>	<u>Total Vacancy</u>	<u>Total Vacancy Rate</u>	<u>YTD Absorption</u>
Alii Place	316,040	21,386	18,349	39,735	12.6%	(14,674)
Bishop Place	472,172	74,758	0	74,758	15.8%	(28,049)
Bishop Square / ASB Tower	483,455	47,710	0	47,710	9.9%	(21,533)
Bishop Square/Pauahi Tower	438,596	28,791	0	28,791	6.6%	5,236
Central Pacific Plaza	209,821	0	0	0	0.0%	3,624
City Financial Tower	180,563	2,527	10,941	13,468	7.5%	(1,752)
Davies Pacific Center	354,322	36,709	2,501	39,210	11.1%	(4,998)
First Hawaiian Center	379,336	9,340	3,966	13,306	3.5%	(7,390)
Harbor Court - Office Tower	186,138	9,857	10,544	20,401	11.0%	2,872
Pacific Guardian Center	628,268	75,079	0	75,079	12.0%	(2,773)
Pioneer Plaza	245,000	23,829	0	23,829	9.7%	(4,762)
TOPA Financial Center	483,776	35,043	1,729	36,772	7.6%	(20,778)
Waterfront Plaza (Office Portion)	455,600	13,200	0	13,200	2.9%	35,240
Totals	4,833,087	378,229	48,030	426,259		(59,737)
Vacancy rates		7.8%	1.0%	8.8%		

Average	\$2.80 - \$3.02	\$1.17
Range	\$2.31 - \$3.69	

Notes:

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

² Base rents typically escalate annually from 3% to 5%



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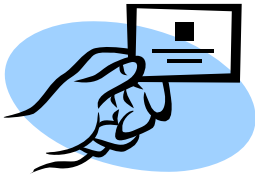
Oahu Office Market Snapshot — 2nd Quarter 2007

SUBMARKET	TOTAL SF	VACANT SF	NO. BLDG	% VACANCY	# SPACES	AVG LOW FSG (\$/SF/MTH)	AVG HI FSG (\$/SF/MTH)	AVG FSG (\$/SF/MTH)	YTD ABSORPTION (SF)
Airport	575,042	72,550	3	12.6%	24	\$2.19	\$2.55	\$2.37	(11,585)
CBD	5,651,187	486,889	22	8.6%	158	\$2.24	\$3.69	\$2.97	(34,251)
East Oahu	257,586	28,769	6	11.2%	8	\$2.15	\$3.38	\$2.77	(135)
Kakaako	1,338,687	85,629	8	6.4%	34	\$2.31	\$3.37	\$2.84	3,892
Kalihi/Iwilei	415,529	14,675	3	3.5%	9	\$2.40	\$2.78	\$2.59	(3,227)
Kapiolani	1,249,565	89,806	9	7.2%	50	\$2.52	\$4.07	\$3.30	(26,993)
King	78,547	3,035	2	3.9%	1	\$2.50	\$2.50	\$2.50	1,862
Leeward	603,712	54,768	8	9.1%	21	\$2.65	\$3.51	\$3.08	(12,388)
Waikiki	782,395	121,664	7	15.6%	59	\$2.45	\$4.00	\$3.23	(3,100)
Windward Oahu	110,165	9,865	3	9.0%	2	\$2.96	\$2.96	\$2.96	(1,257)
TOTAL	11,062,415	967,650	71	8.7%	366	\$2.44	\$3.28	\$2.86	(87,182)

BLDG CLASS	TOTAL SF	VACANT SF	NO. BLDG	% VACANCY	# SPACES	AVG LOW FSG (\$/SF/MTH)	AVG HI FSG (\$/SF/MTH)	AVG FSG (\$/SF/MTH)	YTD ABSORPTION (SF)
A	4,833,087	426,259	13	8.8%	136	\$2.31	\$3.69	\$3.00	(59,737)
B	6,229,328	541,391	58	8.7%	230	\$2.44	\$3.20	\$2.82	(27,445)
TOTAL	11,062,415	967,650	71	8.7%	366				(87,182)



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