



STATE OF
HAWAII
REAL **2011**
ESTATE

SPECIAL EDITION

INSIDE!

Market conditions to watch | Opportunities this year
Housing trends & indicators



Prudential Locations

From the desk of Bill Chee...

The worst may be over for Oahu's housing market.

While consumers are still reeling from pay cuts and job losses, statistics indicate a more optimistic economic outlook for our local real estate market.

Each year, billions of dollars are spent buying and selling real estate in Hawaii. And when the stakes are that high, every detail about every segment of the market counts. That is why our research department is dedicated to analyzing property

data and neighborhood trends, and sharing those findings with our clients. Every day, we track market statistics, such as home prices, sales activity, inventory levels and the number of days properties are taking to sell. We also look at economic indicators that affect the

real estate market, such as unemployment and visitor arrival figures, and the influences of factors such as subprime lending and mortgage interest rates. And after many years of tracking this data, definite trends emerge.

What we're sure of is that each neighborhood in Hawaii behaves in a different way, each influenced by a distinctly unique set of market conditions and buyers. In 2010, prices in one-third of Oahu's communities (32 percent) were down, while the majority of neighborhoods (68 percent) saw prices increase. These markets illustrate fundamental trends and principals driving the market, and are important to consider before making any decision to purchase or sell real estate.

We believe sellers on Oahu will benefit this year by the lack of inventory available. Unlike the last economic slump and the one before that, there

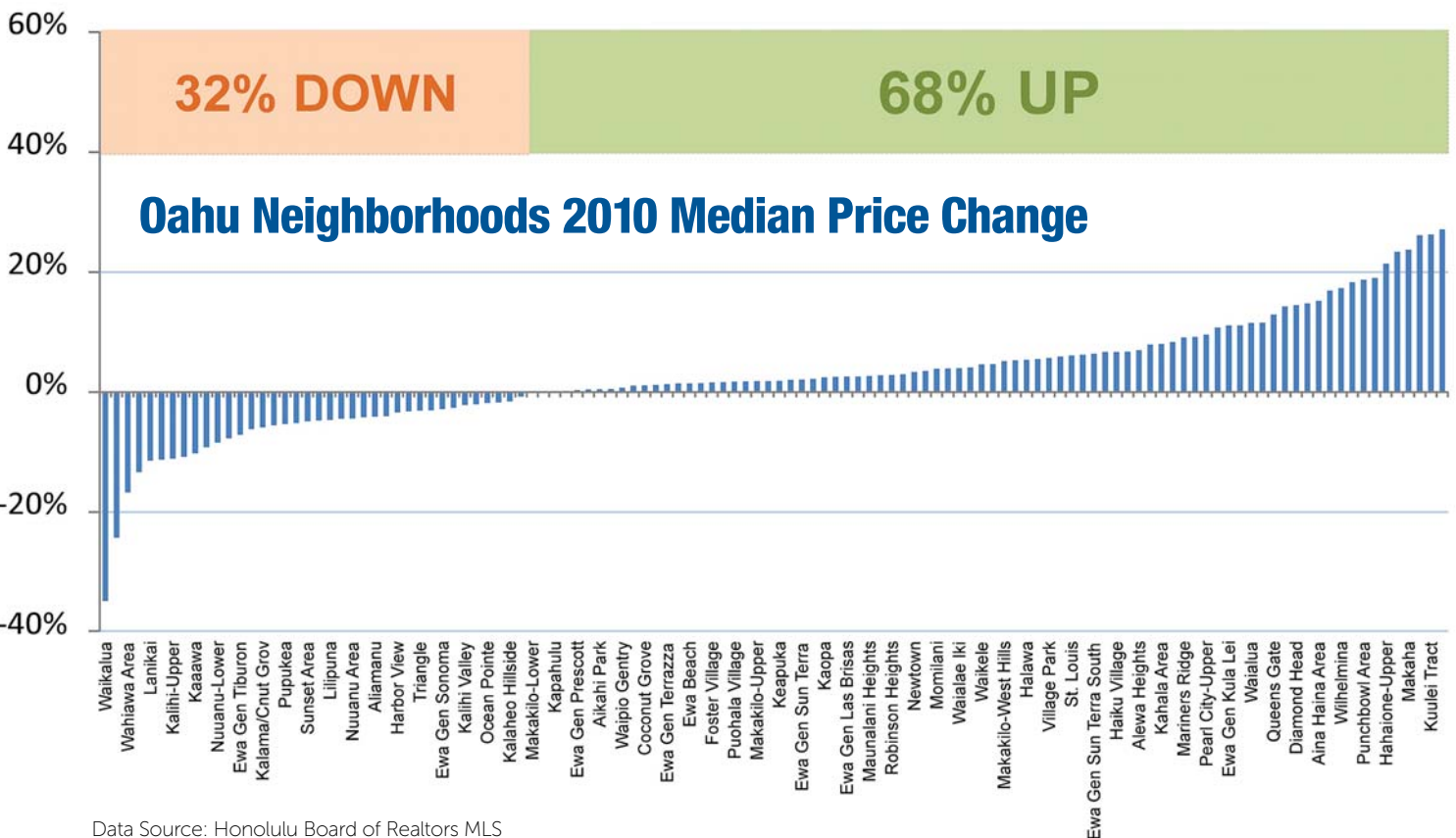
is not a backlog of new-construction inventory waiting to be sold. New building codes and stricter lending have made it increasingly difficult for developers to obtain financing and meet requirements to get new projects launched. The lack of excess inventory puts sellers in an advantageous position.

At Prudential Locations, it has long been our goal to empower our agents and their clients by providing an accurate assessment of market conditions. While no one has a crystal ball, it is only by carefully studying past sales data then analyzing market trends that we are able to make wise investment decisions.

So in keeping with Prudential Locations' philosophy that informed buyers and sellers make better decisions, we bring to you a summary of The 2011 State of Hawaii Real Estate, as told by the experts — a local economist, a real estate analyst, and a prominent Oahu developer.



Bill Chee
CEO
Prudential Locations



A return to core economic fundamentals

Though the heady days of tacking 10 percent onto the highest recorded sale as a pricing method are gone, the real estate market has not swooned, property values have not crashed and sales are happening every day. In a word, things are normal.

“Some neighborhoods will always attract buyers from here locally as well as from the mainland and internationally.”

Today, housing markets around the nation and around Hawaii are appreciating and depreciating in line with economic fundamentals — affordability, low interest rates and basic supply and demand. Most economists agree that in Hawaii, we’ve seen the bottom of the market and the demand for housing is once again increasing.

We view 2011 as a year of recovery and stabilization while Hawaii’s market forces settle down.

But in this return to normalcy, there are

some supply and demand basics that need to be understood. Why, for instance, are prices and sales on the rise in certain neighborhoods while in others not so much?

“The number of buyers,” said Bill Chee, president and CEO at Prudential Locations. “Some neighborhoods will always attract buyers from here locally as well as from the mainland and internationally. When there are a lot of buyers, prices will go up.”

Chee terms this balance of supply and demand as market velocity.

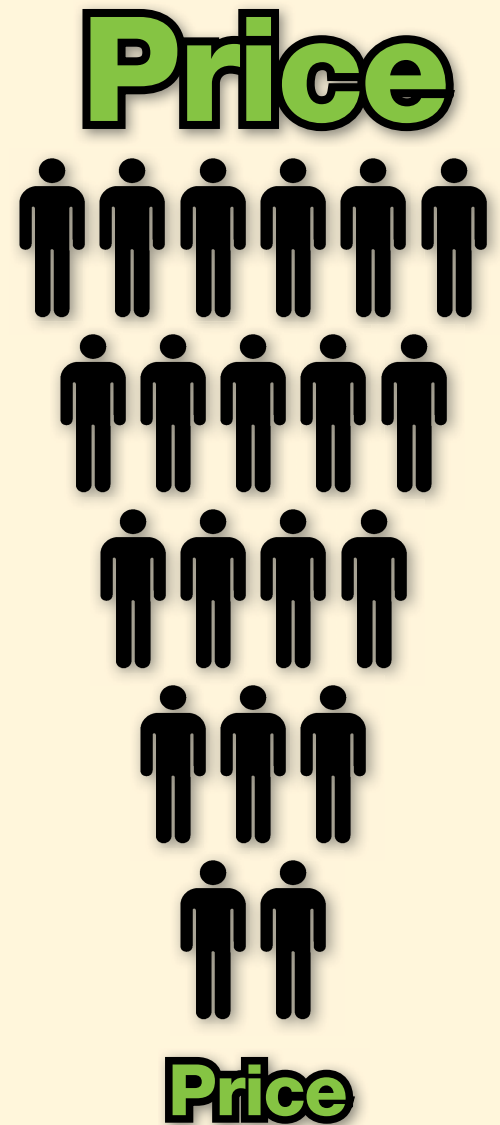
“When velocity is up, prices are up,” he said. “And what drives velocity is simply the number of buyers.”

Conversely, when few buyers are showing interest in a particular neighborhood, the slow sales pace will cause a backlog of unsold homes. When that happens, prices stagnate — velocity is down — and sellers will have to adjust asking prices to spur more buyer interest.

So, understanding what affects the market is critical when making buying and selling decisions.

In neighborhoods across Oahu, many of the standard market indicators are in positive territory. Inventory is low, sales volume is up and days on the market are down. Interest rates remain low and consumer confidence is on the mend. Velocity is up and accelerating.

With that in mind, the number one goal of our agents is to arm you with the tools you need to make better decisions about your financial future. Here is what you need to know in 2011.



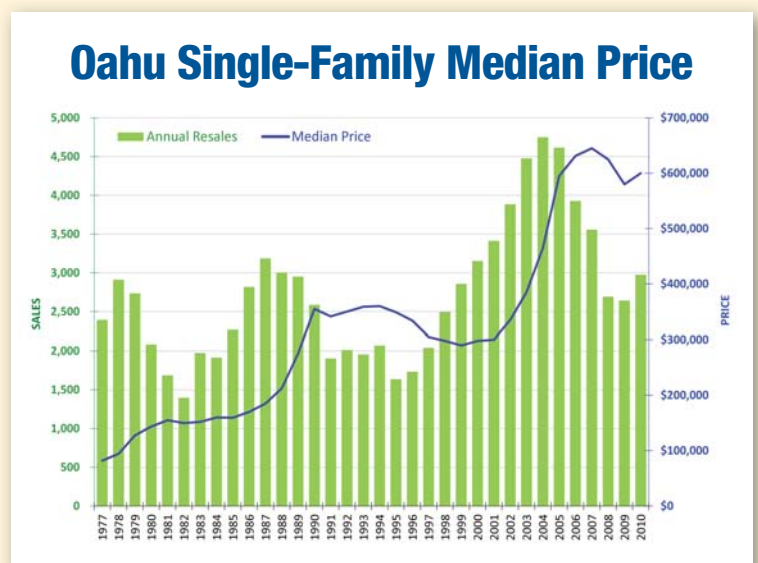
The number of buyers in a market determines velocity. When there are a lot of buyers, velocity is strong and prices move up. When there are few buyers in a market, velocity slows and prices move down.

Understanding cycles

How does this cycle compare to previous cycles?

Since the 1970s, there have been three, clearly-defined cycles of Hawaii real estate sales trends. Historically, each cycle lasts about 10 years or so and, with each one, prices double from the previous cycle. And each time, after prices spike, there is a period of sideways movement. While there are sometimes statistical bumps in the road, in the end, we arrive at the completion of one cycle and the beginning of the next.

In the late 70s, median prices jumped to more than \$150,000. And, again in 1990, prices doubled to \$352,000. The median price nearly doubled again when it hit \$643,000 in 2007. In none of these cases was the cumulative gain apparent in the short term; it fluctuated, sometimes significantly, but by the completion of each cycle the gains were clearly there. In short, the peaks and valleys of market cycles are normal and should be expected. We are currently in the stabilizing phase of the cycle, and will likely remain here for a couple of years.



Data Source: Honolulu Board of Realtors MLS

Market conditions to keep an eye on

Interest Rates

Looking forward into 2011, continued low interest rates translate to a sale on homes and condos in Hawaii. The astute consumer understands that interest rates have a much more profound impact on affordability than price does. Anyone thinking about buying property is encouraged to meet with a loan officer to crunch those affordability numbers to see for themselves exactly what an opportunity these low rates offer. A word of caution to buyers: as interest rates rise, which they have already started to do, your buying power will diminish. Don't wait too long.

Tourism

Perhaps the single most important factor in our economy overall is tourism — it affects everything in Hawaii. Fortunately, our visitor numbers saw a boost recently.

“The visitor count has almost worked its way back up to where it started before Aloha Airlines and ATA shut down,” said Brewbaker. “It is a pretty impressive comeback with a lot of enthusiasm. The neighbor islands took a bigger hit than Oahu and the next round (of recovery) has to happen there.”

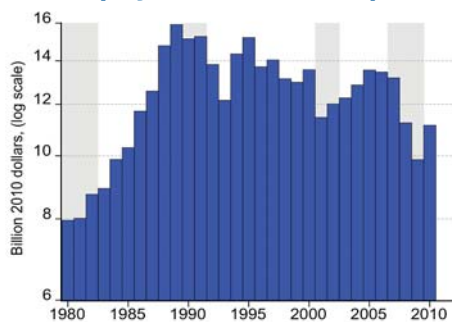
Hotel room rates have passed through the bottom of their cycles as well.

“My sense of it is the worst is behind us,” Brewbaker said. “Obviously there are some speed bumps in the road to sustaining expansion. This expansion has just begun.”

Improvements in tourism means more jobs and more stable incomes, directly impacting our housing market. Oil prices will be important to watch, as their impact on airline ticket prices may become significant.

Editor's note: Comments on Hawaii's tourism were made prior to the recent events in Japan. Thus, it remains unclear at this time what the full impact on Hawaii's tourism and real estate industry will be.

Hawaii Visitor Expenditure (Adjusted for inflation)



Data Source: HTA, Hawaii DBEDT, BLS; deflation using Honolulu CPI-U by TZE; *real GDP quotes mix SIC-based and NAIC-based estimates, and use the Honolulu CPI-U as deflator, expressed in estimated 2010 dollars.

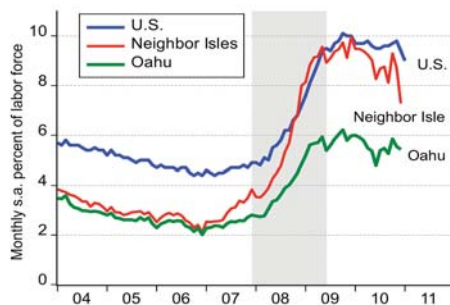
Economists are often quoted saying the economy won't recover until the housing market recovers. Still, after what is now being called the “Great Recession,” (defined as not as bad as the Great Depression but worse than anything else since then) there are economic factors that play a vital role in the recovery of housing as well. Here are some of those driving forces in Hawaii and what the experts think we should be looking out for:

Unemployment

Unemployment in Hawaii (6.3 percent) is still quite a bit better than the national figure of 9 percent, which is also improving.

“For Hawaii, the unemployment rate has begun to work its way down,” said Paul Brewbaker, principal and economics consultant at TZ. “The resistance in new hiring is a typical attribute of a slow moving recovery such as the one we have here in Hawaii.”

Unemployment Rates



Data Source: BLS, U.S. Department of Labor, Hawaii DLIR; seasonal-adjustment of Hawaii data by TZE

Subprime

Dr. Michael Sklarz, president, and CEO of Honolulu-based real estate consulting firm Collateral Analytics, scrutinized subprime loans that were securitized since 2000 in 11 cities around the country, including Honolulu. His data clearly shows Oahu's subprime lending to be relatively low.

“In Honolulu, we didn't really have a huge subprime boom like we did in some of these other markets where they are still recovering.” In Las Vegas, Phoenix, and Miami, for example, there was a huge amount of low-quality, subprime lending, which has led to a lot of foreclosures and depressed prices in those markets.

While foreclosures due to subprime lending are the main cause of the housing meltdown, our relatively small percentage of homes affected will have less of an effect on our local market.

Getting the little picture

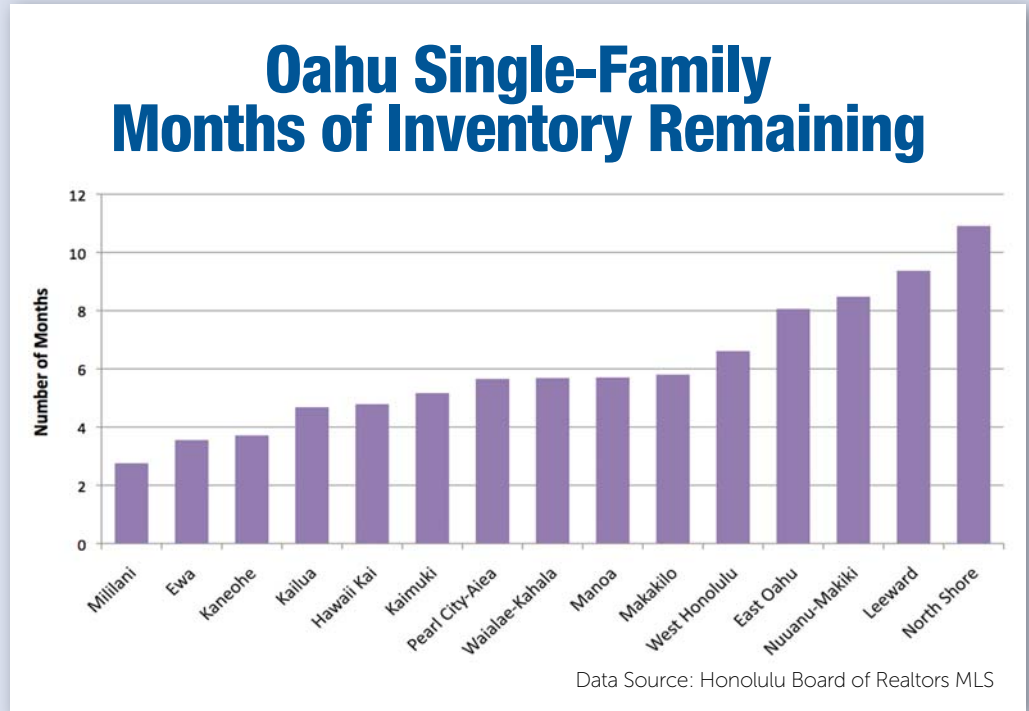
Every neighborhood is its own market

Analyzing real estate prices from month-to-month and year-to-year commonly means comparing the all-Oahu median sales prices. And while the overall median price of a home in Hawaii does show the big picture, it may or may not really tell you much about what is happening in your neighborhood, on your street or in your building — the little picture.

Buyers and sellers should get the complete picture — the little as well as the big — of what is going on in the overall market as well as what is affecting prices in specific neighborhoods. Educated buyers and sellers know that neighborhood-by-neighborhood performances can and do vary dramatically.

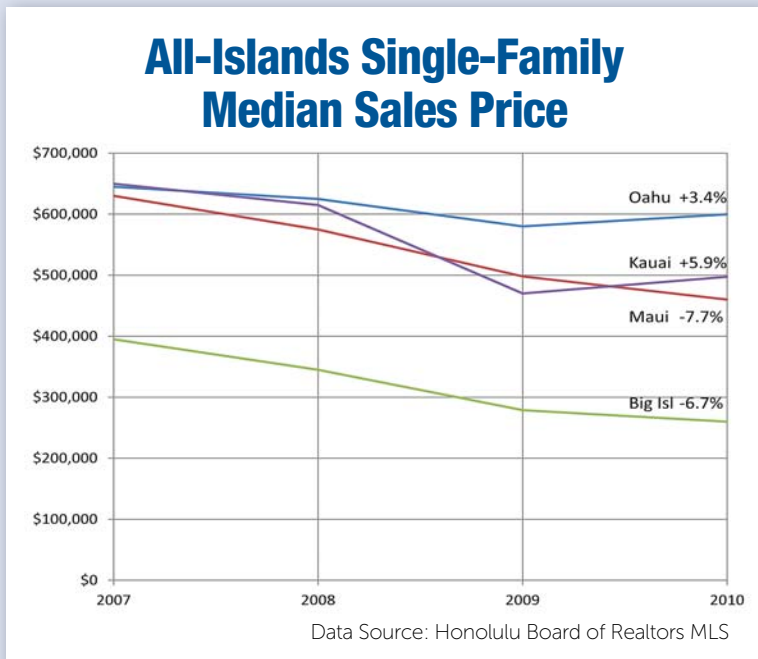
Just ask Dr. Michael Sklarz, president and CEO of the Honolulu-based real estate consulting firm Collateral Analytics. He has been analyzing real estate market trends in Hawaii for more than 26 years.

Dr. Sklarz uses Months of Remaining Inventory as a key indicator of a market's health. Months of Remaining Inventory is the dynamic relationship between available listings (supply) and the pace of sales (demand). It shows how long it would take to sell out the current inventory of listings at the current pace of sales. In the overall Oahu market, a balanced market is generally char-



acterized by 6-10 months of inventory remaining. A lower number of months points to stronger market conditions, while a higher number of months points to softer market conditions. In 2010, on a neighborhood-by-neighborhood level, there was anywhere

from 3 months of inventory remaining (very low, indicating a strong market) to 11 months (somewhat slower paced market). “Even on a relatively small island, there are big variations of supply and demand conditions,” said Sklarz.



All Islands saw some improvement in 2010; Oahu and Kauai's median home price increased by single-digit percentages, while the decline in Maui and Big Island home prices slowed.

How have the neighbor island markets performed?

Because a larger percentage of the market on neighbor islands is driven by second-home resort purchases, neighbor island prices saw a much deeper dip than Oahu.

Correspondingly, a large percentage of the state's foreclosures have been in this resort segment of the market as well. Even still, the return to normalcy in neighbor island markets is apparent as the economic recovery progresses.

“I think this correction needed to happen,” said Stanford Carr, president of Stanford Carr Development. “I call it the cleansing cycle.”

Tracking the annual median sales prices since 1977 in both single-family homes and condos on Maui, Carr points out from 2001 to 2010, that aside from the dramatic peaks and waves, by the end there was still a healthy amount of appreciation — in line with the previous three decades. It is true, he points out, compared to the peaks of 2007, prices are down. But when compared to what they were 10 years ago, prices have appreciated in a very normal-cycle way.

“There will always be ups and downs in the real estate market,” said Carr. “If you look at where home values are today, it really isn't as bad as people think it is.”

Looking for more opportunities ahead

Looking forward, we can expect stabilization in the housing market to continue over the next 12 months. After that, Dr. Sklarz believes we can expect moderate increases after another year or two of sideways movement then a return to the prior highs by the latter part of the decade.

Investors

Investors typically use these sideways cycles as an opportunity to reposition their portfolios. By selling an under-performing rental and replacing it with one that is easier to rent or has a better ROI, they can increase cash flow and decrease losses from vacancies.

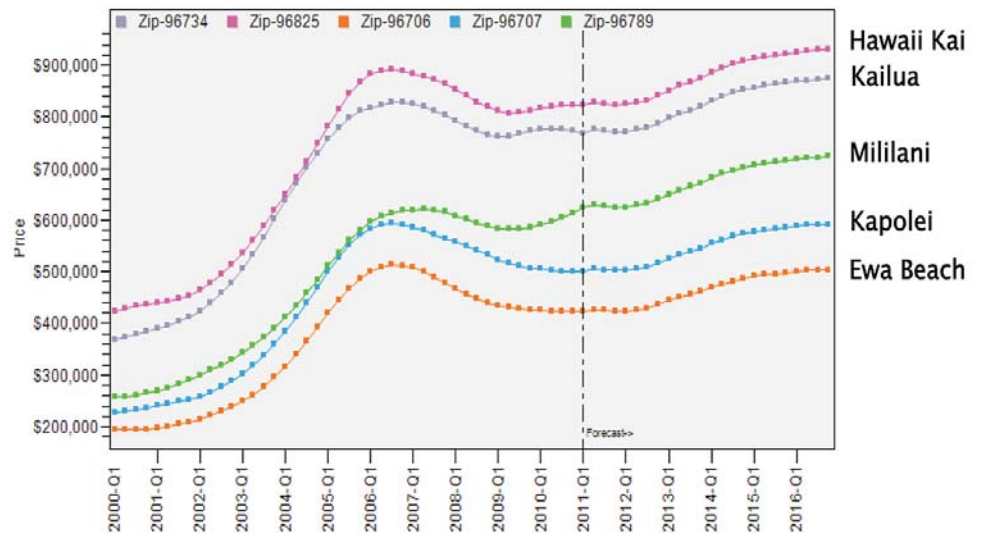
Neighbor Islands

A drop in prices on neighbor islands offers opportunities as well. With Maui condo prices down 16 percent since 2009 and 31 percent since 2005, and condo prices on Kauai down 18 percent and 37 percent respectively, many investors are analyzing the numbers and starting to return again to the resort markets.

Interest Rates

Historically low mortgage rates – the lowest in 50 years – offer opportunities to buyers moving up or downsizing, first timers and investors. Waiting in 2011 may cost you, whether you are a buyer or seller. If you are thinking about selling, as interest rates rise, the number of qualified buyers starts to shrink. When rates drift up, buyers will likely pay more, in the form of a larger monthly mortgage payment or will see a decrease in their buying power or what they can afford to buy.

Oahu Single-Family Median Price Forecast



Data Source: Collateral Analytics

The forecast through 2016 is for Oahu prices to remain relatively flat over the next couple years, and then increase gradually to previous peak levels.

Mortgage Rate Since 1971 (30-Year Fixed)



Data Source: Federal Reserve Board of St. Louis Economic Research



Prudential Locations

At Prudential Locations we are firm believers that real estate is the best way to build long-term wealth. Our fundamental approach includes knowing the market inside and out, and looking for opportunities — empowering consumers with information so they can make smarter decisions.

Prudential Locations recently launched a sophisticated new website prudentiallocations.com, which promises to be the most comprehensive listing of all properties for sale anywhere. For the first time ever, the new site merges data from a variety of resources so that consumers can find everything, including MLS listings, auction foreclosures, new construction and For Sale By Owner (FSBO), in one convenient place.

If you have any questions on this report or have any real estate needs that we can help you with please contact your Prudential Locations agent or call 808-735-5300.