



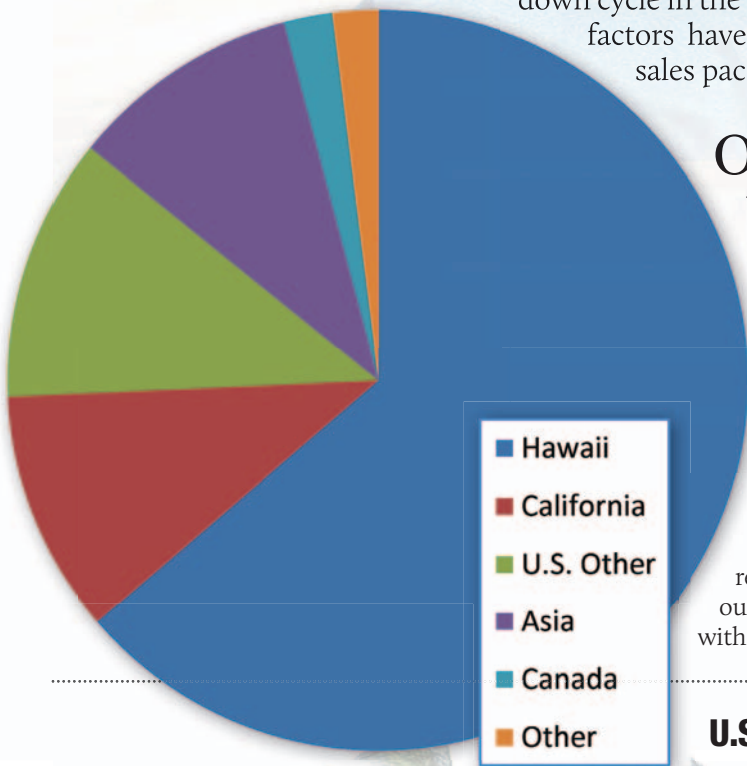
FALL 2010

LUXURY HOME REAL ESTATE

MARKET REPORT

Sales of homes priced in the million-dollar-plus range throughout Oahu's high-end neighborhoods are on the upswing so far this year. A variety of factors, including limited supply, elevated international appeal and increased investor levels are contributing to this market segment's recovery, despite a continued down cycle in the overall mainland luxury home market. These factors have resulted in better performance in pricing, sales pace and inventory levels.

Oahu's luxury market buyers: Where do they come from?



Examining the origins of Oahu's luxury property buyers is key to understanding the macro-economic forces affecting the island's luxury home market.

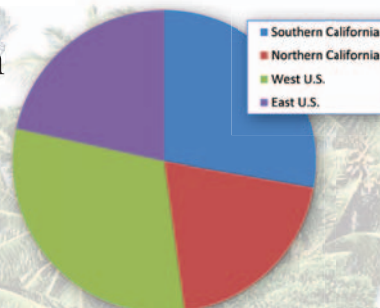
Since 2008, 64% of luxury buyers came from within Hawaii. California buyers remain the predominant out-of-state group and together with other mainland buyers

make up 22%. Buyers from Asia represent 10% of Oahu's high-end segment. Current year (2010) trends follow a similar overall pattern with a slightly higher percentage of Asian buyers, and a small decrease in U.S. mainland buyers. However, the drop in U.S. mainland buyers has not fallen off as significantly as have neighbor island luxury sales that relied heavily on U.S. mainland buyers during the last growth cycle.

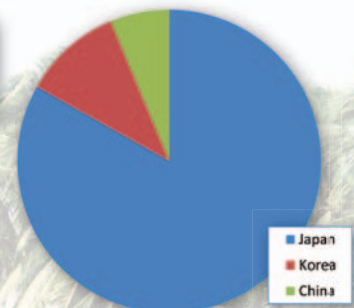
Buyers from Asia mostly from Japan

Asian buyers are still predominantly from Japan. But, of note, visitor traffic from China is rising rapidly as Chinese buyers are starting to show increased interest in Hawaii real estate. This new phenomena has not yet resulted in significant sales in the luxury home market but will remain an area of heightened interest for Prudential's research team to continue tracking.

U.S. Mainland Buyers



Asia Buyers

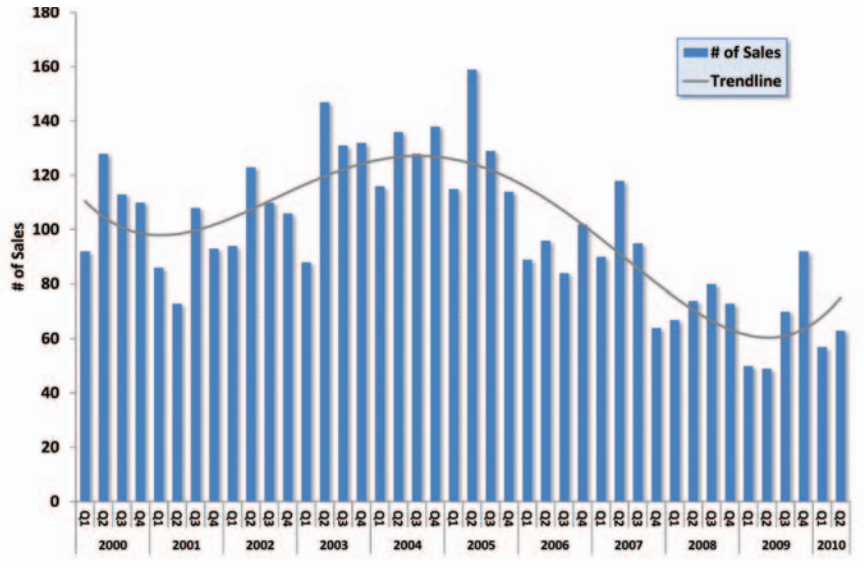


Oahu luxury home sales trending upward

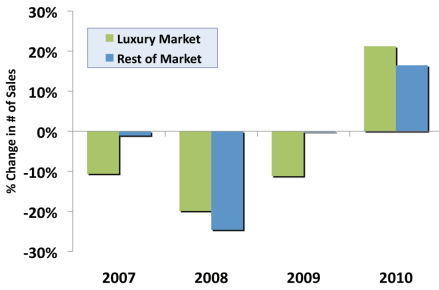
In parallel with the overall housing market, the luxury market follows a cyclical pattern. Sales of luxury homes hit a low point in early 2009, mirroring the overall market. Traditionally, luxury home sales lead a market recovery, where we have seen increased sales in luxury homes before the pace of sales in the rest of the market catch up. Contrary to past cycles however, the luxury market home sales in 2009 continued down relative to 2008, unlike the overall market, which had stabilized due to the effects of the First Time Home Buyer tax credit which bolstered sales in the lower price points.

During the third and fourth quarters of 2009, luxury home market activity offered encouraging signs, and sales were up significantly in the first two quarters of 2010 over the same period last year. These figures may suggest the bottom of the luxury market is behind us.

Single-family luxury home market quarterly sales



% change in # of sales



Buyer demand returns for luxury homes

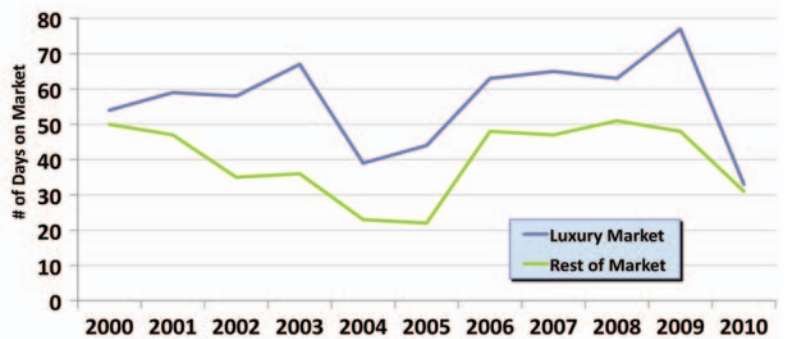
While the rest of the market appeared to be getting healthier due to the strong response to the First Time Home Buyer tax credit, luxury home sales in 2009 continued modest declines relative to 2008. However, the number of luxury home sales in 2010 have been up significantly over the same period last year, and rebounding at an even quicker pace than the rest of the market.

Sold time of luxury homes at lowest levels in 10 years

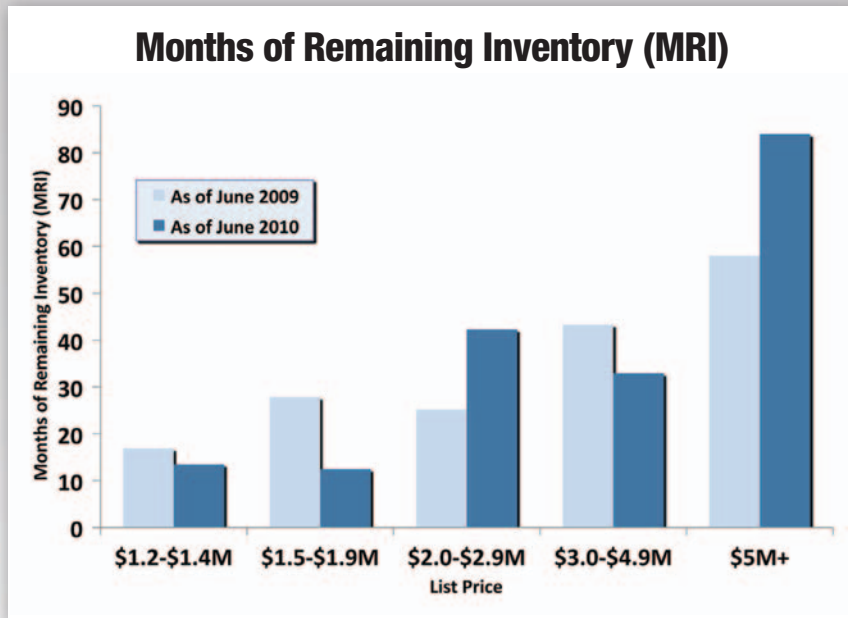
In addition to tracking the number of high-end home sales, a key indicator of demand is the speed at which homes are selling. Prudential Locations' research team tracks the days on market, which measures the number of days a typical house takes to sell and enter into escrow. Lower number of days on market indicates stronger market condi-

tions. As one would expect, market times for luxury homes/properties trend longer than the rest of the market. However, this year renewed interest in the luxury market segment is evident by a dramatic drop in sold market times. Current sold time levels are as fast as the overall market, with new lows not seen in more than 10 years.

Days On Market (DOM)



Months of remaining inventory lower in several luxury home price ranges



Other key findings include an analysis of Months of Remaining Inventory — the dynamic relationship between available listings (supply) and the pace of sales (demand). This statistic basically 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 characterized by 10-12 months of inventory remaining. A lower number of months point to stronger market conditions, while a higher number of months point to softer market conditions. Inventory remaining typically increases in the higher price ranges simply because there are fewer people who can afford a multi-million dollar home.

2010 has shown improvement in several high-end price ranges. Levels of inventory remaining have dropped the most in prices under \$2 million, compared to last year. Inventory remaining in the below \$2 million category is now nearly 12 months, which is remarkably low for higher-end properties.

Home sales under \$2M keeping pace with new inventory

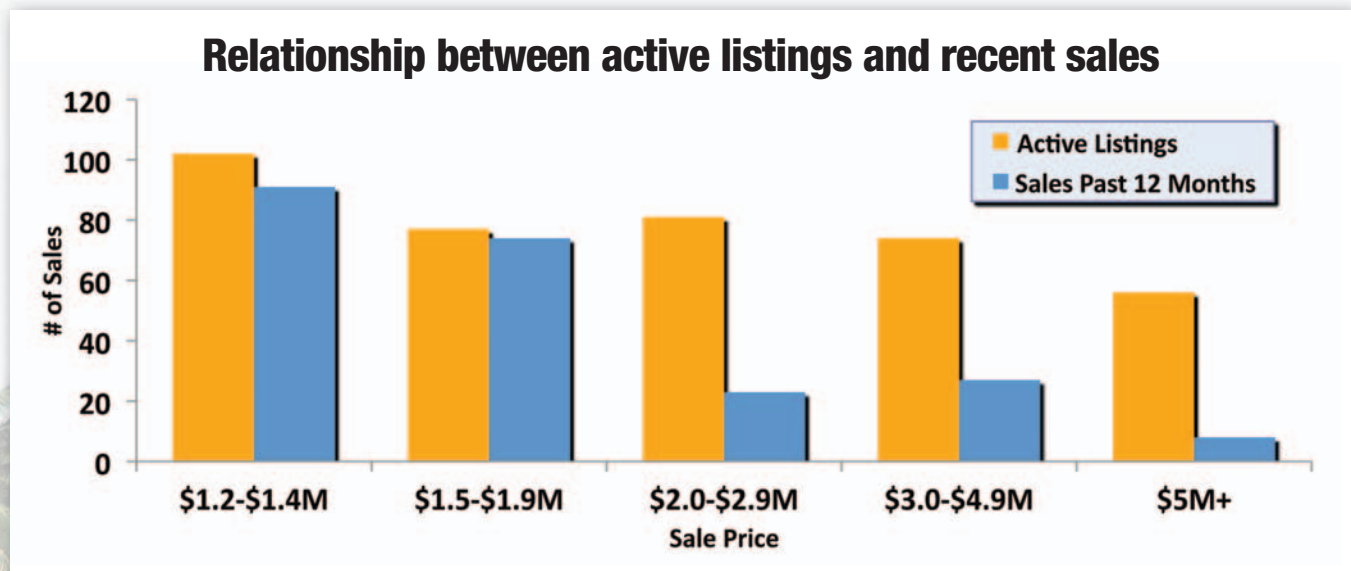
The relationship between Active Listings and Recent Sales provides an overall perspective to the strength of the market. Looking more closely at recent market activity over the last 12 months, a majority (74%) of the high-end sales have been in the \$1.2-\$2.0M price range. Sales in this price range are keeping up with

the new listings coming on the market, demonstrating strong demand for luxury homes in this price point, which is another strong indicator of a balanced, supported market within this price range.

The skew of sales activity towards the \$1.2-\$2.0M market is not being caused by lack of inventory at the higher price

levels. There has been an abundance of new listings at all price levels, yet buyer demand is softer above \$2M.

These observations together with the buyer demographics discussed earlier, suggests that local move-up buyers in the luxury segment are taking advantage of current market conditions.



Price reductions are fewer as demand for luxury homes rise

Once a property is listed for sale, if no reasonable offers are received, a typical response is to reduce asking price to encourage more offers. Statistics bear this out, and also demonstrate how the high-end market is much more subject to price reductions and offer compromise than the under \$1.2 million home category.

Along those same lines, the percentage of luxury home sales that had a list-price reduction before sell-

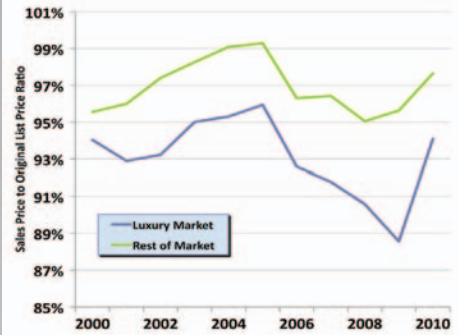
ing dropped dramatically in 2010.

Combine this fact with a higher sold-price-to-list-price ratio and the faster sales pace, conditions suggest a balanced luxury market where seller's expectations are more in line with the current sales and are willing to price accordingly (no reduction), while buyers are reentering the market and indicating a stronger perception of high-end value at the current price levels.

% of luxury home sales that had price reduction



Sales price compared to original price



Sellers getting closer to asking prices in 2010

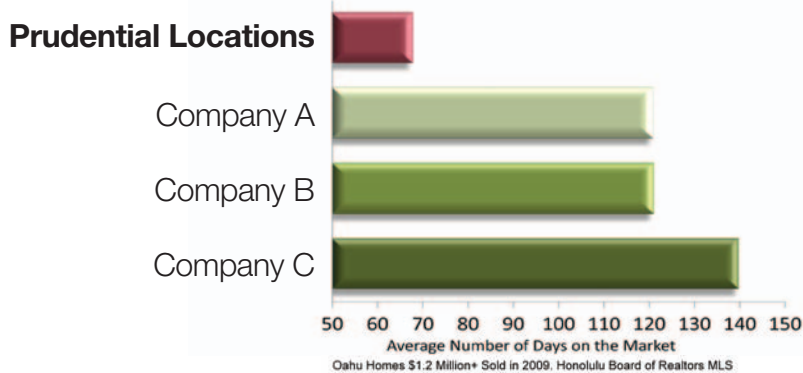
The ratio between the original listing price and final selling price is one more indicator showing housing market improvement in 2010, and the most dramatic positive change for luxury homes.

In conclusion, supply and demand in the Oahu luxury homes segment of the market is showing signs of being less susceptible to the overall conditions related to the stalled economic recovery. And despite a slowdown in the high-end mainland market, luxury homes on Oahu are in demand and trending toward rebound territory.

This report was compiled by the Prudential Locations Research Department and combines sales activity data for all of Oahu's high-end neighborhoods. Since every neighborhood is unique and has its own distinct trend, it's important to understand what is happening in your specific neighborhood. Prudential Locations tracks and analyzes Oahu's luxury market and over 200 individual neighborhoods so please give your Fine Homes Specialist, **James S. More (R) CRS** a call at **(808) 222-3949**

The data contained in this report is from the Honolulu Board of Realtors, MLS Resales as of June 30, 2010.

Prudential Locations Sells Homes Faster



The key to setting the right price is having a keen understanding of what's happening in that neighborhood. At Prudential Locations, we have Hawaii's only in-house research department, with over forty years dedicated to studying the local market. The result? Homes listed with us sell nearly twice as fast than the competition. Let us put our experience to work for you.

**Call: James S. More (R) CRS
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