



**Hawaii
Commercial
Real Estate, LLC**
Established 2002

Honolulu Office

MARKET REPORT 2015 - 1st QUARTER



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Honolulu's office market saw a fifth quarter in a row of negative absorption as it shed another 66,666 square feet of occupancy which increased vacancy from 14.5 % to 15.0%. The Leeward Oahu and Airport submarkets were responsible for the bulk of the lost occupancy. Vacancy ranges from 7.1% (East Oahu) to 20.6% (Airport & Waikiki).

Full Service Gross (FSG) rent (base rent plus full service operating expenses) increased from \$3.18/sf/month to \$3.25/sf/mth. Average operating expenses increased from \$1.52 to \$1.61 as buildings implemented their 2015 budgets. Average asking base rents decreased slightly from \$1.66 to \$1.64. As a result the Hawaii Commercial Real Estate's index of available spaces increased from 618 to 620 spaces across the island.

OPERATING EXPENSE INCREASES CONTINUE TO ERODE BASE RENT

Operating expense increases continue to eat into base rents, and the big question will be the impact, if any, of falling oil prices on electricity costs. For a more detailed discussion and an illustrative graph, please read our last report.

STATE OF HAWAII PURCHASE OF ALII PLACE?

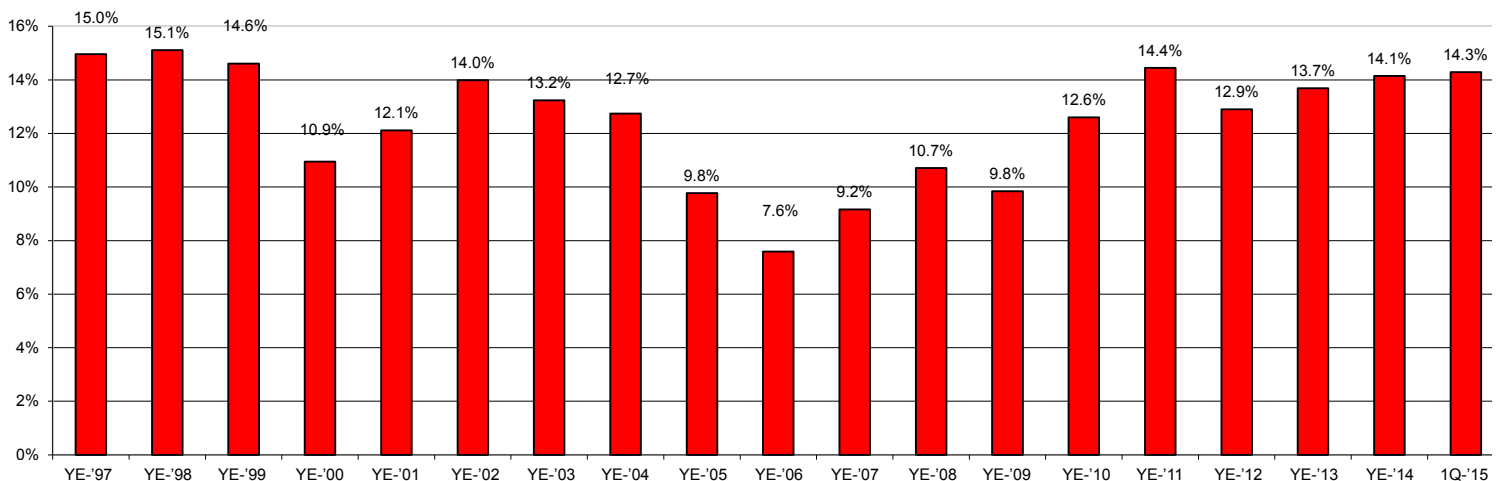
The State legislature is considering the purchase of Alii Place via HB1366 for \$90 million. Alii place is 316,000 square feet and has 101,000 square feet vacant. The City and County of Honolulu is the largest occupant with the prosecutor's office taking about 65,000 square feet and HART taking about 35,000. The IRS takes about 30,000 square feet and the remaining 70,000 square feet of occupancy is private tenancy.

If the state purchase occurs, it would have several effects on the market. It would reduce the private office market inventory and remove 101,000 square feet of vacancy. Removing Alii Place (inventory and vacancy) from our market survey would mathematically reduce the downtown Class A vacancy rate from 14.3% to 13.1%.

However several "domino effects" would occur that affect other parts of the office market. First, the private tenancy



CBD Class A Total Office Vacancy Rates (1997-2015)





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Individual Membership

HCRE Office Market Report: 5/20/2015

currently in Alii Place would likely have to move to other private class A buildings over time, and the IRS will likely move back to the federal building. Second, it would negatively impact several private class B office buildings as state agencies move from those buildings to Alii Place. The state says it has about 420,000 square feet of office tenancy in private buildings, and at least some of that would move to Alii to fill the current 100,000 square feet of vacancy plus the 100,000 square feet of private and federal leased space. Some of the buildings with state tenancy are: Haseko Center, Melim Building, Tissue Genesis Center, 801 Dillingham and New Media Center (formerly Waiakamilo Business Center).

The potential state purchase of Alii Place begs the questions: "What will the state do with the now vacant and gutted 90,000 square foot Princess Kamamalu Building at the corner of Richards and King streets?"; and "What will OHA do with the 180,000 square foot 919 Ala Moana building at the Makai/Ewa corner of Ward Avenue and Ala Moana Boulevard?" 919 Ala Moana Boulevard is currently occupied by state agencies, and OHA already has its own building, the former Gentry Pacific Design Center.

WAIKIKI TRADE CENTER CONVERSION

We have been reporting for a year about the potential conversion of Waikiki Trade Center (WTC) to some sort of hotel use, and that appears close at hand. Currently, WTC has 207,000 square feet of office space, with about 45% or 94,000 square feet listed as vacant. Removal of WTC from the Waikiki sub-market would bring Waikiki vacancy down from 20.6% to 11.7%. Central Waikiki, which includes Waikiki Business Center, DFS Galleria, has low single digit vacancy and significantly higher rental rates than the rest of Honolulu. Our firm has already relocated several of WTC's tenants, and we expect Waikiki's outlier buildings, 1833 Kalakaua and 460 Ena Road, and the Kapiolani corridor should benefit as the remaining WTC tenants scramble for space. The low vacancy and high rental rates in central Waikiki will force out tenants who do not need a direct Waikiki visitor industry presence.

Oahu Office Market Snapshot - 1st Quarter 2015

SUBMARKET	TOTAL SF	VACANT SF	NO. BLDG	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	AVG Operating Expenses	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
Airport	575,042	118,548	4	20.6%	42	\$2.70	\$1.23	(16,574)	(16,574)
CBD	5,727,061	869,528	24	15.2%	288	\$2.82	\$1.41	(146)	(146)
East Oahu	257,586	18,413	6	7.1%	11	\$3.81	\$1.66	(4,578)	(4,578)
Kakaako	1,338,687	132,545	6	9.9%	42	\$2.91	\$1.42	(1,773)	(1,773)
Kalihi/Iwilei	569,529	54,835	4	9.6%	25	\$2.52	\$1.29	10,448	10,448
Kapiolani	1,249,565	229,074	9	18.3%	88	\$3.64	\$1.87	349	349
King	78,547	15,203	2	19.4%	12	\$2.47	\$1.68	(1)	(1)
Leeward Oahu	603,712	83,197	8	13.8%	23	\$3.85	\$1.57	(38,902)	(38,902)
Waikiki	782,395	161,199	7	20.6%	84	\$4.60	\$2.21	(12,561)	(12,561)
Windward Oahu	110,165	9,742	3	8.8%	5	\$3.17	\$1.74	(2,928)	(2,928)
TOTAL	11,292,289	1,692,284	73	15.0%	620	\$3.25	\$1.61	(66,666)	(66,666)

BLDG CLASS	TOTAL SF	VACANT SF	NO. BLDG	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	AVG Operating Expenses	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
A*	4,826,675	689,836	13	14.3%	187	\$2.92	\$1.45	(9,794)	(9,794)
B	6,465,614	1,002,448	60	15.5%	433	\$3.34	\$1.57	(56,872)	(56,872)
TOTAL	11,292,289	1,692,284	73	15.0%	620			(66,666)	(66,666)

* Class A Buildings are exclusively in CBD

CBD Class A Office Market Snapshot 1st Quarter 2015

Building	SF	Direct Vacancy		Total Vacancy		Direct Vacancy Rate		Total Vacancy Rate		Qtr Absorption	YTD Absorption	Asking Full Service Gross Rents (\$/rsf/mth)		Operating Expenses (\$/rsf/mth)
		Vacancy	Sublease	Vacancy	Rate	Vacancy	Rate							
Alii Place	316,040	100,846	0	100,846	31.9%	31.9%	464	464	\$2.92 - \$2.92	\$1.37				
Bishop Place	462,072	53,106	9,300	62,406	11.5%	13.5%	(7,334)	(7,334)	\$2.83 - \$2.91	\$1.51				
Bishop Square / ASB Tower	483,455	59,142	0	59,142	12.2%	12.2%	944	944	\$2.67 - \$2.72	\$1.32				
Bishop Square/Pauahi Tower	438,596	73,113	0	73,113	16.7%	16.7%	(3,832)	(3,832)	\$2.69 - \$2.74	\$1.34				
Central Pacific Plaza	209,821	9,222	0	9,222	4.4%	4.4%	0	0	\$2.96 - \$2.96	\$1.46				
City Financial Tower	180,563	22,423	0	22,423	12.4%	12.4%	(1,019)	(1,019)	\$2.82 - \$2.82	\$1.42				
Davies Pacific Center	354,322	76,389	0	76,389	21.6%	21.6%	(3,577)	(3,577)	\$3.05 - \$3.05	\$1.50				
First Hawaiian Center	379,336	12,795	0	12,795	3.4%	3.4%	105	105	\$2.95 - \$2.95	\$1.40				
Harbor Court - Office Tower	186,138	14,343	0	14,343	7.7%	7.7%	6,798	6,798	\$2.90 - \$3.00	\$1.55				
Pacific Guardian Center	631,956	86,159	0	86,159	13.6%	13.6%	(10,260)	(10,260)	\$2.78 - \$3.23	\$1.43				
Pioneer Plaza	245,000	30,241	0	30,241	12.3%	12.3%	3,453	3,453	\$2.33 - \$2.82	\$1.43				
TOPA Financial Center	483,776	67,734	0	67,734	14.0%	14.0%	(3,936)	(3,936)	\$2.95 - \$3.50	\$1.50				
Waterfront Plaza	455,600	53,255	21,768	75,023	11.7%	16.5%	8,400	8,400	\$3.04 - \$3.04	\$1.54				
Totals	4,826,675	658,768	31,068	689,836			(9,794)	(9,794)	Average Range	\$2.84 - \$2.97	\$1.44			
Vacancy rates		13.6%	0.6%	14.3%						\$2.33 - \$3.50				

NOTES¹ Vacancies are from Loopnet, broker fact sheets, and/or telephone surveys. | ² Base rents typically escalate annually by 3%