



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

# Honolulu Office

## MARKET REPORT 2016 - 1<sup>st</sup> QUARTER



Vacancy



Asking Gross Rent



Operating Expense



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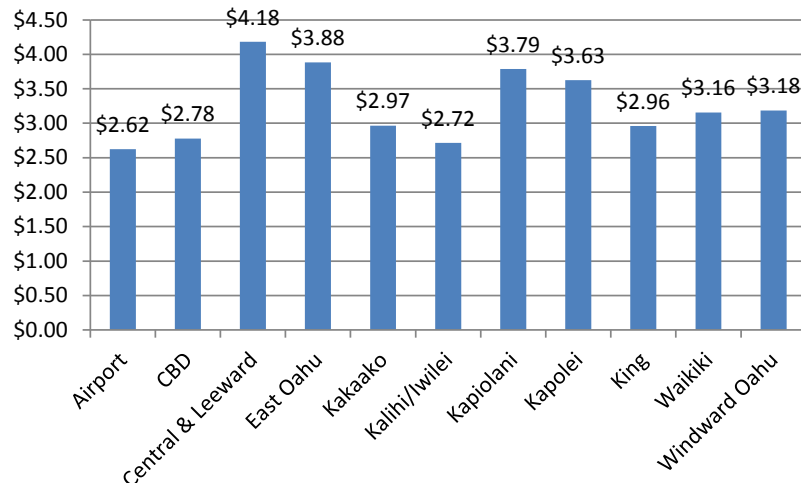
Individual Membership

The Honolulu office market continues to be a tale of two markets. Despite increasing employment, as evidenced by full parking garages, downtown's central business district continues to lose occupancy as larger employers squeeze more workers into smaller footprints, while most of the other submarkets gain occupancy as small employers expand.

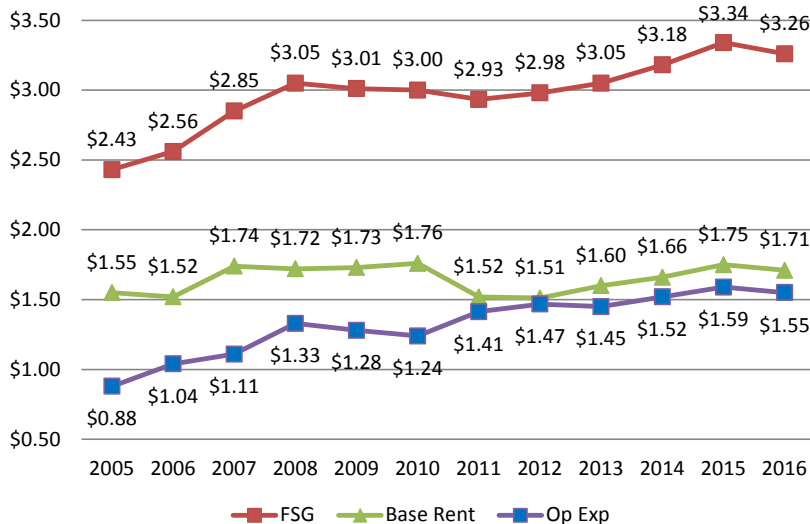
Honolulu's office market had its fourth quarter of positive absorption as it filled 14,722 square feet of occupancy. Vacancy dropped from 14.2% to 13.4%, with most of the decline coming from the removal of Waikiki Trade Center as its owners began the conversion to hotel use. The Central Business District (CBD) continued to struggle as the vacancy rate climbed from 15.3% to a stubbornly high 15.6%. The Class A high-rises are in slightly better shape at 14.9% vacancy.

Full Service Gross (FSG) asking rent (base rent plus full service operating expenses) declined slightly from \$3.34/sf/month to \$3.26/sf/month, mostly as a result of a \$0.04/sf/month decline in operating expenses. Hawaii Commercial Real Estate's index of available spaces decreased from 594 to 563 spaces across the island, the decline being a result of the removal of the Waikiki Trade Center from inventory.

### Asking Gross Rent (\$/SF/MTH)



### Oahu Asking Office Rent



### DECLINE IN ENERGY COSTS BRINGS DOWN OPERATING EXPENSES

Operating expenses dropped in the first quarter, almost entirely the result of reductions in energy costs. Real property taxes, insurance and janitorial wages, the other major operating costs, remained relatively flat.

This decline follows an 81% increase in operating expenses over the last 10 years which was driven by dramatic increases in real property taxes (mostly valuations plus rate increases), insurance and until recently, energy costs.



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Individual Membership

HCRE Office Market Report: 4/2016

The single largest cost of running an office building in Honolulu is energy, most of which is used to produce air conditioning. With very few exceptions, air conditioning systems in Honolulu are powered by electricity which is still generated primarily by burning oil.



Energy costs dropped because of both lower electricity rates and lower energy consumption. The dramatic drop in oil prices in 2015 from around \$100 per barrel to about \$30 per barrel has resulted in Honolulu electricity rates dropping from just above \$0.30/kWhr to just above \$0.20/kWhr. At the same time, many building owners are seeing paybacks from investments in energy efficiency measures, most notably in air conditioning chiller upgrades and optimization and energy efficient lighting. Tenants have also helped with investments in new, energy efficient computers and equipment.



The big question is how long will energy costs remain at their current level and if and/or when we will see significant inflation in the other operating expense items.



### OAHU OFFICE MARKET SNAPSHOT - 2016, 1<sup>ST</sup> QUARTER

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	80,068	4	13.9%	35	\$2.62	\$1.27	713	713
CBD	5,748,391	896,672	24	15.6%	305	\$2.78	\$1.40	(18,912)	(18,912)
Central & Leeward	206,634	6,799	6	3.3%	10	\$4.18	\$1.65	695	695
East Oahu	257,586	12,512	6	4.9%	10	\$3.88	\$1.58	(150)	(150)
Kakaako	1,338,687	112,274	6	8.4%	41	\$2.97	\$1.46	14,715	14,715
Kalihi/Iwilei	569,529	52,483	4	9.2%	18	\$2.72	\$1.33	(909)	(909)
Kapiolani	1,249,565	198,480	9	15.9%	91	\$3.79	\$1.98	16,060	16,060
Kapolei	320,048	49,901	3	15.6%	8	\$3.63	\$1.64	(8,204)	(8,204)
King	78,547	20,318	2	25.9%	13	\$2.96	\$1.47	(5,177)	(5,177)
Waikiki	575,072	46,308	7	8.1%	29	\$3.16	\$1.58	15,891	15,891
Windward Oahu	110,165	571	3	0.5%	3	\$3.18	\$1.70	0	0
<b>TOTAL</b>	<b>11,029,266</b>	<b>1,476,386</b>	<b>74</b>	<b>13.4%</b>	<b>563</b>	<b>\$3.26</b>	<b>\$1.55</b>	<b>14,722</b>	<b>14,722</b>

BLDG CLASS	TOTAL SF	VACANT SF	NO. BLDG	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	AVG Operating Expenses	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
A*	4,848,005	722,903	13	14.9%	200	\$2.87	\$1.41	(15,285)	(15,285)
B	6,181,261	753,483	61	12.2%	363	\$3.10	\$1.53	30,007	30,007
<b>TOTAL</b>	<b>11,029,266</b>	<b>1,476,386</b>	<b>74</b>	<b>13.4%</b>	<b>563</b>			<b>14,722</b>	<b>14,722</b>

\* Class A Buildings are exclusively in CBD

### CBD CLASS A OFFICE MARKET SNAPSHOT - 2016, 1<sup>ST</sup> QUARTER

Building	Building SF	Direct		Total		Qtr Absorption	YTD Absorption	Asking Full Service Gross Rents (\$/rsf/mth)	Operating Expenses (\$/rsf/mth)
		Vacancy	Sublease	Vacancy	Rate				
Alii Place	337,370	115,269	0	115,269	34.2%	2,804	2,804	\$2.85 - \$2.85	\$1.30
Bishop Place	462,072	79,141	9,300	88,441	17.1%	(10,941)	(10,941)	\$2.82 - \$2.82	\$1.42
Bishop Square / ASB Tower	483,455	43,130	0	43,130	8.9%	(546)	(546)	\$2.61 - \$2.61	\$1.21
Bishop Square/Pauahi Tower	438,596	83,349	0	83,349	19.0%	(17,017)	(17,017)	\$2.66 - \$2.66	\$1.26
Central Pacific Plaza	209,821	9,388	0	9,388	4.5%	(646)	(646)	\$2.91 - \$2.91	\$1.41
City Financial Tower	180,563	15,232	0	15,232	8.4%	3,000	3,000	\$2.84 - \$2.84	\$1.44
Davies Pacific Center	354,322	75,296	11,671	86,967	21.3%	1,006	1,006	\$2.58 - \$3.03	\$1.48
First Hawaiian Center	379,336	12,900	0	12,900	3.4%	0	0	\$2.90 - \$2.90	\$1.35
Harbor Court - Office Tower	186,138	20,225	3,359	23,584	10.9%	0	0	\$3.00 - \$3.01	\$1.55
Pacific Guardian Center	631,956	77,238	0	77,238	12.2%	2,654	2,654	\$2.78 - \$3.18	\$1.43
Pioneer Plaza	245,000	34,310	0	34,310	14.0%	0	0	\$2.66 - \$2.81	\$1.44
TOPA Financial Center	483,776	78,023	0	78,023	16.1%	4,401	4,401	\$2.97 - \$3.37	\$1.47
Waterfront Plaza	455,600	55,072	0	55,072	12.1%	0	0	\$2.77 - \$2.77	\$1.52
<b>Totals</b>	<b>4,848,005</b>	<b>698,573</b>	<b>24,330</b>	<b>722,903</b>		<b>(15,285)</b>	<b>(15,285)</b>	<b>Weighted Averages</b>	
<b>Vacancy rates</b>		<b>14.4%</b>	<b>0.5%</b>	<b>14.9%</b>				<b>\$1.46</b>	<b>\$1.41</b>

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