



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

Honolulu Office

MARKET REPORT 2015 - 2nd QUARTER



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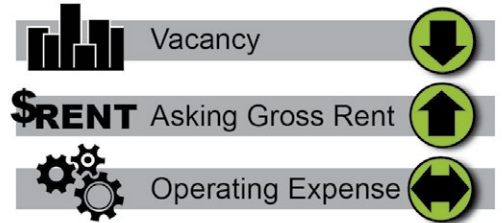


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Honolulu's office market finally reversed five consecutive quarters of negative absorption filling 81,894 square feet which decreased vacancy from 15.0% to 14.3%. Nearly every submarket showed healthy gains with the notable exception of downtown's class A high rises which saw no gain. Vacancy ranges from 5.6% (East Oahu) to 20.8% (Waikiki). Note that we have not yet removed Waikiki Trade Center from inventory (see our previous reports for a discussion of this topic).



Full Service Gross (FSG) rent (base rent plus full service operating expenses) increased from \$3.25/sf/month to \$3.27/sf/mth. Average operating expenses remained unchanged at \$1.61. Average asking base rents increased slightly from \$1.64 to \$1.66. Hawaii Commercial Real Estate's index of available spaces decreased from 620 to 602 spaces across the island.

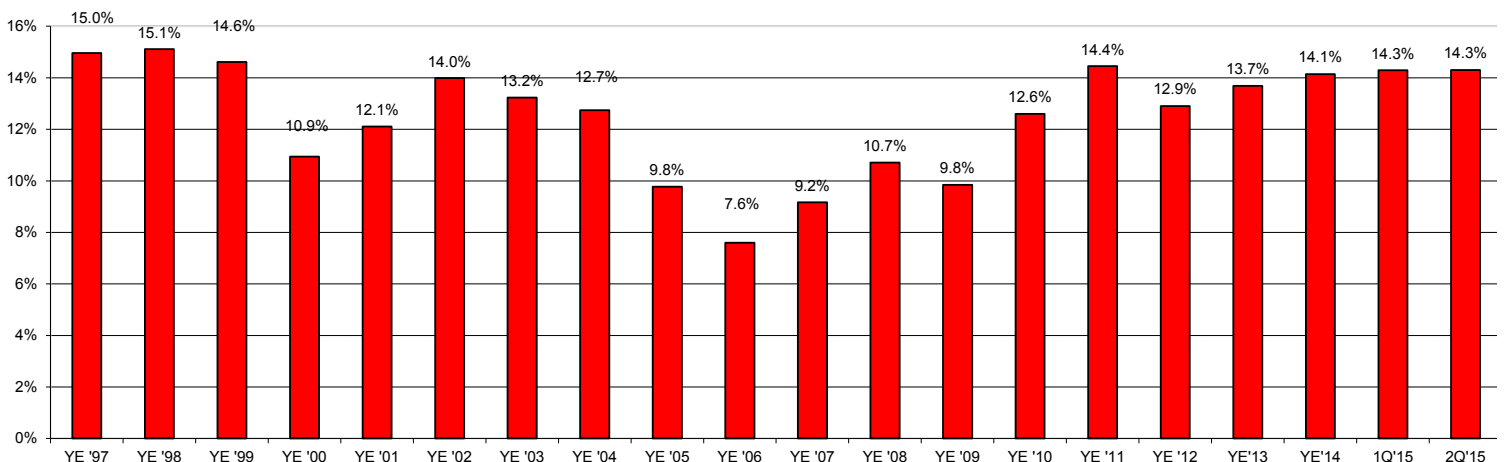
SUBURBS FILLING UP WHILE DOWNTOWN CLASS A OCCUPANCY REMAINS FLAT

Downtown's class A high rises are generally filled with larger business-to-business (B2B) and business-to-government (B2G) tenants while the suburbs generally cater to smaller business-to-consumer (B2C) tenants. Downtown's B2B tenants have maintained or even increased their employment as evidenced by the full parking lots, but continue to put those employees in a smaller footprint so that downtown occupancy percentage rates have remained relatively flat. Meanwhile, B2C tenants have been expanding outside of downtown's high rises to be close to their customers.

HIGH TI COSTS AND LONG BUILD-OUT TIMES PUT A DAMPER ON TENANT MOVES

Tenant improvement (TI) costs have seen a steady rise in the last 2 years due to multiple factors including stricter life safety requirements, longer permit times, increases in contractor overhead, increases in material costs and demand from other construction projects. For example, a complete gut and rebuild of a very basic class A office would have cost \$50/sf two years ago. Now that same build-out is approaching \$70/sf with upgrades pushing the prices much higher. These higher TI costs require

CBD CLASS A TOTAL OFFICE VACANCY RATES (1997-2015)





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HCRE Office Market Report: 8/2015

longer lease terms for TI amortization – sometimes 7 years or more for a complete rebuild. The extra term in some cases prohibits a move or remodel of a tenant's office.

Securing building permits and inspections is more difficult and takes longer than several years ago, even when using a permit expeditor. Projects that took 4 months last year are now taking 6 months or more. Often, tenants cannot wait this long.

One strategy employed by several office projects such as Pacific Guardian Center, is to build "ready to occupy" suites. These are typically smaller suites under 2,000 square feet, which do not have many configuration options. Tenants may not be able to custom design their own space, but they can get into new spaces quickly.

RENOVATION OF PRINCESS KAMAMALU BUILDING



The building at the corner of King and Richards Street is owned by the State of Hawaii who moved out the Department of Commerce and Consumer Affairs in 2003. The state gutted and remediated the 70,000 square foot building over the next few years but was not able to appropriate renovation funding until recently. The state finally began a \$25 million renovation during the second quarter of 2015 and currently plans on moving employees from the state health and human service departments in the fall of 2016. These employees are in other state buildings, so this project should not have a direct impact on tenancy in private buildings.

OAHU OFFICE MARKET SNAPSHOT - 2ND 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	102,980	4	17.9%	40	\$2.69	\$1.26	15,568	(1,006)
CBD	5,727,061	837,057	24	14.6%	286	\$2.82	\$1.42	32,471	32,325
East Oahu	257,586	14,376	6	5.6%	9	\$3.71	\$1.53	4,037	(541)
Kakaako	1,338,687	125,009	6	9.3%	38	\$2.95	\$1.44	7,536	5,763
Kalihi/Iwilei	569,529	66,103	4	11.6%	24	\$2.72	\$1.35	(11,268)	(820)
Kapiolani	1,249,565	207,238	9	16.6%	85	\$3.65	\$1.88	21,836	22,185
King	78,547	13,052	2	16.6%	10	\$2.34	\$1.68	2,151	2,150
Leeward Oahu	603,712	73,218	8	12.1%	24	\$3.95	\$1.60	9,979	(28,923)
Waikiki	782,395	163,034	7	20.8%	81	\$4.56	\$2.19	(1,835)	(14,396)
Windward Oahu	110,165	8,323	3	7.6%	7	\$3.34	\$1.70	1,419	(1,509)
TOTAL	11,292,289	1,610,390	73	14.3%	604	\$3.27	\$1.61	81,894	15,228

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	690,483	13	14.3%	185	\$2.91	\$1.44	(647)	(10,441)
B	6,465,614	919,907	60	14.2%	419	\$3.36	\$1.58	82,541	25,669
TOTAL	11,292,289	1,610,390	73	14.3%	604			81,894	15,228

* Class A Buildings are exclusively in CBD

CBD Class A Office Market Snapshot 2nd Quarter 2015

Building	Building SF	Direct		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								
Alii Place	316,040	100,910	0	100,910	31.9%	31.9%	(64)	400	\$2.92 - \$2.92	\$1.37	
Bishop Place	462,072	62,098	9,300	71,398	13.4%	15.5%	(8,992)	(16,326)	\$2.91 - \$2.91	\$1.51	
Bishop Square / ASB Tower	483,455	51,641	0	51,641	10.7%	10.7%	7,501	8,445	\$2.67 - \$2.72	\$1.32	
Bishop Square/Pauahi Tower	438,596	70,292	0	70,292	16.0%	16.0%	2,821	(1,011)	\$2.69 - \$2.74	\$1.34	
Central Pacific Plaza	209,821	8,012	0	8,012	3.8%	3.8%	1,210	1,210	\$2.95 - \$2.95	\$1.45	
City Financial Tower	180,563	20,190	3,000	23,190	11.2%	12.8%	(767)	(1,786)	\$2.82 - \$2.82	\$1.42	
Davies Pacific Center	354,322	70,446	0	70,446	19.9%	19.9%	5,943	2,366	\$3.01 - \$3.01	\$1.46	
First Hawaiian Center	379,336	12,900	0	12,900	3.4%	3.4%	(105)	0	\$2.92 - \$2.92	\$1.37	
Harbor Court - Office Tower	186,138	19,250	6,261	25,511	10.3%	13.7%	(11,168)	(4,370)	\$2.90 - \$2.95	\$1.55	
Pacific Guardian Center	631,956	84,673	0	84,673	13.4%	13.4%	1,486	(8,774)	\$2.78 - \$3.23	\$1.43	
Pioneer Plaza	245,000	27,636	0	27,636	11.3%	11.3%	2,605	6,058	\$2.65 - \$2.70	\$1.43	
TOPA Financial Center	483,776	65,734	0	65,734	13.6%	13.6%	2,000	(1,936)	\$2.95 - \$3.05	\$1.50	
Waterfront Plaza	455,600	54,640	23,500	78,140	12.0%	17.2%	(3,117)	5,283	\$3.00 - \$3.00	\$1.50	
Totals	4,826,675	648,422	42,061	690,483			(647)	(10,441)	Weighted Averages	\$1.47	\$1.44
Vacancy rates		13.4%	0.9%	14.3%							

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