



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

Honolulu Office

MARKET REPORT 2016 - 2nd QUARTER



For the first time in many quarters, the Honolulu office market showed broad-based occupancy growth as both Class A and Class B office buildings grew occupancy at the same time. Unfortunately, absorption of Class A office buildings which are exclusively in Honolulu's central business district, came entirely from a temporary movie production operation taking a floor at Bishop Place.

Occupancy increased by 30,028 square feet which was split evenly between the CBD Class A and the rest of the market. As a result, vacancy dropped from 13.4% to 13.0%. The Central Business District Class A building vacancy declined from 14.9% to 14.3%.

Full Service Gross (FSG) asking rent (base rent plus full service operating expenses) declined slightly from \$3.26/sf/month to \$3.25/sf/month, a result of a \$0.01/sf/month decline in operating expenses. Hawaii Commercial Real Estate's index of available spaces decreased from 557 to 550 spaces across the island.

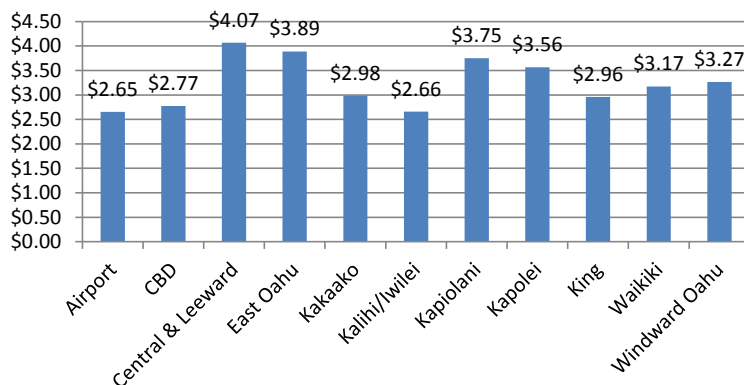
OUTLOOK FOR DOWNTOWN IS STILL MIXED

Downtown accounts for 52% of the island's inventory, 60% of the vacancy, and the bulk of Honolulu's large tenants. As a result, downtown drives the rest of the market.

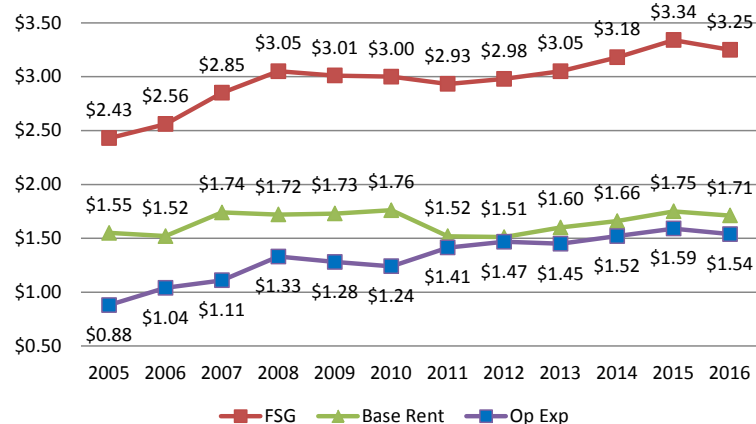
Based on busy sidewalks and full parking lots, downtown has more office employees than ever before, however downtown employers are still reducing the number of square feet per employee thereby keeping the occupancy static.

Recent business developments forecast a mixed bag for downtown. On the plus side, the demise of the NextEra/HECO deal removes the threat of downsizing by one of downtown's

Asking Gross Rent (\$/SF/MTH)



Honolulu Asking Office Rent



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Individual Membership

52%

OF OAHU'S
INVENTORY
IS IN
DOWNTOWN





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Individual Membership

HCRE Office Market Report: 07/2016

largest employers; HPU's planned sale of its Windward Campus likely means HPU's footprint will grow downtown; and the discovery of "iwi kupuna" on ASB's proposed campus just Ewa of Chinatown delays ASB's departure from downtown. On the negative side, it appears the State will not buy Alii Place which puts a large block of vacancy back on the market; Hawaiian Dredging will be relocating from City Financial Tower to space it purchased at the former Advertiser building; and Farmers Insurance and several large law firms are planning on downsizing.



DEMAND FOR MEDICAL SPACE

While most of Honolulu's office demand comes from traditional office users such as finance, insurance, real estate, construction and engineering, medical users have filled Hale Pawa on Beretania Street and portions of Waterfront Plaza. Additionally, our team has seen strong interest for medical condominiums at the to-be-built Aloha Pacific Center in Kapolei. On the flip side, Ala Moana Building has seen an increase in their vacancy as medical tenants retire or move to newer facilities.

OAHU OFFICE MARKET SNAPSHOT - 2016, 2ND 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	80,631	4	14.0%	39	\$2.65	\$1.27	(563)	150
CBD	5,748,391	861,897	24	15.0%	288	\$2.77	\$1.40	20,607	4,013
Central & Leeward	206,634	12,957	6	6.3%	12	\$4.07	\$1.65	(6,158)	(5,463)
East Oahu	257,586	10,862	6	4.2%	9	\$3.89	\$1.56	1,650	1,500
Kakaako	1,338,687	102,844	6	7.7%	37	\$2.98	\$1.47	9,430	24,145
Kalihi/Iwilei	569,529	51,723	4	9.1%	19	\$2.66	\$1.28	760	(149)
Kapiolani	1,249,565	193,190	9	15.5%	94	\$3.75	\$1.95	5,290	21,350
Kapolei	320,048	49,008	3	15.3%	7	\$3.56	\$1.66	893	(7,311)
King	78,547	16,088	2	20.5%	12	\$2.96	\$1.47	4,230	(947)
Waikiki	575,072	51,997	7	9.0%	30	\$3.17	\$1.59	(5,689)	10,202
Windward Oahu	110,165	993	3	0.9%	3	\$3.27	\$1.63	(422)	(422)
TOTAL	11,029,266	1,432,190	74	13.0%	550	\$3.25	\$1.54	30,028	47,068

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	693,727	13	14.3%	186	\$2.87	\$1.41	15,008	2,041
B	6,181,261	738,463	61	11.9%	364	\$3.10	\$1.52	15,020	45,027
TOTAL	11,029,266	1,432,190	74	13.0%	550			30,028	47,068

* Class A Buildings are exclusively in CBD

CBD CLASS A OFFICE MARKET SNAPSHOT - 2016, 2ND QUARTER

Building SF	Direct Vacancy		Total Vacancy		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	34.2%	0	2,804	\$2.85 - \$2.85	\$1.30	
Bishop Place	462,072	65,443	9,300	14.2%	13,698	2,757	\$2.82 - \$2.82	\$1.42	
Bishop Square/ASB Tower	483,455	41,222	0	8.5%	1,908	1,362	\$2.61 - \$2.61	\$1.21	
Bishop Square/Pauahi Tower	438,596	77,661	0	17.7%	5,688	(11,329)	\$2.66 - \$2.66	\$1.26	
Central Pacific Plaza	209,821	11,226	0	5.4%	(1,838)	(2,484)	\$2.91 - \$2.91	\$1.41	
City Financial Tower	180,563	13,000	0	7.2%	2,232	5,232	\$2.84 - \$2.84	\$1.44	
Davies Pacific Center	354,322	74,191	10,576	20.9%	2,200	3,206	\$3.03 - \$3.03	\$1.48	
First Hawaiian Center	379,336	12,900	0	3.4%	0	0	\$2.90 - \$2.90	\$1.35	
Harbor Court - Office Tower	186,138	20,225	0	10.9%	3,359	3,359	\$3.00 - \$3.01	\$1.55	
Pacific Guardian Center	631,956	80,446	0	12.7%	(3,208)	(554)	\$2.78 - \$3.13	\$1.43	
Pioneer Plaza	245,000	30,339	0	12.4%	3,971	3,971	\$2.66 - \$2.99	\$1.44	
TOPA Financial Center	483,776	65,020	0	13.4%	(1,165)	5,554	\$2.97 - \$3.37	\$1.47	
Waterfront Plaza	455,600	47,608	19,301	10.4%	(11,837)	(11,837)	\$2.77 - \$2.77	\$1.52	
Totals	4,848,005	654,550	39,177	13.5%	15,008	2,041	Weighted Averages	\$1.47	\$1.41

Notes:

¹ Vacancies are from Loopnet, broker fact sheets, and/or telephone surveys.

² Base rents typically escalate annually by 3%