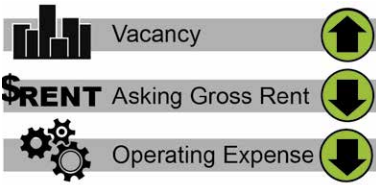




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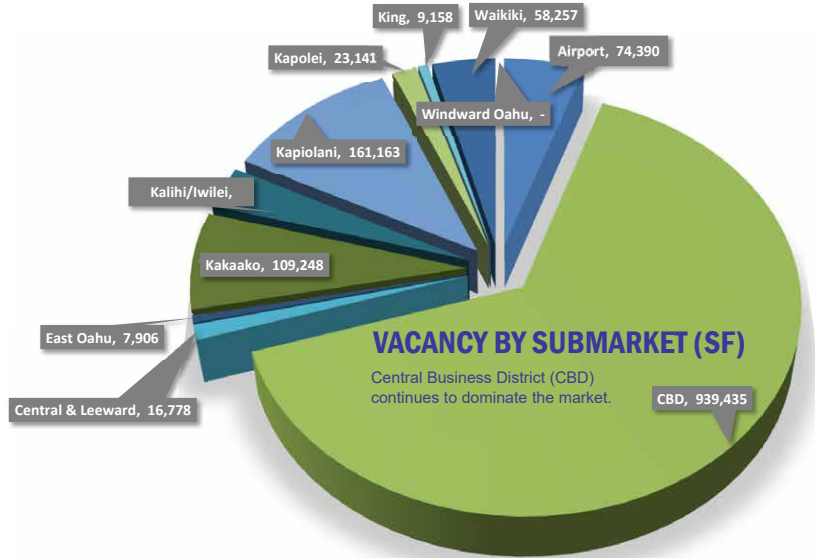
Honolulu Office

MARKET REPORT 2017 - 1st QUARTER



The first quarter of 2017 was a tale of two office markets. Downtown high-rises and mid-rises saw significant negative absorption while the rest of the market grew occupancy.

Kapiolani, Kapolei, Kakaako and the non-CBD submarkets collectively grew occupancy by 35,323 square feet while the CBD shed 102,162 square feet. As a result, overall vacancy increased from 13.0% to 13.2% while the CBD vacancy increased from 15.5% to 16.9% (note we adjusted our 4th quarter statistics to remove the former 33 S. King Street from CBD Class B inventory). The Central Business District Class A which represents 44% of the market increased its vacancy from 14.6% to 16.4%.



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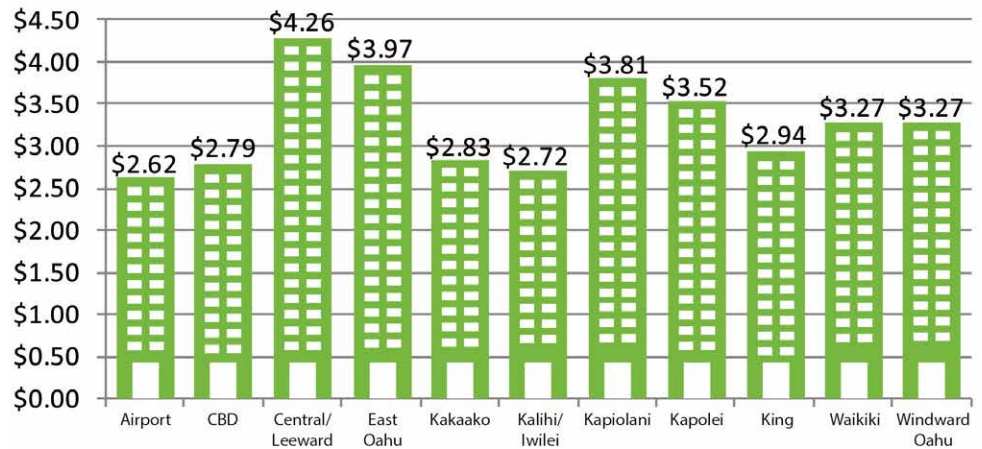
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Individual Membership

ASKING GROSS RENT \$/SF/MONTH



Asking Full Service Gross (FSG) rent (base rent plus full service operating expenses) declined from \$3.30/sf/mth to \$3.27/sf/mth with 1/3 of the decrease coming from reductions in operating expenses. Hawaii Commercial Real Estate's index of available spaces increased from 565 to 570 spaces across the island.

It should be noted that our survey tracks Class A and B multi-tenant office buildings. If Class C and single-user buildings were added, we would have significantly lower vacancy rates.

CHANGES IN INVENTORY

Slow office job growth continues to be offset by reductions in square feet per employee, and it seems the only way to reduce vacancy is to convert office space to other uses. When the Waikiki Trade Center was removed from inventory in 2015



Waikiki Trade Center



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HCRE Office Market Report: 2017-1Qtr

to be converted to a hotel, Waikiki vacancy dropped from about 20% to about 10% and rent rates jumped.

One King Street (fka 33 S. King Street) was removed from CBD Class B office inventory at the end of 2016. The word on the street is that the approximately 90,000 square foot building will be converted to another use. The building was largely vacant with the remaining few tenants relocating to other CBD office buildings.

On the other side of the equation, the State of Hawaii is nearing completion of the Princess Kamamalu building renovation which will add about 70,000 square feet of inventory, and ASB will add over 100,000 square feet of space to the market in 2019 when it completes its new campus and moves employees from other buildings.

GROWTH INDUSTRIES



Since the demise of the HECO/Next Era merger, HECO has been quietly expanding its downtown office footprint which has benefited ASB Tower and Central Pacific Plaza. And the flurry of alternative energy interest could result in office demand.

Healthcare continues to be another potential bright spot as medical users look for alternatives to their oftentimes very old facilities. Medicare and Medicaid providers have a large office footprint in town.

And, as discussed in our last market report, we could see co-working centers expand to fill some of the nearly 1.5 million square feet of vacancy.

OAHU OFFICE MARKET SNAPSHOT - 2017, 1ST QUARTER

	575,042	74,390	4	12.9%	39	\$2.62	\$1.23	3,453	3,453
Airport	575,042	74,390	4	12.9%	39	\$2.62	\$1.23	3,453	3,453
CBD	5,658,391	939,435	23	16.6%	304	\$2.79	\$1.39	(102,162)	(102,162)
Central & Leeward	206,634	16,778	6	8.1%	12	\$4.26	\$1.69	(2)	(2)
East Oahu	257,586	7,906	6	3.1%	7	\$3.97	\$1.70	3,856	3,856
Kakaako	1,338,687	109,248	6	8.2%	41	\$2.83	\$1.49	5,618	5,618
Kalihi/Iwilei	569,529	46,359	4	8.1%	17	\$2.72	\$1.39	(5,996)	(5,996)
Kapiolani	1,249,565	161,163	9	12.9%	94	\$3.81	\$1.88	11,692	11,692
Kapolei	320,048	23,141	3	7.2%	9	\$3.52	\$1.58	10,030	10,030
King	78,547	9,158	2	11.7%	10	\$2.94	\$1.47	4,627	4,627
Waikiki	575,072	58,257	7	10.1%	34	\$3.27	\$1.61	641	641
Windward Oahu	110,165	-	3	0.0%	3	\$3.27	\$1.63	1,404	1,404
TOTAL	10,939,266	1,445,835	73	13.2%	570	\$3.27	\$1.55	(66,839)	(66,839)

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	792,983	13	16.4%	224	\$2.85	\$1.39	(85,185)	(85,185)
B	6,091,261	652,852	60	10.7%	346	\$3.15	\$1.49	18,346	18,346
TOTAL	10,939,266	1,445,835	73	13.2%	570			(66,839)	(66,839)

* Class A Buildings are exclusively in CBD

CBD CLASS A OFFICE MARKET SNAPSHOT - 2017, 1ST QUARTER

Building SF	Direct Vacancy	Vacant Sublease	Total Vacancy	Direct	Total	Qtr Absorption	YTD Absorption	Asking Full Service Gross Rents (\$/rsf/mth)	Operating Expenses (\$/rsf/mth)		
				Vacancy Rate	Vacancy Rate						
Alli Place	337,370	112,572	0	112,572	33.4%	33.4%	973	973	\$2.85 - \$2.85	\$1.30	
Bishop Place	462,072	93,488	0	93,488	20.2%	20.2%	(19,041)	(19,041)	\$2.77 - \$2.77	\$1.37	
Bishop Square/ASB Tower	483,455	36,618	0	36,618	7.6%	7.6%	(2,943)	(2,943)	\$2.61 - \$2.61	\$1.21	
Bishop Square/Pauahi Tower	438,596	80,192	0	80,192	18.3%	18.3%	(23,206)	(23,206)	\$2.66 - \$2.66	\$1.26	
Central Pacific Plaza	209,821	10,187	0	10,187	4.9%	4.9%	0	0	\$2.91 - \$2.91	\$1.41	
City Financial Tower	180,563	20,912	0	20,912	11.6%	11.6%	(6,682)	(6,682)	\$2.76 - \$2.76	\$1.36	
Davies Pacific Center	354,322	78,858	10,576	89,434	22.3%	25.2%	(667)	(667)	\$2.97 - \$3.02	\$1.46	
First Hawaiian Center	379,336	47,736	0	47,736	12.6%	12.6%	0	0	\$3.10 - \$3.10	\$1.35	
Harbor Court - Office Tower	186,138	29,969	0	29,969	16.1%	16.1%	(11,069)	(11,069)	\$3.00 - \$3.00	\$1.55	
Pacific Guardian Center	631,956	93,381	0	93,381	14.8%	14.8%	(8,467)	(8,467)	\$2.78 - \$3.18	\$1.43	
Pioneer Plaza	245,000	37,644	0	37,644	15.4%	15.4%	(10,437)	(10,437)	\$2.67 - \$2.82	\$1.45	
TOPA Financial Center	483,776	74,590	2,610	77,200	15.4%	16.0%	(4,251)	(4,251)	\$2.88 - \$2.88	\$1.38	
Waterfront Plaza	455,600	50,848	12,802	63,650	11.2%	14.0%	605	605	\$2.77 - \$2.77	\$1.52	
Totals	4,848,005	766,995	25,988	792,983	15.8%	16.4%	(85,185)	(85,185)	Weighted Averages	\$2.85	\$1.39

Notes:

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

² Base rents typically escalate annually by 3%