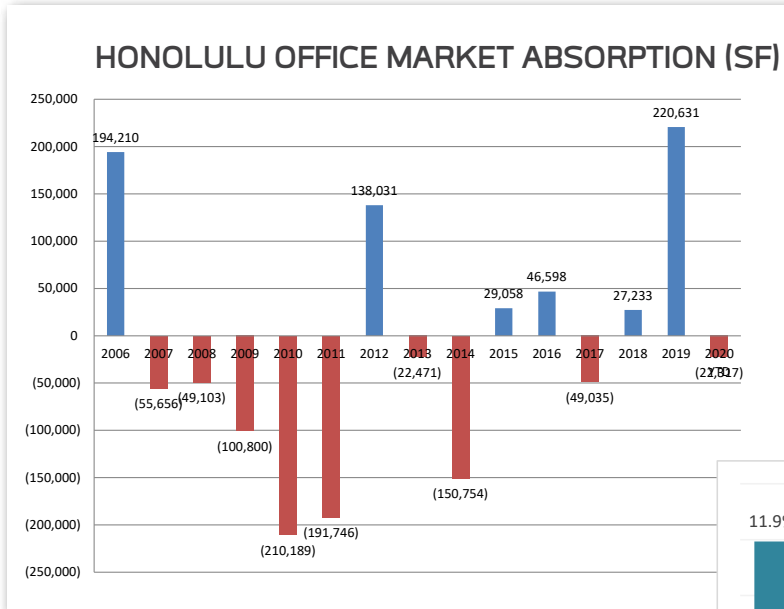


HONOLULU

OFFICE MARKET REPORT

2020 - 1st QUARTER

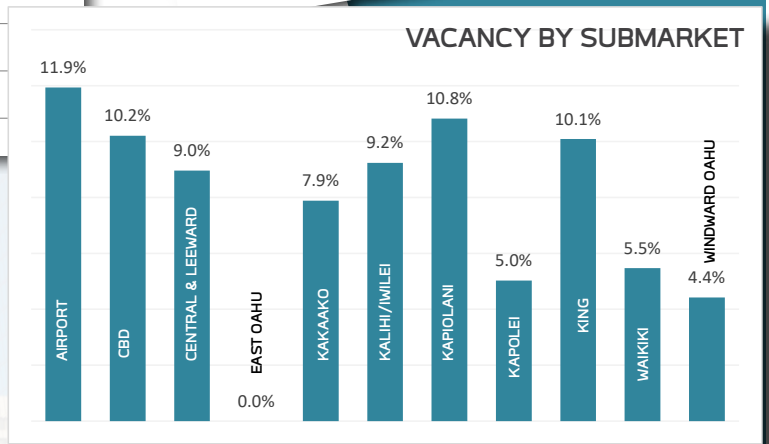
The major news for the 1st quarter of 2020 was COVID-19. However, the economic shutdown did not occur until late-March, and because real estate does not react as quickly as publicly traded instruments such as stocks and bonds, our 1st quarter statistics do not show any COVID-19 impacts. We will start to see COVID-19 impacts in statistics beginning in the 2nd quarter of 2020.



We did, however, see an immediate and dramatic reduction in leasing activity in late March as Honolulu's economy was shutdown with stay-at-home orders and a near total travel ban that reduced daily visitor arrivals from about 30,000/day to about 100/day.

Honolulu's office market started the year with 22,317 sf of negative absorption which was due primarily to: Bishop Place removed about 81,000 sf of Class A office for conversion to residential rentals which nearly offset HECO's lease of 98,000 sf at Alii Place, and University of Phoenix gave back space at Topa Financial Center downtown and Hale O Kapolei. Bishop Place still has about 281,000 sf of tenancy which will eventually either move to other office buildings or evaporate. Despite the negative absorption, vacancy declined to 9.3% because 1833 Kalakaua and a portion of Bishop Place were removed from the office market.

Full-Service Gross (FSG) asking rent decreased to \$3.33/sf/mth while the included operating expenses increased to \$1.63/sf/mth. Hawaii Commercial Real Estate's index of available spaces decreased to 433 spaces across the island.



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COVID-19 IMPACTS AND QUESTIONS

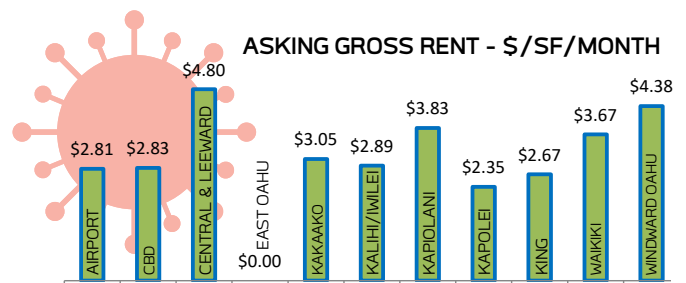
It's too early to know the impacts of COVID-19 on the Honolulu office market, but it seems that it could rival the seismic changes of 2019 when Douglas Emmett began their conversion of Bishop Place to residential and HPU moved to Waterfront Plaza.

Most office tenants have been able to work from home during the lockdown with a few exceptions like some medical offices. Unlike retail tenants who saw their income drop precipitously in late March, office tenants typically have a delayed income stream as they collect payables 30 days or more after performing services, so most had not seen the economic impact by the end of March, and most office tenants paid rent for April. We did see a few small month-to-month tenants give notice of termination, and few office tenants ask for rent relief. We have seen a few landlords offer rent forbearance (delayed rent payment) but not rent abatement. May, June and later rent collections will begin to tell the real story of the economic impact.

Big question marks remain for the office market. When and how will Hawaii's economy open up, particularly the visitor industry which makes up 20% of Hawaii's GDP? What will be the extent of COVID-19 related office job losses? Will social distancing require tenants to reconfigure their offices (potential boon for office furniture dealers)? Will office tenants need more space for social distancing? Will office tenants need less space because they can work entirely or partially from home?

OTHER QUESTIONS

Beyond COVID-19, other questions loom over the Honolulu office market. Where will the IRS and HART move as they are forced out of Alii Place by HECO's lease? HECO leases 250,000 sf in six other buildings – when and how much will HECO give back to the market as they move into Alii Place? 281,000 sf of tenancy remains in Bishop Place – how much will move? When and to where?



OAHU OFFICE MARKET SNAPSHOT - 2020, 1QTR

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	68,600	4	11.9%	40	\$2.81	\$1.33	832	832
CBD	5,476,979	558,952	23	10.2%	197	\$2.82	\$1.42	(23,453)	(23,453)
Central & Leeward	206,634	18,513	6	9.0%	17	\$4.80	\$1.82	1,469	1,469
East Oahu	257,586	-	6	0.0%	0	NA	NA	3,000	3,000
Kakaako	1,338,687	105,523	6	7.9%	30	\$3.05	\$1.50	(3,193)	(3,193)
Kalihi/Iwilei	569,529	52,607	4	9.2%	24	\$2.89	\$1.33	4,547	4,547
Kapiolani	1,249,565	135,166	9	10.8%	89	\$3.83	\$1.95	3,757	3,757
Kapolei	320,048	16,096	3	5.0%	4	\$2.35	\$1.71	(10,976)	(10,976)
King	78,547	7,926	2	10.1%	6	\$2.67	\$1.36	0	0
Waikiki	444,617	24,330	5	5.5%	19	\$3.67	\$1.89	2,287	2,287
Windward Oahu	110,165	4,869	3	4.4%	7	\$4.38	\$1.98	(587)	(587)
TOTAL	10,627,399	992,582	71	9.3%	433	\$3.33	\$1.63	(22,317)	(22,317)

BLDG CLASS	TOTAL SF	VACANT SF	NO. BLDG	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	AVG Operating Expenses	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
A*	4,666,593	419,994	13	9.0%	140	\$2.95	\$1.42	(14,647)	(14,647)
B	5,960,806	572,588	58	9.6%	293	\$3.29	\$1.58	(7,670)	(7,670)
TOTAL	10,627,399	992,582	71	9.3%	433			(22,317)	(22,317)

* Class A Buildings are exclusively in CBD

CBD CLASS A OFFICE MARKET SNAPSHOT - 2020, 1QTR

Building SF	Direct Vacancy		Total Vacancy		Qtr Absorption	YTD Absorption	Asking Full Service Gross Rents (\$/rsf/mth)	Operating Expenses (\$/rsf/mth)			
	Vacancy	Rate	Sublease	Rate							
Alii Place	337,370	2,839	2,839	0.8%	0	0.8%	98,196	98,196	\$2.72 - \$2.72	\$1.36	
Bishop Place	281,000	0	0	0.0%	0	0.0%	(80,477)	(80,477)			
Bishop Square/ASB Tower	483,455	41,945	41,945	8.7%	0	8.7%	(4,219)	(4,219)	\$2.77 - \$2.77	\$1.37	
Bishop Square/Pauahi Tower	438,596	65,672	65,672	15.0%	0	15.0%	(25,039)	(25,039)	\$2.73 - \$2.73	\$1.33	
Central Pacific Plaza	209,821	7,167	7,167	3.4%	0	3.4%	226	226	\$2.97 - \$2.97	\$1.47	
City Financial Tower	180,563	3,225	3,225	1.8%	0	1.8%	(1,234)	(1,234)	\$2.93 - \$3.05	\$1.41	
Davies Pacific Center	354,322	91,101	91,101	25.7%	0	25.7%	(1,892)	(1,892)	\$2.96 - \$2.98	\$1.41	
First Hawaiian Center	379,336	24,437	24,437	6.4%	0	6.4%	13,371	13,371	\$3.10 - \$3.10	\$1.35	
Harbor Court - Office Tower	186,138	23,990	23,990	12.9%	0	12.9%	(2,949)	(2,949)	\$2.97 - \$2.97	\$1.52	
Pacific Guardian Center	631,616	59,973	59,973	9.5%	0	9.5%	11,178	11,178	\$2.77 - \$3.42	\$1.42	
Pioneer Plaza	245,000	11,508	11,508	4.7%	0	4.7%	1,852	1,852	\$2.70 - \$2.70	\$1.45	
TOPA Financial Center	483,776	75,099	75,099	15.5%	0	15.5%	(23,084)	(23,084)	\$3.13 - \$3.13	\$1.53	
Waterfront Plaza	455,600	13,038	13,038	2.9%	0	2.9%	(576)	(576)	\$2.79 - \$3.87	\$1.54	
Totals	4,666,593	419,994	419,994	9.0%	0	9.0%	(14,647)	(14,647)	Weighted Averages	\$2.95	\$1.42

Notes: 1 - Vacancies are from Loopnet, broker fact Sheets, and/or telephone surveys. 2 - Base Rents Typically Escalate Annually By 3%. 3 - Absorption does not include vacant sublease.