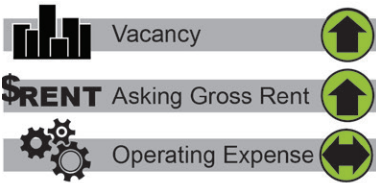




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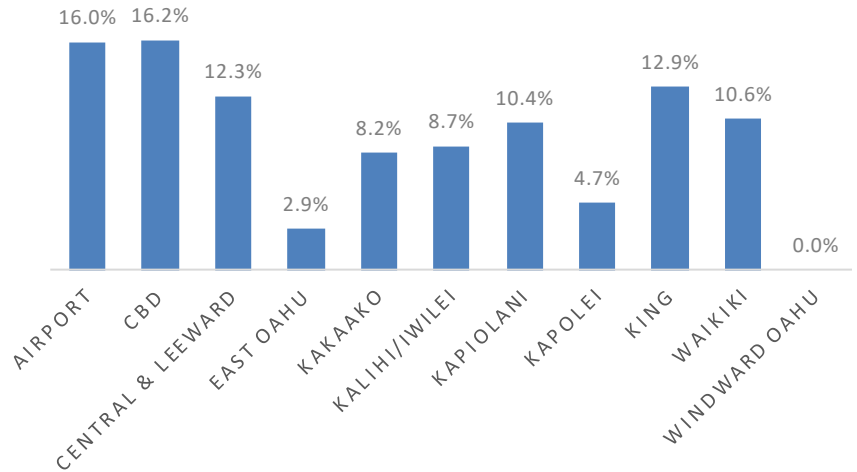
# Honolulu Office

## MARKET REPORT 2017 - 3<sup>rd</sup> QUARTER



Honolulu's office market reversed course yet again in the third quarter of 2017 with negative absorption in nearly every submarket and in both Class A and Class B properties. This follows positive absorption in the second quarter and negative absorption in the first quarter.

### VACANCY BY SUBMARKET



The entire market lost 55,026 square feet of occupancy which was spread across 7 of the 11 submarkets with Kapiolani and Kapolei being the exceptions. As a result, overall vacancy increased from 12.4% to 12.9%.



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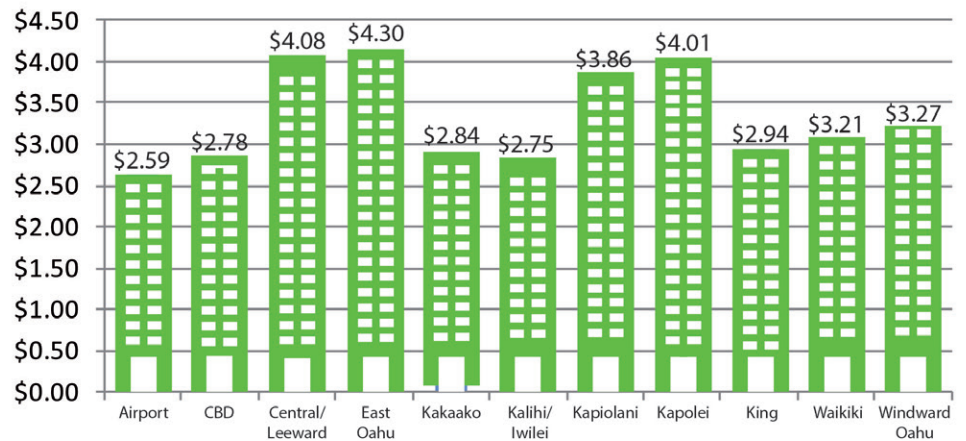
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Individual Membership

### ASKING GROSS RENT \$/SF/MONTH



Full Service Gross (FSG) asking rent (base rent plus full-service operating expenses) increased from \$3.30/sf/mth to \$3.33/sf/mth. Hawaii Commercial Real Estate's index of available spaces increased from 565 to 572 spaces across the island.

### SHORTER TIME HORIZONS AND HIGHER TENANT IMPROVEMENT COSTS MAKE IT TOUGH TO MOVE

In response to the rapidly changing business world, tenants are shortening their business planning horizon and are generally looking for shorter term leases. Tenants who once signed 7 and 10-year leases do not want such a long commitment and are now looking for 3 to 5-year leases.





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HCRE Office Market Report: 2017-3Qtr

At the same time, tenant improvement costs have increased significantly which take a longer time to amortize. Combine shorter lease terms and higher TI costs and it is tough for a tenant to move to a new space. The result is tenants increasingly look at modifying their current space or look for move alternatives that require minimal improvements.

## FASB CHANGES

FASB (Financial Accounting Standards Board) changed rules in 2016 relating to assets and liabilities that arise from leases. The changes require that tenant companies provide a more accurate representation of the liability of leases on their balance sheets, and these rules take effect in December 2018 for public companies and December 2019 for private companies. The impact is not clear yet, but it could result in tenants opting for shorter term leases to reduce their balance sheet liability associated with their lease obligations.



## OAHU OFFICE MARKET SNAPSHOT - 2017, 3<sup>RD</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	92,161	4	16.0%	44	\$2.59	\$1.23	(16,963)	(14,318)
CBD	5,658,391	915,970	23	16.2%	296	\$2.78	\$1.40	(16,456)	(78,697)
Central & Leeward	206,634	25,320	6	12.3%	15	\$4.08	\$1.57	(8,132)	(8,544)
East Oahu	257,586	7,344	6	2.9%	6	\$4.30	\$1.70	(1,466)	4,418
Kakaako	1,338,687	109,709	6	8.2%	42	\$2.84	\$1.49	1,975	5,157
Kalihi/Iwilei	569,529	49,651	4	8.7%	19	\$2.75	\$1.37	(18,162)	(9,288)
Kapiolani	1,249,565	129,437	9	10.4%	94	\$3.86	\$1.91	10,918	43,418
Kapolei	320,048	15,052	3	4.7%	5	\$4.01	\$1.66	6,917	18,119
King	78,547	10,118	2	12.9%	10	\$2.94	\$1.47	(1,441)	3,667
Waikiki	575,072	61,146	7	10.6%	38	\$3.21	\$1.61	(12,216)	(2,248)
Windward Oahu	110,165	-	3	0.0%	3	\$3.27	\$1.63	0	1,404
<b>TOTAL</b>	<b>10,939,266</b>	<b>1,415,908</b>	<b>73</b>	<b>12.9%</b>	<b>572</b>	<b>\$3.33</b>	<b>\$1.55</b>	<b>(55,026)</b>	<b>(36,912)</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	773,943	13	16.0%	216	\$2.85	\$1.40	(15,341)	(66,145)
B	6,091,261	641,965	60	10.5%	356	\$3.17	\$1.48	(39,685)	29,233
<b>TOTAL</b>	<b>10,939,266</b>	<b>1,415,908</b>	<b>73</b>	<b>12.9%</b>	<b>572</b>			<b>(55,026)</b>	<b>(36,912)</b>

\* Class A Buildings are exclusively in CBD

## CBD CLASS A OFFICE MARKET SNAPSHOT - 2017, 3<sup>RD</sup> QUARTER

Building SF	Direct Vacant		Total Vacancy	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	108,398	0	108,398	32.1%	32.1%	(687)	5,147	\$2.85 - \$2.85	\$1.30
Bishop Place	462,072	100,839	0	100,839	21.8%	21.8%	(17,474)	(26,392)	\$2.77 - \$2.77	\$1.37
Bishop Square/ASB Tower	483,455	38,738	0	38,738	8.0%	8.0%	1,785	(5,063)	\$2.61 - \$2.61	\$1.21
Bishop Square/Pauahi Tower	438,596	55,049	0	55,049	12.6%	12.6%	(1,209)	1,937	\$2.66 - \$2.66	\$1.26
Central Pacific Plaza	209,821	10,975	0	10,975	5.2%	5.2%	0	(788)	\$2.97 - \$2.97	\$1.47
City Financial Tower	180,563	29,096	0	29,096	16.1%	16.1%	9,770	(14,866)	\$2.79 - \$2.79	\$1.39
Davies Pacific Center	354,322	80,942	10,576	91,518	22.8%	25.8%	1,271	(2,751)	\$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	29,357	0	29,357	15.8%	15.8%	(6,010)	(10,457)	\$3.00 - \$3.00	\$1.55
Pacific Guardian Center	631,956	82,967	13,739	96,706	13.1%	15.3%	(10,734)	(11,792)	\$2.78 - \$3.38	\$1.43
Pioneer Plaza	245,000	36,162	0	36,162	14.8%	14.8%	1,482	(8,955)	\$2.67 - \$2.82	\$1.45
TOPA Financial Center	483,776	72,947	2,610	75,557	15.1%	15.6%	2,206	(2,608)	\$2.88 - \$2.88	\$1.38
Waterfront Plaza	455,600	53,812	0	53,812	11.8%	11.8%	4,259	10,443	\$2.77 - \$2.77	\$1.52
<b>Totals</b>	<b>4,848,005</b>	<b>747,018</b>	<b>26,925</b>	<b>773,943</b>	<b>15.4%</b>	<b>16.0%</b>	<b>(15,341)</b>	<b>(66,145)</b>	<b>Weighted Averages \$2.85</b>	<b>\$1.40</b>

**Notes:**

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

<sup>2</sup> Base rents typically escalate annually by 3%