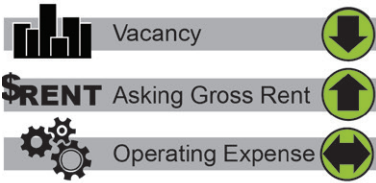




**Hawaii Commercial Real Estate, LLC**  
Established 2002

# Honolulu Office

## MARKET REPORT 2018 - 4<sup>th</sup> QUARTER



Honolulu's office market reversed course again and ended the fourth quarter of 2018 with 42,001sf of positive absorption decreasing the overall vacancy rate from 13.2% to 12.8%, the same as the end of 2017. The largest occupancy gainers were Downtown and Kapolei while the Airport submarket gave up about 13,000 sf as Critchfield Pacific put a large office space on the market for sublease at 590 Paiea Street.



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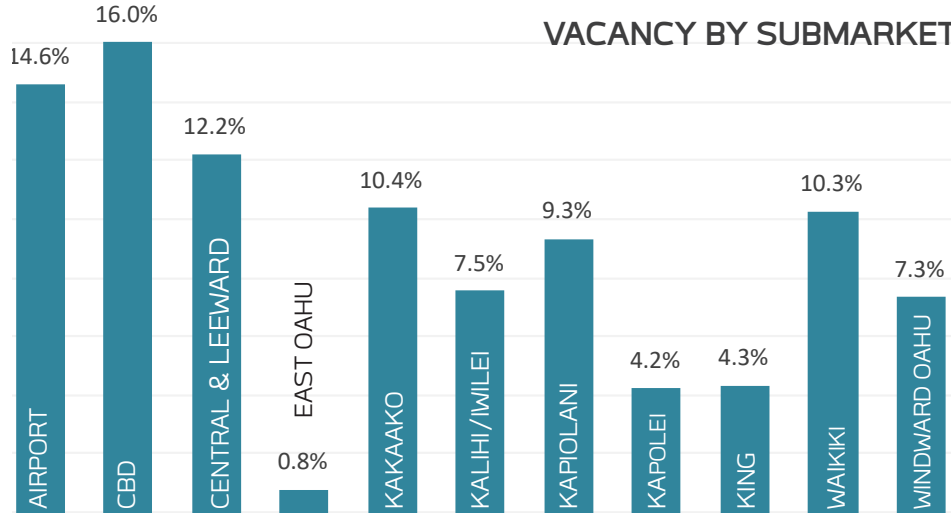


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### VACANCY BY SUBMARKET

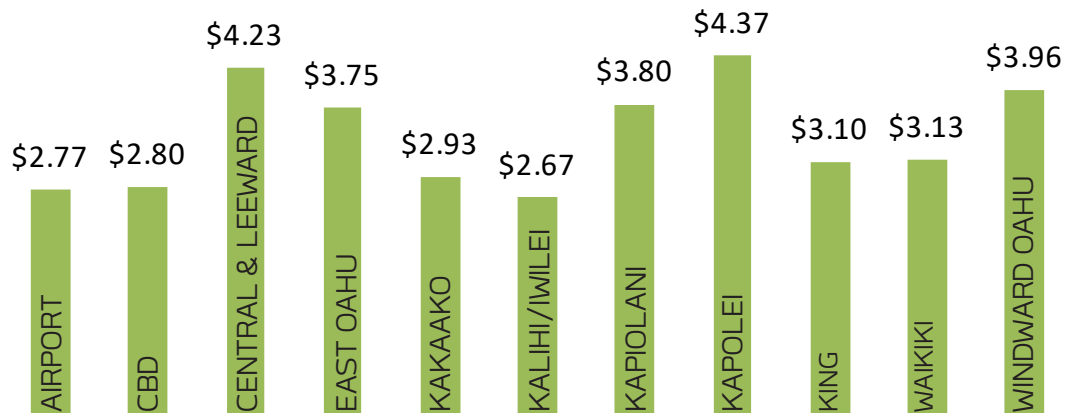


Bishop Place

Vacancy peaked in the 3rd quarter of 2018 with downtown Class A at nearly 17%, and vacancy should start trending downward in 2019 as HPU moves into about 100,000 square feet in Waterfront Plaza and Pioneer Plaza, and Bishop Place starts its conversion to residential rentals. The market will feel some negative impact from ASB's move to its new headquarters across Aala Park. The extent of the impact is still unclear because ASB does not have a buyer for its current headquarters at 915 Fort Street, a 12-story office building with about 5,000 sf per floor.

Full Service Gross (FSG) asking rent (base rent plus full-service operating expenses) increased from \$3.37/sf/mth to \$3.41/sf/mth. Hawaii Commercial Real Estate's index of available spaces decreased from 580 to 556 spaces across the island.

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





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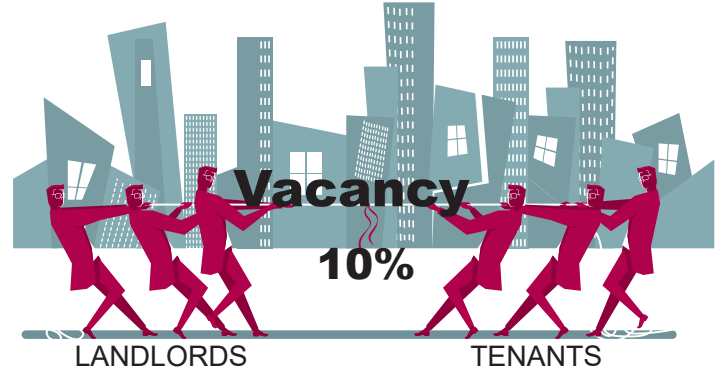
James M. Brown (B), Individual Membership

HCRE Office Market Report: 2018-4Qtr

## BISHOP PLACE CONVERSION

Douglas Emmett, a publicly-traded REIT headquartered in Santa Monica, CA, owns about 1/3 of the Class A office space in downtown Honolulu. They are reportedly working on converting one of their 4 office buildings, Bishop Place, into a residential rental project. If they move forward with the project, it will cut downtown's vacancy in half from the current 16.5% to under 10% by removing about 460,000 sf of inventory. Most experts believe that 10% is the tipping point between a tenant's market and a landlord's market. The conversion won't happen overnight, but we have already seen Bishop Place office tenants looking at move options in the market and landlords, including Douglas Emmett, already increasing their asking rental rates in anticipation of a landlord's market.

Beyond reducing office vacancy, the conversion of Bishop Place will add about 500 much needed executive level rental units and add 500 affluent consumers to bolster downtown and Chinatown's restaurants, bars and shopping establishments.



## OAHU OFFICE MARKET SNAPSHOT - 2018, 4<sup>TH</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	83,962	4	14.6%	39	\$2.77	\$1.30	(12,576)	8,276
CBD	5,658,051	906,887	23	16.0%	293	\$2.80	\$1.43	29,066	11,417
Central & Leeward	206,634	25,211	6	12.2%	22	\$4.23	\$1.86	(874)	(1,684)
East Oahu	257,586	2,006	6	0.8%	5	\$3.75	\$1.65	0	5,740
Kakaako	1,338,687	138,687	6	10.4%	45	\$2.93	\$1.49	8,599	(30,786)
Kalihi/Iwilei	569,529	42,955	4	7.5%	15	\$2.67	\$1.33	(3,936)	18,649
Kapiolani	1,249,565	116,684	9	9.3%	84	\$3.80	\$1.88	9,198	1,199
Kapolei	320,048	13,510	3	4.2%	4	\$4.37	\$1.72	15,169	11,884
King	78,547	3,405	2	4.3%	2	\$3.10	\$1.55	(663)	3,373
Waikiki	575,072	59,076	7	10.3%	40	\$3.13	\$1.61	(4,130)	(1,245)
Windward Oahu	110,165	8,075	3	7.3%	7	\$3.96	\$1.69	2,148	410
<b>TOTAL</b>	<b>10,938,926</b>	<b>1,400,458</b>	<b>73</b>	<b>12.8%</b>	<b>556</b>	<b>\$3.41</b>	<b>\$1.59</b>	<b>42,001</b>	<b>27,233</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*	4,847,665	801,272	13	16.5%	229	\$2.90	\$1.44	15,511	(15,111)
B	6,091,261	599,186	60	9.8%	327	\$3.18	\$1.47	26,490	42,344
<b>TOTAL</b>	<b>10,938,926</b>	<b>1,400,458</b>	<b>73</b>	<b>12.8%</b>	<b>556</b>			<b>42,001</b>	<b>27,233</b>

\* Class A Buildings are exclusively in CBD

## CBD CLASS A OFFICE MARKET SNAPSHOT - 2018, 4<sup>TH</sup> QUARTER

Building SF	Direct Vacancy		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		Vacancy Rate	Vacancy Rate						
Alii Place	337,370	100,680	2,839	103,519	29.8%	30.7%	(2,039)	4,879	\$2.57 - \$2.57	\$1.32	
Bishop Place	462,072	114,171	7,658	121,829	24.7%	26.4%	(12,770)	(23,201)	\$2.84 - \$2.84	\$1.44	
Bishop Square/ASB Tower	483,455	40,242	0	40,242	8.3%	8.3%	(7,537)	(1,437)	\$2.77 - \$2.77	\$1.37	
Bishop Square/Pauahi Tower	438,596	57,191	0	57,191	13.0%	13.0%	17,697	(2,024)	\$2.73 - \$2.73	\$1.33	
Central Pacific Plaza	209,821	9,040	0	9,040	4.3%	4.3%	1,391	1,391	\$2.97 - \$2.97	\$1.47	
City Financial Tower	180,563	34,100	0	34,100	18.9%	18.9%	0	4,291	\$2.79 - \$2.79	\$1.39	
Davies Pacific Center	354,322	101,540	0	101,540	28.7%	28.7%	(3,631)	(7,033)	\$3.03 - \$3.03	\$1.48	
First Hawaiian Center	379,336	47,736	4,487	52,223	12.6%	13.8%	0	(4,487)	\$3.05 - \$3.85	\$1.35	
Harbor Court - Office Tower	186,138	23,607	0	23,607	12.7%	12.7%	3,054	(149)	\$2.97 - \$2.97	\$1.52	
Pacific Guardian Center	631,616	86,399	0	86,399	13.7%	13.7%	1,231	10,690	\$2.83 - \$3.43	\$1.48	
Pioneer Plaza	245,000	29,278	0	29,278	12.0%	12.0%	0	6,457	\$2.45 - \$2.70	\$1.45	
TOPA Financial Center	483,776	36,373	17,208	53,581	7.5%	11.1%	15,339	33,685	\$2.93 - \$3.33	\$1.43	
Waterfront Plaza	455,600	86,175	0	86,175	18.9%	18.9%	5,324	(35,285)	\$2.77 - \$2.77	\$1.52	
<b>Totals</b>	<b>4,847,665</b>	<b>766,532</b>	<b>32,192</b>	<b>798,724</b>	<b>15.8%</b>	<b>16.5%</b>	<b>18,059</b>	<b>(12,223)</b>	<b>Weighted Averages</b>	<b>\$2.90</b>	<b>\$1.44</b>

Notes: 1 Vacancies Are From Loopnet, Broker Fact Sheets, And/Or Telephone Surveys.  
2 Base Rents Typically Escalate Annually By 3%