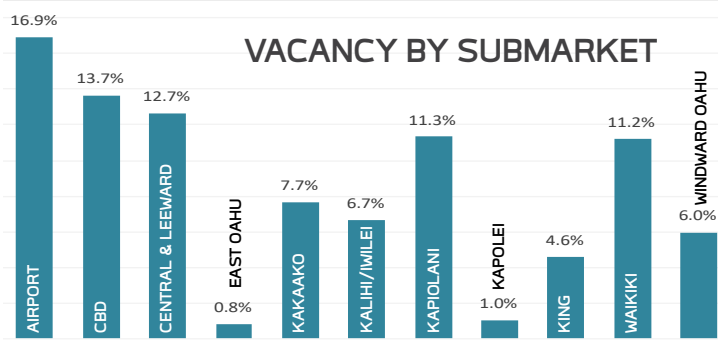


HONOLULU

OFFICE MARKET REPORT

2019 - 1st QUARTER

Honolulu's office market had its second consecutive quarter of positive absorption with 58,546 sf of increased occupancy. The overall vacancy rate decreased from 12.9% to 11.5% as a result of the increased occupancy and a partial removal of inventory as Bishop Place converts to residential use.



Honolulu's downtown (CBD or Central Business District) Class A office buildings continue to dominate the market with the bulk of Honolulu's inventory and vacancy. Total Vacancy in the downtown Class A high rises peaked in 3rd quarter of 2018 at nearly 17% and has dropped to 14%. We expect vacancy will continue declining as HPU moves from about 40,000 sf of untracked office space into Waterfront Plaza and Pioneer Plaza; and as tenants move from Bishop Place to other buildings. The market has not felt negative impact from ASB's move to its new headquarters across Aala Park. However, ASB's former headquarters at 915 Fort Street, a 12-story office building with about 5,000 sf per floor, is currently vacant and looking for a buyer. It is possible that this 60,000 sf building could pull tenancy from multi-tenant office buildings and thereby negatively affect the office market.

Full Service Gross (FSG) asking rent (base rent plus full-service operating expenses) increased from \$3.41/sf/mth to \$3.43/sf/mth, however base rents were flat at \$1.82/sf/mth as all of the FSG increase was in the operating expenses. Hawaii Commercial Real Estate's index of available spaces decreased from 556 to 506 spaces across the island. Bishop Place accounted for 37 of the spaces removed from vacant inventory.

▼ VACANCY

▲ ASKING GROSS RENT

▲ OPERATING EXPENSE

ASKING GROSS RENT \$/SF/MONTH

Submarket	Asking Gross Rent (\$/sf/mth)
AIRPORT	\$2.79
CBD	\$2.80
CENTRAL & LEEWARD	\$4.40
EAST OAHU	\$3.77
KAKAAKO	\$2.93
KALIHI/IWILEI	\$2.66
KAPIOLANI	\$3.73
KAPOLEI	\$4.18
KING	\$3.18
WAIKIKI	\$3.23
WINDWARD OAHU	\$4.01

BISHOP PLACE CONVERSION

Douglas Emmett, a publicly traded REIT headquartered in Santa Monica, CA, owns Bishop Place, Bishop Square and Harbor Court, about 1/3 of the Class A office space in downtown Honolulu. In February 2019, they announced the conversion of Bishop Place into a residential rental project. The project will be in phases as they convert blocks of floors starting in mid-2019. Ultimately, the conversion will remove about 460,000 sf of office inventory and displace about 360,000 sf of occupancy.

The February announcement caused an immediate reaction with a significant increase in showing activity and downtown landlords increasing their base rents on initial proposals. The occupancy effects of tenants moving out of Bishop Place will start showing up in our survey in 2Q2019 beginning with Atlas Insurance who is moving to about 30,000 sf in City Financial Tower.

For this survey we reduced Bishop Place's size from 462,072 sf to 361,477 sf which represents the currently occupied space at Bishop. We also removed all its vacant space, about 110,000 sf, so that the building shows as 0% vacant / 100% occupied. The result is that Bishop Place went from 26.4% vacant to 0% vacant. This is the main reason CBD Class A vacancy dropped from 16.5% in the prior quarter to its current 14%. Over time, the building will become smaller and smaller and will remain 100% occupied in our survey.

OAHU OFFICE MARKET SNAPSHOT - 2019, 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	97,183	4	16.9%	39	\$2.79	\$1.32	(13,221)	(13,221)
CBD	5,557,456	758,761	23	13.7%	243	\$2.80	\$1.44	50,571	50,571
Central & Leeward	206,634	26,170	6	12.7%	22	\$4.40	\$1.96	(959)	(959)
East Oahu	257,586	2,006	6	0.8%	5	\$3.77	\$1.67	0	0
Kakaako	1,338,687	102,771	6	7.7%	36	\$2.93	\$1.48	35,916	35,916
Kalihi/Iwilei	569,529	37,920	4	6.7%	13	\$2.66	\$1.32	5,035	5,035
Kapiolani	1,249,565	141,559	9	11.3%	94	\$3.73	\$1.87	(24,875)	(24,875)
Kapolei	320,048	3,295	3	1.0%	3	\$4.18	\$1.68	10,215	10,215
King	78,547	3,598	2	4.6%	3	\$3.18	\$1.59	(193)	(193)
Waikiki	575,072	64,526	7	11.2%	44	\$3.23	\$1.70	(5,450)	(5,450)
Windward Oahu	110,165	6,568	3	6.0%	7	\$4.01	\$1.63	1,507	1,507
TOTAL	10,838,331	1,244,357	73	11.5%	509	\$3.43	\$1.61	58,546	58,546

BLDG CLASS	TOTAL SF	VACANT SF	NO. BLDG	% VACANCY	# SPACES	AVG FSG (\$/SF/MTH)	AVG Operating Expenses	QTD ABSORPTION (SF)	YTD ABSORPTION (SF)
A*	4,747,070	662,272	13	14.0%	181	\$2.91	\$1.45	41,465	41,465
B	6,091,261	582,085	60	9.6%	328	\$3.23	\$1.50	17,081	17,081
TOTAL	10,838,331	1,244,357	73	11.5%	509			58,546	58,546

* Class A Buildings are exclusively in CBD

CBD CLASS A OFFICE MARKET SNAPSHOT - 2019, 1QTR

	Building SF	Direct Vacancy	Vacant Sublease	Total Vacancy	Direct Vacancy Rate	Total Vacancy Rate	Qtr Absorption	YTD Absorption
Alii Place	337,370	100,680	2,839	103,519	29.8%	30.7%	2,839	2,839
Bishop Place	361,477	0	0	0	0.0%	0.0%	0	0
Bishop Square/ASB Tower	483,455	36,143	0	36,143	7.5%	7.5%	4,099	4,099
Bishop Square/Pauahi Tower	438,596	67,333	0	67,333	15.4%	15.4%	(10,142)	(10,142)
Central Pacific Plaza	209,821	9,040	0	9,040	4.3%	4.3%	0	0
City Financial Tower	180,563	34,100	0	34,100	18.9%	18.9%	0	0
Davies Pacific Center	354,322	97,594	0	97,594	27.5%	27.5%	3,946	3,946
First Hawaiian Center	379,336	47,736	4,487	52,223	12.6%	13.8%	4,487	4,487
Harbor Court - Office Tower	186,138	11,714	0	11,714	6.3%	6.3%	14,441	14,441
Pacific Guardian Center	631,616	83,168	0	83,168	13.2%	13.2%	2,891	2,891
Pioneer Plaza	245,000	29,278	0	29,278	12.0%	12.0%	0	0
TOPA Financial Center	483,776	36,373	17,208	53,581	7.5%	11.1%	17,208	17,208
Waterfront Plaza	455,600	84,479	100	84,579	18.5%	18.6%	1,696	1,696
Totals	4,747,070	637,638	24,634	662,272	13.4%	14.0%	41,465	41,465

Asking Full Service Gross Rents (\$/rsf/mth)	Operating Expenses (\$/rsf/mth)
\$2.68 - \$2.68	\$1.32
\$2.77 - \$2.77	\$1.37
\$2.73 - \$2.73	\$1.33
\$2.97 - \$2.97	\$1.47
\$2.79 - \$2.79	\$1.39
\$3.05 - \$3.05	\$1.50
\$3.05 - \$3.85	\$1.35
\$2.97 - \$2.97	\$1.52
\$2.86 - \$3.46	\$1.51
\$2.45 - \$2.70	\$1.45
\$2.93 - \$2.93	\$1.43
\$2.77 - \$2.79	\$1.53

Weighted Averages

\$2.91	\$1.45
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Notes: 1 Vacancies Are From Loopnet, Broker Fact Sheets, And/Or Telephone Surveys.
2 Base Rents Typically Escalate Annually By 3%