

# OFFICE MARKET

## Second Quarter 2019

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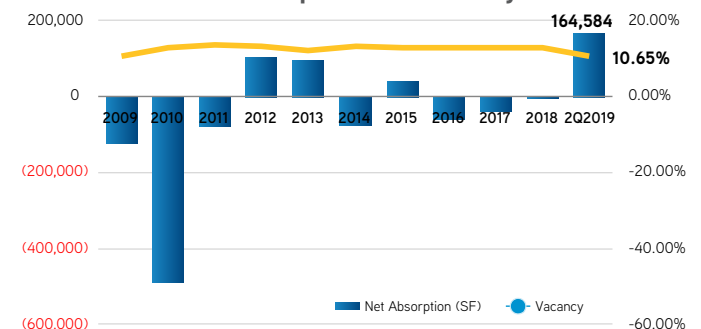
# Market Summary

**Mike Hamasu** Director of Research | Hawaii

- > As of mid-2019, Oahu's office market generated a robust 164,584 square feet of occupancy growth and pushed the island-wide vacancy rate down to 10.65%, its lowest rate in over a decade.
- > During the past six months, the vacancy in the Central Business District ("CBD") declined from 16.44% to 12.13%. This 431 basis point decline in vacancy rates is unprecedented in such a short period of time for the CBD.
- > Upon the completion of 1132 Bishop's conversion to residential, which is projected to take several years, Colliers anticipates the Oahu office vacancy rate will continue its rapid descent when an additional 270,000 square feet of 1132 Bishop Street's office tenancy relocates and occupies other office buildings.
- > In addition to relocating 1132 Bishop tenants, Hawaii Pacific University's consolidation of its Windward, Kukui Plaza and Fort Street campuses to Waterfront Plaza during the second quarter of 2019 contributed an additional 100,000 square feet of new occupancy in the CBD.
- > Between 2017 and 2018, the average CBD asking base rent jumped from \$1.39 per square foot per month ("psf/mo") to \$1.49 psf/mo. This healthy 7.2% increase established a new benchmark for recently negotiated leases, with these asking rates holding steady for the past six months.
- > Colliers forecasts that the island-wide office vacancy rate will dip to 10% within the next few quarters. In fact, Oahu's office market will have come full circle to levels not seen since the beginning of the Great Recession of 2008.

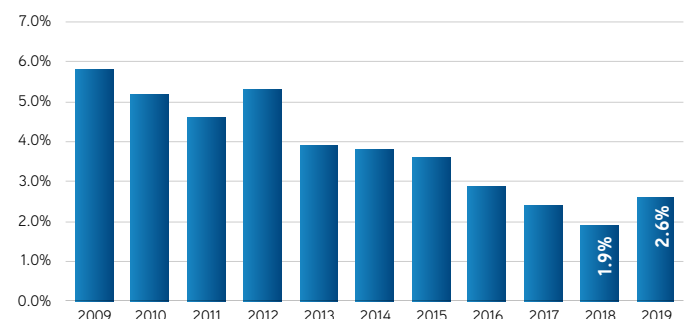
| Market Indicators  |        | Summary Statistics                  |            |
|--------------------|--------|-------------------------------------|------------|
| Relative to 1Q2018 | 2Q2019 | 2Q 2019 Office Market               |            |
| VACANCY            | ↓      | 2nd Qtr Net Absorption              | 161,235 SF |
| NET ABSORPTION     | ↑      | YTD Net Absorption                  | 164,584 SF |
| CONSTRUCTION       | ↔      | Vacancy Rate                        | 10.65%     |
| RENTAL RATES       | ↔      | Full Service Gross Avg. Asking Rent | (psf/mo)   |
|                    |        | Island Wide                         | \$3.14     |
|                    |        | Class A                             | \$3.01     |
|                    |        | Class B                             | \$3.42     |
|                    |        | Class C                             | \$2.89     |

### Oahu Office Net Absorption vs. Vacancy Rate



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### Oahu Unemployment Rate (April)



Source: DBEDT

## Second Quarter 2019 - Oahu Office Market Statistics

### OFFICE - BY SUBMARKET AREA

|                            | TOTAL NUMBER OF BUILDINGS | TOTAL SQUARE FEET | VACANT SPACE (SF) | VACANCY RATE  | 2Q NET ABSORPTION (SF) | YTD NET ABSORPTION (SF) | LOW AVG. ASKING NNN RENT (PSF/MO) | HIGH AVG. ASKING NNN RENT (PSF/MO) | AVG. OPERATING EXPENSE (PSF/MO) |
|----------------------------|---------------------------|-------------------|-------------------|---------------|------------------------|-------------------------|-----------------------------------|------------------------------------|---------------------------------|
| AIRPORT / MAPUNAPUNA       | 4                         | 679,916           | 71,122            | 10.46%        | 12,360                 | 336                     | \$1.56                            | \$1.73                             | \$1.20                          |
| CENTRAL BUSINESS DISTRICT  | 52                        | 6,982,194         | 847,129           | 12.13%        | 140,359                | 158,041                 | \$1.39                            | \$1.58                             | \$1.31                          |
| EAST OAHU                  | 15                        | 468,032           | 7,199             | 1.54%         | 4,244                  | 210                     | \$2.25                            | \$2.45                             | \$1.55                          |
| KAKAAKO / KAPIOLANI / KING | 43                        | 3,679,308         | 374,900           | 10.19%        | 17,343                 | 30,669                  | \$1.55                            | \$1.72                             | \$1.46                          |
| KALIHI / IWILEI / KAPALAMA | 12                        | 883,227           | 90,573            | 10.25%        | (8,087)                | (5,848)                 | \$1.49                            | \$1.53                             | \$1.11                          |
| LEEWARD OAHU               | 14                        | 719,228           | 34,705            | 4.83%         | 4,922                  | 7,323                   | \$2.17                            | \$2.39                             | \$1.32                          |
| WAIKIKI                    | 12                        | 812,027           | 93,746            | 11.54%        | (10,809)               | (28,616)                | \$1.89                            | \$2.14                             | \$1.66                          |
| WINDWARD OAHU              | 8                         | 284,401           | 25,505            | 8.97%         | 903                    | 2,469                   | \$1.95                            | \$2.01                             | \$1.53                          |
| <b>TOTALS</b>              | <b>160</b>                | <b>14,508,333</b> | <b>1,544,879</b>  | <b>10.65%</b> | <b>161,235</b>         | <b>164,584</b>          | <b>\$1.67</b>                     | <b>\$1.84</b>                      | <b>\$1.39</b>                   |

### OFFICE - BY BUILDING CLASS

|               | TOTAL NUMBER OF BUILDINGS | TOTAL SQUARE FEET | VACANT SPACE (SF) | VACANCY RATE  | 2Q NET ABSORPTION (SF) | YTD NET ABSORPTION (SF) | LOW AVG. ASKING NNN RENT (PSF/MO) | HIGH AVG. ASKING NNN RENT (PSF/MO) | AVG. OPERATING EXPENSE (PSF/MO) |
|---------------|---------------------------|-------------------|-------------------|---------------|------------------------|-------------------------|-----------------------------------|------------------------------------|---------------------------------|
| CLASS A       | 13                        | 4,905,848         | 564,165           | 11.50%        | 162,819                | 168,714                 | \$1.43                            | \$1.67                             | \$1.46                          |
| CLASS B       | 67                        | 6,705,849         | 651,696           | 9.72%         | (19,410)               | (4,492)                 | \$1.84                            | \$2.06                             | \$1.46                          |
| CLASS C       | 80                        | 2,896,636         | 329,018           | 11.36%        | 17,826                 | 362                     | \$1.54                            | \$1.64                             | \$1.30                          |
| <b>TOTALS</b> | <b>160</b>                | <b>14,508,333</b> | <b>1,544,879</b>  | <b>10.65%</b> | <b>161,235</b>         | <b>164,584</b>          | <b>\$1.67</b>                     | <b>\$1.84</b>                      | <b>\$1.39</b>                   |

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#### TERMS AND DEFINITIONS

- INVENTORY - Office buildings greater than 20,000 square feet located on the island of Oahu. Owner-occupied, government, and medical buildings are not included.
- TOTAL SQUARE FEET - All rentable office space exclusive of common areas, elevator shafts and fire escapes.
- VACANT SPACE - Office space that is not occupied by a tenant. This includes sublease space that is unoccupied.
- VACANCY RATE - The ratio of vacant office space divided by the total office inventory square footage.
- NET ABSORPTION - The net change in occupied space over a period of time. Year-to-date net absorption is the difference in occupied space between the end of the previous year and the current quarter.
- AVERAGE ASKING RENT - The ratio of aggregate landlord asking rents divided by the total available space within a specific geography or building class.
- AVERAGE OPERATING EXPENSE - The average rate of tenant expenses such as building utilities, management fees, building maintenance, real property taxes and insurance within a specific geography or building class.
- BASE RENTS - Rents exclusive of building operating expenses.
- FULL SERVICE GROSS RENTS - Base rents plus building operating expense. This is viewed as the tenant's total occupancy cost per square foot.
- BUILDING CLASSIFICATIONS - Adhering to the BOMA guidelines, Class A properties are buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, exceptional accessibility and a definite market presence. Class B buildings compete for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area and systems are adequate. Class C buildings are competing for tenants requiring functional space at rents below the average for the area.

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