

# OFFICE MARKET

## Second Quarter 2018

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# Summary Report

Mike Hamasu Director of Research | Hawaii

- > The Oahu office market continued to soften as vacancy rates increased for the fourth consecutive quarter.
- > The second quarter loss of 26,040 square feet of net absorption brought the year-to-date loss to 52,687 square feet.
- > Reaching its highest level in five years, the Oahu office vacancy rate has steadily risen to 13.12% in 2Q2018.
- > The Central Business District vacancy rate of 16.87% remains the highest among Oahu's eight office submarkets.
- > Oahu's unemployment rate dropped from 2.4% in March 2017 to 1.9% this past quarter, reflecting a gain of 5,800 newly employed workers.
- > The office average asking base rent leapt to \$1.75 per square foot per month, its highest level in more than twenty years.
- > The upcoming consolidation of American Savings Bank to a new corporate headquarters near Aala Park is a major concern for the outlook of Oahu's office market. The office market could see vacancy rates exceed 14.0% by year's end, which would be a new record high for Oahu.

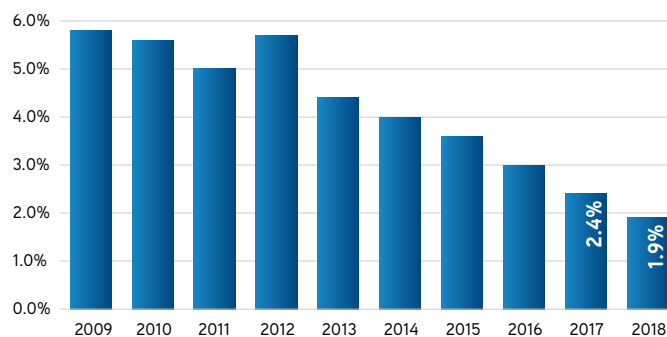
### Market Indicators

Relative to 1Q2018	2Q2018
VACANCY	↑
NET ABSORPTION	↓
CONSTRUCTION	↔
RENTAL RATES	↑

### Summary Statistics

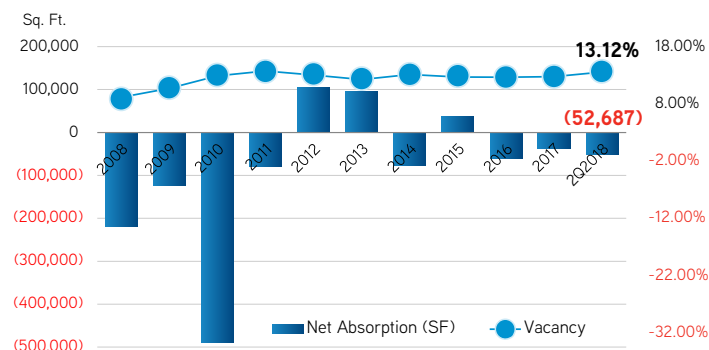
2Q 2018 Office Market	
2nd Qtr Net Absorption	(26,040) SF
YTD Net Absorption	(52,687) SF
Vacancy Rate	13.12%
Full Service Gross Avg. Asking Rent	(psf/mo).
Island Wide	\$3.12
Class A	\$2.97
Class B	\$3.38
Class C	\$2.89

### Oahu Unemployment Rate (March)

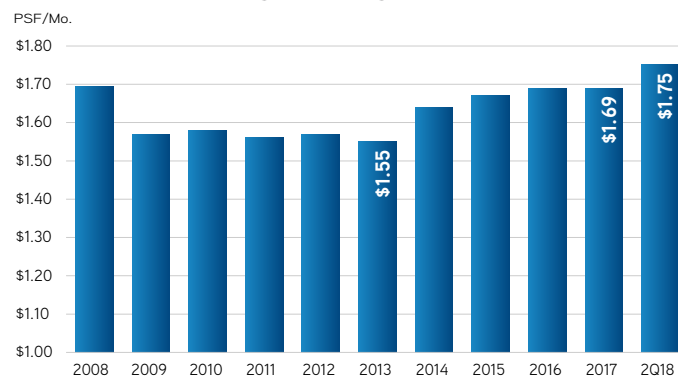


Source: DBEDT

### Oahu Office Net Absorption vs. Vacancy Rate



### Oahu Office Average Asking Base Rents



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## Second Quarter 2018 - 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	68,742	10.11%	4,609	5,186	\$1.61	\$1.66	\$1.09
CENTRAL BUSINESS DISTRICT	53	7,076,119	1,193,411	16.87%	16,810	(30,248)	\$1.41	\$1.59	\$1.29
EAST OAHU	15	468,032	7,444	1.59%	(3,169)	5,778	\$2.18	\$2.36	\$1.54
KAKAAKO / KAPIOLANI / KING	43	3,679,308	398,561	10.83%	(26,653)	(26,892)	\$1.53	\$1.71	\$1.44
KALIHI / IWILEI / KAPALAMA	12	883,227	89,512	10.13%	(13,664)	(5,986)	\$1.50	\$1.56	\$1.13
LEEWARD OAHU	14	719,228	64,102	8.91%	10,740	9,543	\$2.18	\$2.40	\$1.27
WAIKIKI	12	812,027	68,500	8.44%	1,287	2,331	\$1.86	\$2.14	\$1.66
WINDWARD OAHU	8	284,401	25,434	8.94%	(16,000)	(12,399)	\$1.93	\$2.01	\$1.51
<b>TOTALS</b>	<b>161</b>	<b>14,602,258</b>	<b>1,915,706</b>	<b>13.12%</b>	<b>(26,040)</b>	<b>(52,687)</b>	<b>\$1.67</b>	<b>\$1.84</b>	<b>\$1.37</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	4,966,720	865,945	17.43%	35,841	(2,492)	\$1.42	\$1.67	\$1.43
CLASS B	66	6,705,782	678,327	10.12%	(46,952)	(8,224)	\$1.84	\$2.04	\$1.44
CLASS C	81	2,929,756	371,434	12.68%	(14,929)	(41,971)	\$1.54	\$1.66	\$1.29
<b>TOTALS</b>	<b>160</b>	<b>14,602,258</b>	<b>1,915,706</b>	<b>13.12%</b>	<b>(26,040)</b>	<b>(52,687)</b>	<b>\$1.67</b>	<b>\$1.84</b>	<b>\$1.37</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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