Prospects for Oahu's tight commercial anc brighter as a number of

Loosening Up

By Dian

Chances are, if you're a business that's been downtown for several years, your office is getting a bit crowded. Filling up your file cabinets with little room to add new ones? Running out of storage space? Adding desks where there was open space before?

If so, you may at least take comfort in the fact that you're not alone. According to local leasing agents, office space is so tight in Honolulu these days that many companies are foregoing expansion, putting up with their cramped quarters until market conditions improve.

Year after year, Honolulu has been ranked the tightest commercial market in the country by national real estate companies. The past year was no different. According to a survey done by Grubb & Ellis Co., now owned by Locations Inc., the vacancy rate downtown dropped to 2.6 percent in 1989, with Waikiki recording an almost unmeasurable .45 percent.

Two new office buildings that opened in 1989 did little to satisfy the enormous pent-up demand for space. The 253,000-square-foot Pacific Park Plaza office tower on Kapiolani Boulevard opened in April of 1989 and was significantly leased up by the end of the year, six months earlier than the developer's own estimate. The 180,000-square-foot City Financial Tower also opened in 1989 and was completely booked by year's end.

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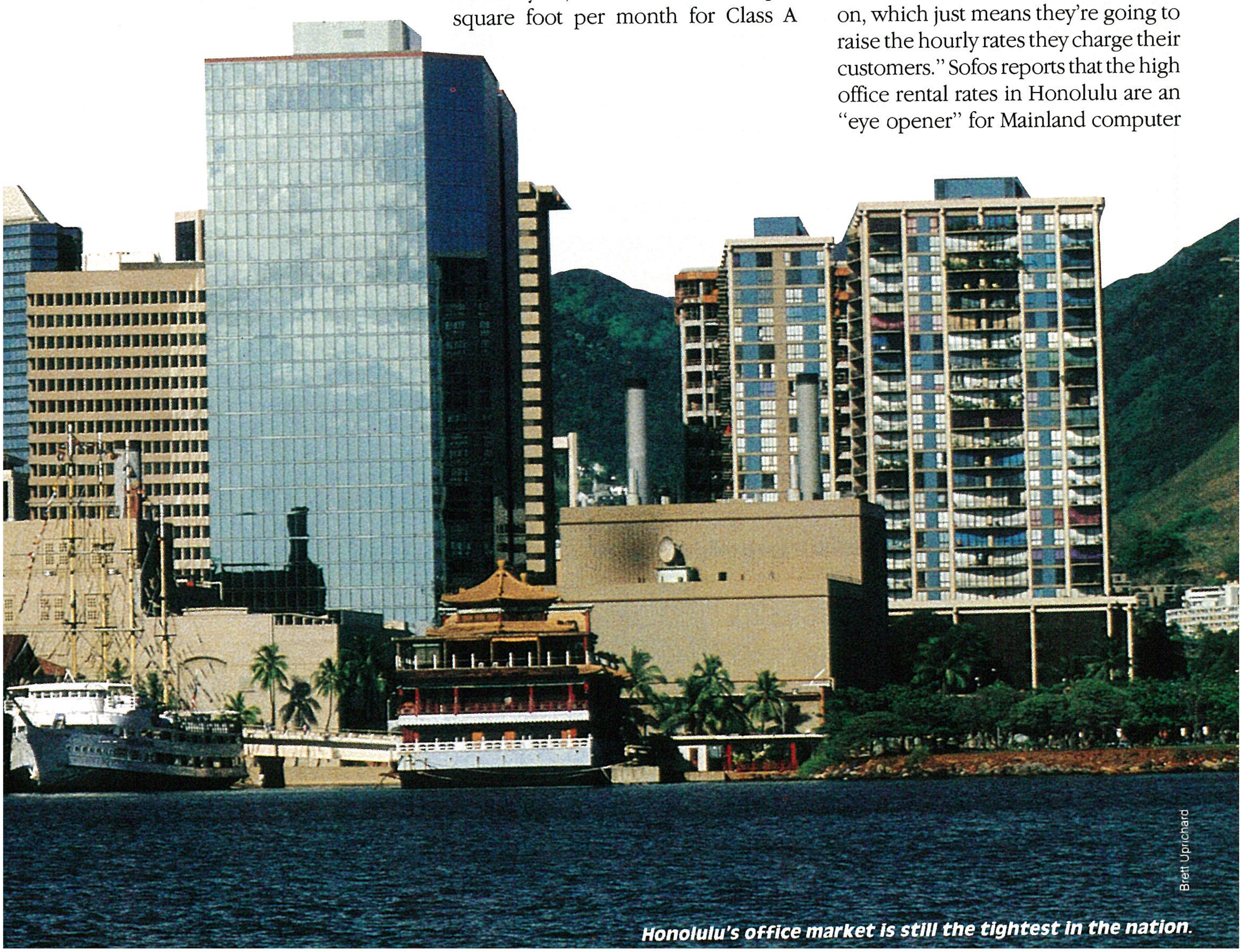
result of a healthy economy, say experts. Oahu's office market is growing steadily with an annual absorption rate that has averaged 340,000 square feet over the past 10 years, according to Chaney, Brooks Realty Inc.

But, for the present, most tenants are paying a price for the "healthy economy." With demand far outstretching supply, prices have continued to rise. Realtor Steve Sofos has seen rental rates jump at least 20 percent in the last year, from $2.25 or $2.35 per square foot per month for Class A building space on a fully serviced basis, to today's prices of $2.75 to $3. Large businesses needing 5,000 square feet or more have found it particularly difficult to find office space.

"Some of the law firms just bite the bullet," says Sofos, "and they'll take it on, which just means they're going to raise the hourly rates they charge their customers." Sofos reports that the high office rental rates in Honolulu are an "eye opener" for Mainland computer



Brett Uprichard

Honolulu's office market is still the tightest in the nation.

Alii Place, *a 328,000-square-foot office/retail complex being built at Alakea, Hotel and Richards streets, is scheduled to open in late 1991.*

companies he deals with. "Instead of looking at taking 2,500 square feet, they'll look at taking 1,500 square feet."

The tight market also leaves tenants feeling disadvantaged when it comes time for renegotiating leases. Landlords assert the upper hand, offering short-term leases and providing little in the way of tenant improvement allowances.

The situation is no better for retail and industrial space. In fact, some realtors say it's worse. Charles "Butch" West, who specializes in leasing retail space for Coldwell Banker, estimates that overall, retail vacancy is less than 3 percent island-wide. In general, base rents run in excess of $2 per square foot, "even in lousy locations," he says. Grubb & Ellis reports that Oahu rental rates for retail space increased an average of 8 to 11 percent in 1989.

Rents along the Kapiolani Corridor are getting so high that they're apparently forcing merchants out. "There's more vacant retail space now in the downtown to Waikiki area than there has been in the last two years because they can't afford it," relates West.

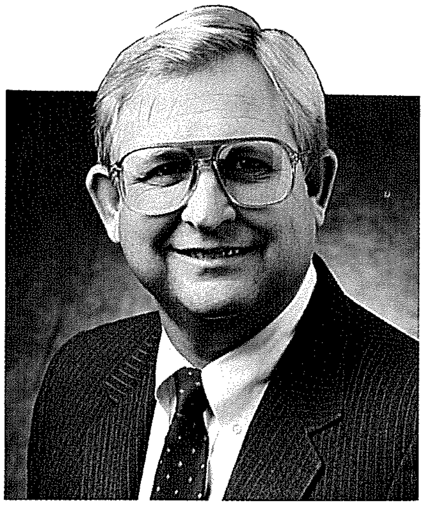
Chaney, Brooks projects nearly 1.7 million square feet of office space in the downtown, Kapiolani and Kakaako areas to begin construction during 1990 to 1992. Says Charlie Robinson, senior vice president/manager of Chaney, Brooks, "The developers we've met with recently who've reviewed our market projections are absolutely astounded by the figures we're showing. And yet every one is a confirmed development site with at least tentative development plans." Projects scheduled for completion in a year or two include:

With the number of buildings under construction, businesses will have many more options when leasing office space in a year or two.

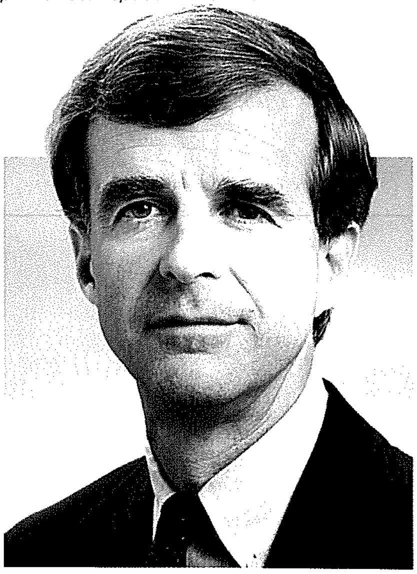
- Pan Pacific Plaza, with 500,000 square feet, being developed on the *mauka* end of Fort Street Mall by the Daniels Company of California.
- Alii Place, a 321,000-square-foot office tower/retail complex, being developed by BetaWest at Alakea, Hotel and Richards streets.
- The 200,000-square-foot, 31-story office building on the former Merchandise Mart site on Alakea and Hotel streets, under development by the Japanese company Tao Kogyo (Hawaii Co., Ltd.).
- The 174,000-square-foot State Office Tower on Beretania Street being built by Hemmeter Corporation for state of Hawaii employees.
- Twin residential condominium towers, bordered by Pensacola, Piikoi, Kamaile streets and Kapiolani Boulevard, being developed by Asahi Jyuken. The project would total more than 900,000 square feet, with 270,000 square feet of office/commercial space and 80,000 square feet of industrial space.

Other developments on the drawing boards to start construction within three to five years include:

- A 220,000-square-foot office tower at the site of the municipal Kaahumanu Parking Garage on the corner of Merchant, Nimitz and Nuuanu streets. The City & County has appointed Beam Harbor Court Partners as developer.
- The 13-acre Aloha Tower Project, a combined office, retail, hotel and ship terminal. The "festival marketplace" development which the city awarded to Aloha Tower Associates calls for a round office tower with 340,000 square feet, as well as two 350-foot condominium towers, a seven-story, 109-room hotel, a 500,000-square-foot maritime facility and 3,070 parking spaces.
- The Pacific Nations Center, a proposed $350-million, 5-acre complex, which has been put out to bid by the city. The mixed-use office, commercial and residential complex would provide 1.2 million square feet of floor area, and is currently comprised of nine individual parcels bordered by Kukui, Queen, Beretania and Fort streets.
- A 26-story office/residential project on the site of the Edward D. Sultan building on Kapiolani Boulevard and the adjacent First Federal Savings and Loan branch. The developer is a Japa-



Charles "Butch" West *of Coldwell Banker: Only foreign-owned businesses can afford prime retail space in Waikiki.*



Fred Veregge of Grubb & Ellis: *As new buildings join the market, landlords will have to offer generous concessions to remain competitive.*

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- An 87,000-square-foot office/commercial facility on the site of the Victoria Station Restaurant on Kapiolani Boulevard, to be developed by Hong Kong motion picture mogul Sir Run Run Shaw.

With all of the new office projects in the works, realtors predict with confidence that the market is going to experience a major reversal after which tenants will have more choice and buying power.

Fred Veregge, district manager of Grubb & Ellis in Hawaii, believes that landlords of the new buildings under construction will offer generous concessions in order to attract tenants. "And because of that, the existing buildings, when people's leases renew, are going to have to do the same, or they're not going to be competitive and they're going to lose tenants," he explains.

Sofos characterizes the changing market as "a glut of office space" becoming available in the next 1 to 1½ years. "At that point it's going to be a real blood bath as far as the building owners are concerned," he claims. However, Sofos does not think that owners will drop rents, but rather offer more concessions, such as free rent for a year, or allowances for tenant improvements. Construction costs have risen so much in recent years that landlords can't afford to lower rents, he says.

Not everyone is predicting a glut in the market, however. Joe Haas, office leasing agent with Coldwell Banker, which is preleasing for Alii Place, projects a vacancy rate of 7.7 percent in 1992, which will level off to 6.8 percent in 1993. Even so, that should still be the lowest vacancy in the nation. "We think it will be a more balanced market, meaning landlords may make better deals and there'll be space if tenants want it. But it won't be a glut; it'll just be nice, a good environment."

One fact everyone agrees on is the greater number of options businesses will have, particularly when considering location. Office submarkets are opening up in Kalihi, Iwilei (particularly with the 135,000-square-foot Dole Office Building), the airport area, Kaimuki and Hawaii Kai. Bedford Properties' Hawaii Kai Towne Center, under construction with completion slated for fall 1991, will offer 218,000 square feet of office space plus 150,000 square feet of retail and 40,000 square feet of restaurant space. Bedford is also developing the Hawaii Kai Executive Plaza—a 42,000-square-foot two-story complex and 7,000-square-foot single-story building, expected to be completed in 1992.

In the Airport Industrial Park, Rokan Partners has announced plans for a three-tower, 615,000-square-foot office project. And Campbell Estate is moving along with development of its 130,000-

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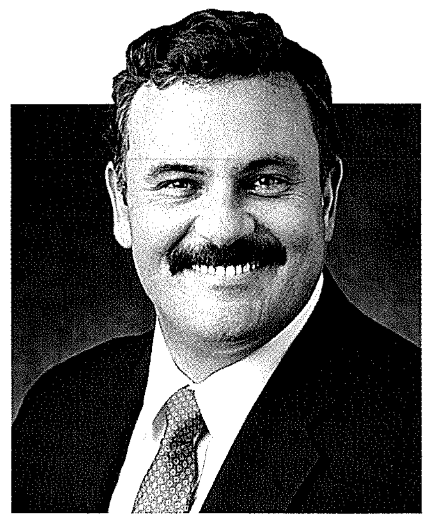

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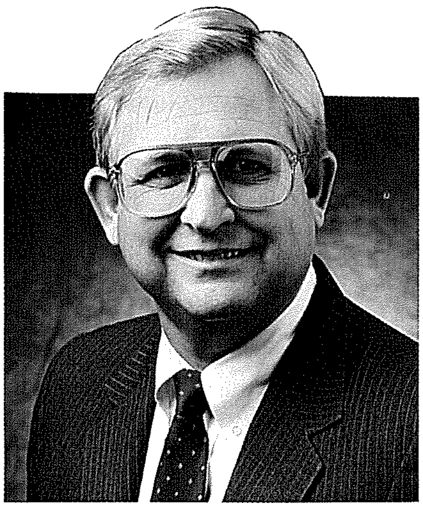

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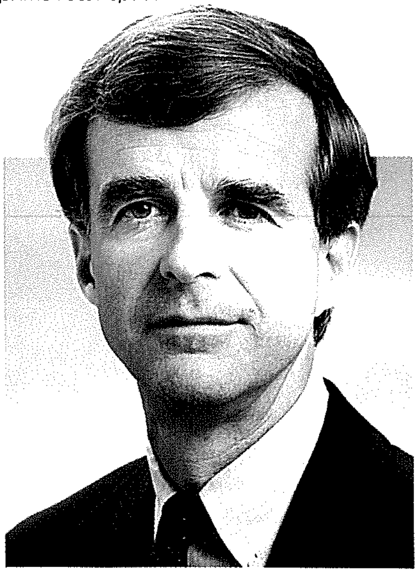

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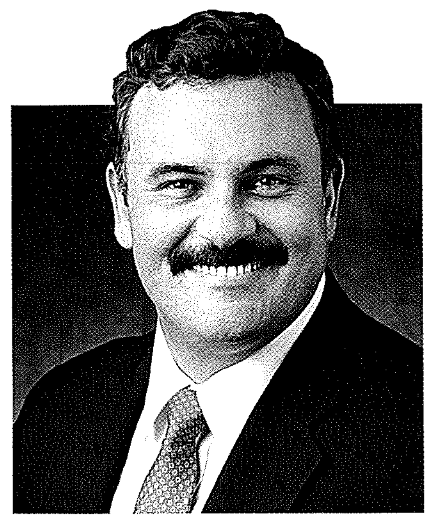

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square-foot two-building office complex in Kapolei, due for completion in fall 1992. Leasing for 85,000 square feet of the complex (the rest to be occupied by Campbell) will begin this summer.

The outlook for the commercial market's other half, namely retail, doesn't look as bright, however. Grubb & Ellis reports that 1990 will see 279,000 square feet of new retail space available on Oahu. The 140,000-square-foot first phase of Campbell Estate's Kapolei Shopping Center, to break ground in August, is already 96 percent preleased.

The Industrial Market: More to Come, but Enough?

Much needed relief is also in sight for Oahu's packed industrial market. With more than a million square feet of new space coming on line this year on Oahu, Grubb & Ellis predicts that lease rates may stabilize and even drop in price in some areas. Several different projects are under way and scheduled for completion this year in the 1,680-acre Campbell Industrial Park, which is 98 percent leased. TDC Hawaii is completing the first phase of a 375,000-square-foot, six-building complex called the Transpacific Industrial Center. Two buildings totaling 125,000 square feet are scheduled for occupancy in July. Also planned for 1990 construction in Campbell Industrial Park are a 137,000-square-foot Hart-Moon development and a 60,000-square-foot Pay'n Save facility. In late 1991, the first 180-acre phase of Campbell Estate's planned 800-acre Kapolei Business Park is slated to open. At about the same time 63 acres of Campbell land will become available for maritime/industrial use.

More industrial space is needed to make up for lands being converted to commercial uses.

Other industrial developments on Oahu this year include:

- A 43,000-square-foot Gentry project at Waipio.
- Wahiawa Industrial Center, a 55,000-square-foot Hawaiian Trust Co. facility.
- The 425,000-square-foot phase II of Hadley-Spector's Airport Industrial Park.
- The 20,000-square-foot Sen Company Kapalama Center, now leasing.
- A 290,000-square-foot Jackson/Hart Complex in Halawa Valley, and approximately 100,000 square feet in Halawa Valley, to be developed by a variety of owners.

In addition, a possible 250,000-square-foot industrial facility on Sand Island Access Road is reportedly on the drawing boards. And Oceanic Properties is renovating a 150,000-square-foot complex in Iwilei, due for completion this summer.

Despite the aforementioned developments, the consensus among realtors and market observers is that much more industrial space is needed to satisfy the current demand and make up for many lands being converted to commercial uses.

"Basically, all of the historical industrial areas from post-World War II have disappeared," says Johnson, citing Kakaako and Kalihi as areas that have become occupied by more commercial than industrial uses. Kahuhipa Street in Kaneohe, Hamakua Drive in Kailua, and the Bougainville area are other examples of locales originally designated for industrial use that are becoming more retail in nature.

City Councilman Leigh Wai Doo, who chairs that body's planning committee, says there is a "tremendous shortage of good industrial land" on Oahu. He points out that landlords are converting their lots to commercial use because they can earn a higher rate of return than with industrial land. "We at the City Council have approved almost every site that has requested industrial designation. I'd be quite happy and willing to rezone or plan more industrial lands for Oahu. But not many people want to take their private lands and have them turned to industrial uses."

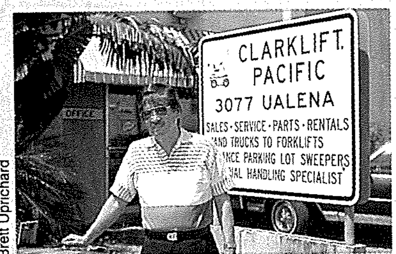
With the overall shortage of industrial and commercial space on Oahu, together comprising just 2 percent of all land on the island, Doo believes that the community should make more efficient use of the land that is already zoned appropriately. The city, he says, should take the lead in infrastructure improvement to make industrial and commercial areas suitable for business use, particularly in the Kakaako, Kalihi, Palama, Mapunapuna and Iwilei areas, and in the stretch from lower Aiea to Waiau.

"The city should be identifying area-wide infrastructure improvements for that redevelopment rather than requiring and expecting the landowner to do it, because in the town areas principally, there are a lot of small landowners that have different time frames. And it would be too much of a burden for any one small landowner to undertake the large infrastructure improvements," says Doo.

Like others, Doo has nothing against developing industrial lands in Leeward Oahu, but he questions how many businesses being forced out of Kakaako can recapture their clientele there. Questions arise from the business owner's and consumer's point of view. "How far are you willing to drive in order to have your car reupholstered?" Doo asks. "Right now you can drive to Kakaako. Five years from now you won't be able to." **$**

Making Room for Airport Expansion

When Eddie Murai moved his business, Clarklift Pacific, to Mapunapuna eight years ago, he never imagined how high the prices for leasing industrial land would soar. He also never expected to have to move out of his Ualena Street location to make room for expansion of Honolulu International Airport.



Brett Uprichard

Eddie Murai

Murai was shocked to learn last November during a meeting with the Department of Transportation's Airport Division that he and several other small businesses on Ualena Street had six months to move out of the area to make room for construction of a cargo handling facility and maintenance yard. "They dropped a bombshell on us," says Murai. Some of the businesses will be able to move back into the four-story building that will contain the cargo handling area. But where they will move in the interim and how much business they will lose during that time remains to be seen.

In all, the DOT's plans will affect 165 small businesses on Ualena Street and on Aolele Street from Lagoon Drive to Paiea Street, most of them industrial in nature. About 40 of them will have to move their businesses to make room for construction. According to DOT deputy director Jeanne Schultz, the state will begin acquisition of the properties in September or October.

The businesses to be affected by the action joined together under the Airport Tenants Association to present their concerns to DOT officials. An association poll found that the 165 businesses bring in about $250 million in annual sales, a figure that surprised and impressed the state, says Murai. "They didn't realize we had that much in business here."

The association's dealings with the state have been worth the effort. According to Murai, the DOT took "second, third and fourth looks" at their plans and has pushed back plans to move the businesses immediately. According to Schultz, businesses will not have to start moving out until 1991. More importantly, the Legislature this session appropriated $125 million to acquire property for the businesses to move to for the duration of their current leases, with the first expiring in 1992. Some businesses may be able to move to land on the former Kapalama Military Reservation recently sold to the state. However, industrial-zoned land is so tight on Oahu that the DOT is still searching for other possible sites.

Meanwhile, the Airport Tenants Association is negotiating with DOT officials for compensation of business lost and moving expenses they will incur. "Each business is different," says Murai, "so we want the state to negotiate with each lessee to determine what is best for each business."

Murai says the state's plans continue to change from week to week or month to month. But, he adds, "the fact that we're still talking makes me feel good." —D.L.