

Yugo Nakamura, Economic Analyst and Researcher

Annual Chg 12-Mo. Forecast

12.2%
Vacancy Rate

4,520
Net Absorption, SF

\$3.37
FSG Asking Rent, PSF/Mo

(Overall, Class "A" Properties)

THE URBAN HONOLULU OFFICE MARKET

The urban Honolulu office market consists of the Central Business District (CBD), Kapiolani and Waikiki and represents 75% of Oahu's Class A & B office market. With such a large share of the market, trends in Urban Honolulu will be reflected in the smaller sub-markets and indicative of the entire Oahu office market. We further define the Urban Market by excluding Class C properties and owner/user buildings.

CENTRAL BUSINESS DISTRICT (CBD)

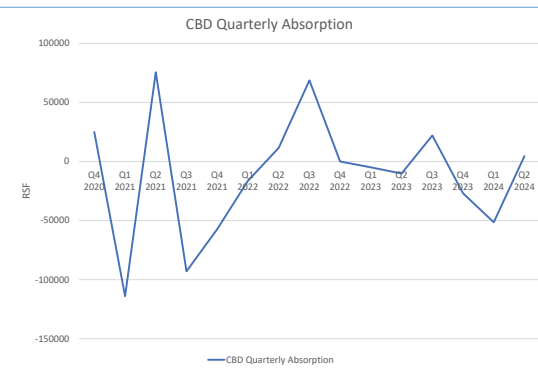
During the first half of 2024, the office market in Honolulu's Central Business District (CBD) experienced a slight tightening, with the vacancy rate for Class A properties lowering to 12.2% by the end of the quarter. This period saw a small increase in Class A office space occupancy of 4,520 square feet. Although there was a collective decline in occupancy for Class A and B properties amounting to 8,814 square feet, this outcome and vacancy level marks a relatively strong showing compared to other U.S. urban office market areas.

The sale of the Davies Pacific Center (DPC) in January 2023, which is in the process of converting most of the office space into Modea condominiums, had a significant impact on the Honolulu office market. Now comes the news that the twin-tower Topa Center is in escrow by the same developer, Avalon Development Company, and their plans for the property include converting one of the 300,000 square foot towers to residential use.

The outlook for Honolulu's CBD office market is one of tightening, with positive repercussions expected for space occupancy in the CBD and the Kapiolani area. Anticipations include a shrinking availability of premier Class A office spaces, a surge in demand for existing spaces, a continued uptick in rental prices spurred by increased demand, potential reductions in office space sizes as businesses adjust to more remote working arrangements, and a lull in the introduction of new office developments in the CBD area.

The 2024 forecast from the Honolulu Urban MarketBeat suggests a continuing decline in office space vacancies within the CBD, with the year-end vacancy rate for Class A spaces projected to fall below 8%.

OFFICE MARKET ABSORPTION (SF)



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Office Q2 2024

KAPIOLANI

The Kapiolani office submarket continues to experience a decline in occupancy, resulting in negative absorption in the second quarter of 2024 totaling 22,607 square feet and an overall vacancy of 27.3%. During this period, the rate of negative absorption slowed by 12,594 square feet, which, while still negative, is viewed positively considering the recent performance in this market. Additionally, the 1500 Kapiolani Avenue property was removed from our survey as it is currently on the market as a redevelopment opportunity and no longer available for lease.

Several factors continue to contribute to the submarket's lease absorption performance. The ongoing preference for remote work among employees is encouraging tenants to downsize their space upon renewal, and the lack of returning Japanese tourism is creating a persistent drag on the local Kapiolani economy.

The expected positive impact of a tightening downtown CBD office market on the Kapiolani office submarket is still about a year away. The combination of limited office inventory, inflation, and this uncertainty has kept rent rates relatively stable. Despite this, the fear of the financial burden associated with unused office space seems to outweigh the optimism of bringing the workforce back to the office.

WAIKIKI

The office market in Waikiki is finally showing signs of life. For the second quarter in a row, we see positive office absorption of 4,757 square feet, bringing the total for the first half of 2024 to 14,216 square feet. However, the Waikiki vacancy rate remains high at 30.7%.

Despite a noticeable recovery in the number of Japanese tourists in 2024, the future of the market is still uncertain. This uncertainty is largely due to the yen's ongoing weakness against the dollar.

Since office occupancy in Waikiki is driven, in part, by Japanese tourists and their preference for arriving in tour groups, we don't expect the Waikiki office market to recover until the yen stabilizes against the dollar and these tour groups return to pre-COVID levels.

DOWNTOWN CBD - CLASS A

PROPERTY	BUILDING SF	TOTAL VACANCY SF	DIRECT VACANCY RATE %	OPERATING EXPENSES (\$/RSF/MO)	ASKING FULL SERVICE GROSS RENTS (\$/RSF/MO)	
745 FORT STREET - TOPA TOWER	302,115	60,098	19.9%	1.78	3.28	3.28
700 BISHOP STREET - TOPA TOWER	270,866	40,388	14.9%	1.78	3.28	3.28
ASB TOWER - BISHOP SQUARE	519,087	133,425	25.7%	1.78	3.33	3.33
PIONEER PLAZA	398,223	73,454	18.4%	1.27	3.57	3.57
MAKAI TOWER - PACIFIC GUARDIAN CENTER	309,168	28,705	9.3%	1.68	3.18	3.33
MAUKA TOWER - PACIFIC GUARDIAN CENTER	309,188	50,583	16.4%	1.68	3.18	3.33
CENTRAL PACIFIC PLAZA	253,382	29,584	11.7%	1.78	3.23	3.33
PAUHI TOWER - BISHOP SQUARE	456,814	35,101	7.7%	1.74	3.29	3.29
CITY FINANCIAL TOWER	180,563	8,839	4.9%	1.62	3.17	3.37
WATERFRONT PLAZA	547,277	58,459	10.7%	1.70	3.55	4.20
ALII PLACE	340,657	2,626	0.8%	1.82	3.32	3.32
HARBOR COURT	214,934	13,549	6.3%	2.01	3.46	3.56
FIRST HAWAIIAN CENTER	379,336	12,874	3.4%	1.56	3.31	3.31
TOTALS	4,481,610	547,685	12.2%	1.71	3.37	3.58

*Rental rates reflect full service asking rents

KAPIOLANI	Qtr Chg	12-Mo. Forecast
21.3% Vacancy Rate	▼	▼
(34,600) 2024 Net Absorption, SF	▼	▲
\$3.98 FSG Asking Rent, PSF/Mo	▲	▲
WAIKIKI CLASS A	YoY Chg	12-Mo. Forecast
31.1% Vacancy Rate	▼	▼
10,042 2024 Net Absorption, SF	▲	▼
\$3.98 FSG Asking Rent, PSF/Mo	▲	▲