MARKETBEAT

HONOLULU URBAN

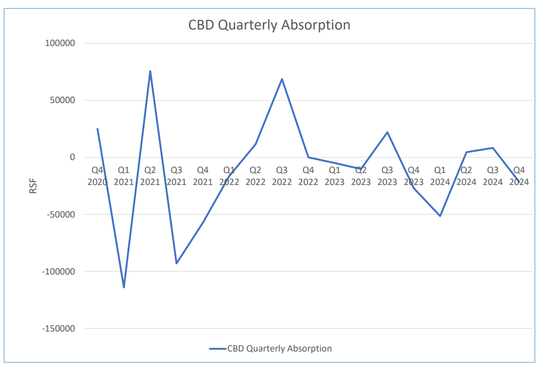
Office Q4 2024

CUSHMAN & WAKEFIELD | ChaneyBrooks

	Annual Chg	12-Mo. Forecast
11.9% Vacancy Rate	▼	▼
72,806 Net Absorption, SF	▲	▲
$3.03 FSG Asking Rent, PSF/Mo	▼	▲

(Overall, 2024 Class "A" Properties)

OFFICE MARKET ABSORPTION (SF)



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Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2023, the firm reported revenue of $9.5 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services.

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)

The Honolulu Central Business District (CBD) office market experienced continued tightening throughout 2024, with the Class A vacancy rate decreasing to 11.9%. However, this figure is slightly misleading. Adjusting for the December sale of Topa Tower to Avalon Commercial, where the Fort Street Tower is being converted to residential use and removed from the survey, the true vacancy rate would be 11.1%. The 0.8% discrepancy highlights the significant impact of this sale on the market.

The Office MarketBeat underscores the transformative effect of the Topa Tower sale, along with the 2023 sale of Davies Pacific Center. Together, these two projects encompass 756,032 rentable square feet—18% of the downtown Class A inventory. With over 500,000 square feet (13% of Class A CBD inventory) slated for residential or non-office conversion, the implications are profound. Currently, the 11.9% vacancy rate reflects approximately 450,000 rentable square feet (RSF) of vacant Class A space in the CBD. As these conversions progress, the vacancy rate could theoretically approach 0%, absent any significant external disruptions.

This quarter saw a net increase in office occupancy within the CBD, with a combined Class A and B occupancy rise of 9,716 square feet. Notably, Class A properties experienced a significant 41,235 square foot increase, driven by tenants upgrading from Class B and C buildings to take advantage of favorable leasing incentives and enhanced amenities. This "flight to quality" aligns with national trends in major urban markets.

LOOKING AHEAD

Honolulu's CBD office market is expected to continue tightening, as the Topa Financial Center and Davies Pacific Center conversions prompt tenants to relocate. The resulting supply reduction will likely drive down vacancies in the Kapiolani submarket and other areas on Oahu. Over the longer term, key trends include:

- Shrinking supply of premier Class A office space
- Increasing competition for remaining inventory, leading to rising rental rates
- Potential downsizing of office footprints as businesses adapt to hybrid and remote work models
- Limited new office development within the CBD

The MarketBeat forecast for 2025 projects Class A vacancy rates to decline to around 9% by year-end, with combined Class A and B vacancy rates staying below 12%. These shifts reflect a significant transformation in the CBD office market, setting the stage for a more competitive landscape in the years ahead.

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KAPIOLANI

In Q4 2024, the Kapiolani office submarket recorded positive absorption of 14,747 square feet, reducing the vacancy rate to 19.7%. This was partly driven by office-to-non-office conversions in the CBD, which tightened market conditions. Additionally, 1500 Kapiolani Avenue was removed from our survey as it is now marketed for redevelopment.

Leasing activity is influenced by limited CBD inventory, remote work trends leading to tenant downsizing, and the slow recovery of Japanese tourism, which impacts the local economy. Despite these challenges, rental rates remain stable due to constrained supply and inflation.

As the downtown market tightens further, Kapiolani is expected to remain a strong option for tenants seeking affordability and flexibility.

WAIKIKI

The office market in Waikiki continues to face challenges, largely influenced by the slow recovery of Japanese tour groups. While there was a modest improvement in 2024, with 6,576 square feet of office space absorbed, the vacancy rate remains significantly high at 31.6%.

Heading into 2025, the market outlook remains uncertain, primarily due to the persistent weakness of the yen against the dollar, which affects Japanese tourism—a key economic driver in the area. Additionally, office tenants in Waikiki are grappling with evolving work trends, as employee preferences for remote work persist alongside challenges within the tourism industry.

As a result, some tenants are downsizing their office space during lease renewals, reflecting both the impact of remote work and technological advancements that continue to reshape the tourism experience in Hawaii. These factors collectively contribute to the ongoing uncertainty in Waikiki's office market.

DOWNTOWN CBD - CLASS A

PROPERTY	BUILDING SF	TOTAL VACANCY SF	DIRECT VACANCY RATE %	OPERATING EXPENSES ($/RSF/MO)	ASKING FULL SERVICE GROSS RENTS ($/RSF/MO	
700 BISHOP STREET - TOPA TOWER	270,866	38,855	14.3%	1.78	3.28	3.28
ASB TOWER - BISHOP SQUARE	519,087	75,578	22.9%	1.78	3.33	3.33
PIONEER PLAZA	398,223	71,072	17.3%	1.74	3.14	3.24
MAKAI TOWER - PACIFIC GUARDIAN CENTER	309,168	33,232	14.9%	1.68	3.18	3.33
MAUKA TOWER - PACIFIC GUARDIAN CENTER	309,188	83,004	23.0%	1.68	3.18	3.33
CENTRAL PACIFIC PLAZA	253,382	31,075	1.8%	1.78	3.23	3.33
PAUAHI TOWER - BISHOP SQUARE	456,814	31,547	4.1%	1.74	3.29	3.29
CITY FINANCIAL TOWER	180,563	2,012	2.9%	1.66	3.21	3.21
WATERFRONT PLAZA	547,277	68,974	4.5%	1.70	3.55	4.20
ALII PLACE	340,657	-	2.9%	1.82	3.32	3.32
HARBOR COURT	214,934	15,674	7.3%	2.01	3.46	3.56
FIRST HAWAIIAN CENTER	379,336	3,870	3.4%	1.56	3.31	3.31
TOTALS	**4,179,495**	**454,893**	**11.9%**	**1.61**	**3.03**	**3.15**

*Rental rates reflect full service asking rents

KAPIOLANI — Qtr Chg | 12-Mo. Forecast

19.7%
Vacancy Rate

18,931
2024 Net Absorption, SF

$3.42
FSG Asking Rent, PSF/Mo

WAIKIKI CLASS A — YoY Chg | 12-Mo. Forecast

32.2%
Vacancy Rate

(1,006)
2024 Net Absorption, SF

$3.82
FSG Asking Rent, PSF/Mo