

FIGURES | HAWAII OFFICE | Q4 2022

Honolulu Office: Economic Headwinds Cause Slowdown in Q4

▲ 12.7%

Vacancy Rate

▲ 14.2%

Availability Rate

▼ \$3.05

Average Gross Asking Rent (\$/SF/Mo)

▼ (63,168)

SF Net Absorption

Note: Arrows indicate change from previous quarter.

Honolulu sees first quarter of negative net absorption in 2022

- 2022 saw 26,465 sq. ft. of negative Net Absorption, snapping a six-quarter streak of positive absorption dating back to Q3 2021.

Vacancy Rates & Availability Rates on the rise

- The Vacancy rate and Availability rate both increased slightly in Q4 across all submarkets.

Asking Rents tick down

- The average gross asking rents stabilized decreasing slightly from \$3.07 in Q3 to \$3.05 in Q4, still above \$3.03 from the start of the year.

FIGURE 1: Hawaii Office Market Distribution



Source: CBRE Research, Q3 2022.

Market Overview

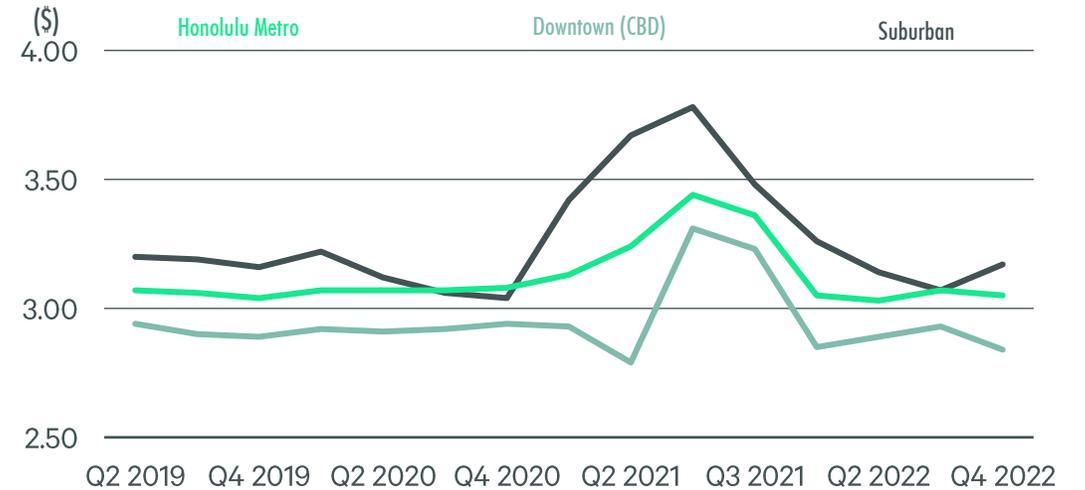
Inflation is still rampant in the US; however, the increase in the CPI has been decelerating due to improved supply chains, lower energy prices, and higher interest rates, which are curtailing demand for housing and autos. Consequently, the Federal Reserve continues its aggressive tightening program. The pace of recent rate hikes has been the most dramatic in decades and this has increased volatility in the financial markets. Sharply reduced expectations of earnings growth in 2023, means that firms are looking to cut costs, helping to fulfill recessionary prophecies.

Q4 marked the first time Oahu experienced negative absorption in 2022, mostly due to two moveouts that occurred Downtown. Vacancy and availability both increased and asking rent rates declined while Operating Expenses ticked up slightly, increasing only \$0.01 quarter-to-quarter. Increasing availability aligns with a trend occurring in office markets across the country as virtual work continues to impact occupancy rates and the US appears to entering a mild recession.

The vacancy rate and the availability rate both increased quarter over quarter, with much of the increase coming from new vacancies coming to market in Downtown. In addition to Downtown, many of the suburban markets also experienced negative net absorption. While downtown has experienced two straight quarters of negative net absorption, existing office product could soon be converted to a residential use, which could drastically decrease the total available space in the CBD. Despite a slower end to the year, 2022's 35,548 sq.ft. of negative net absorption is still drastically less than the negative 132,000 sq.ft. in 2021 and the negative 343,000 sq.ft. in 2020, indicating that Honolulu's office market is stabilizing.

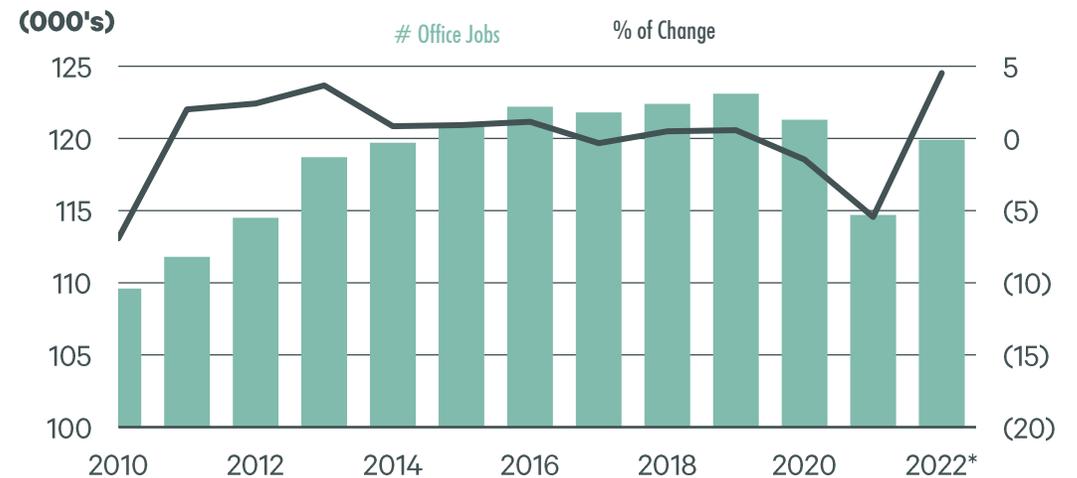
Office employment in Hawaii continues to rebound. Employment figures through November show very positive job growth in Office sector jobs for the year in what could be an indicator of jobs returning to pre-pandemic levels by year end. While job growth has yet to rebound to peak levels of 2019, the positive trends are indicators that office users are adjusting to the new normal. Economic headwinds may stifle growth at some companies, Hawaii's economy is uniquely positioned to withstand a downturn. Forecasts by 'The Economic Research Organization at the University of Hawaii' states that "If the US enters a modest recession as we expect, Hawaii could still avoid one. While the US is the main source of Hawaii tourists, international visitors are just beginning to return in larger numbers. Returning visitors from Japan and other international markets may partially insulate Hawaii from a US downturn."

FIGURE 2: Gross Asking Rates



Source: CBRE Research, Q4 2022

FIGURE 3: Office Job Growth



Source: DBEDT, 2022

*Through August

Lease Rates

Average Gross asking rents decreased slightly from \$3.07 in Q3 to \$3.05 in Q4 2022, returning to where they started 2022 after moving slightly up or down each quarter. Suburban market asking rents increased from \$3.07 to \$3.17 in Q4 higher quality space outside of the urban core becomes scarce and desirable by tenants who do not want to be in Downtown. Downtown rents decreased from \$2.93 in Q3 to \$2.84 in Q4, returning closer to where they were in the first half of the year. Average Operating Expenses saw a \$0.02 increase this quarter to \$1.55, the highest on record.

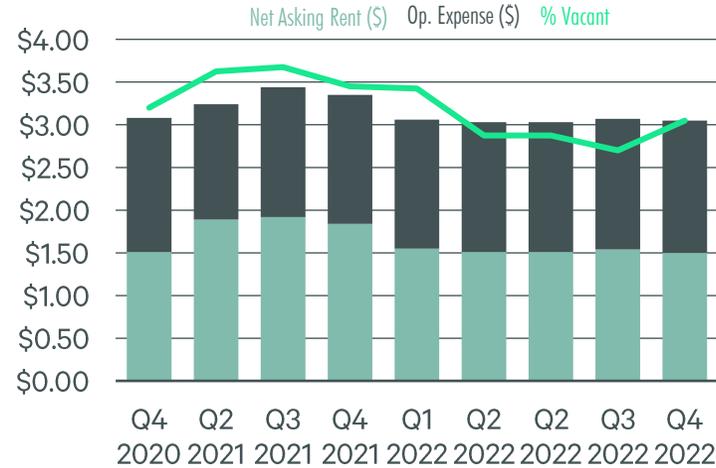
Availability & Vacancy

The office vacancy rate increased quarter to quarter for the first time in 2022 from 10.8% in Q3 to 12.7% in Q4, largely due two larger blocks of space becoming vacant Downtown at American Savings Bank Tower and Pacific Guardian Center – Mauka Tower. Every submarket experienced an increase in Vacancy, albeit minor changes across the board. The availability rate also increased from 12.9% to 14.2% still a tick below the average availability rate for the year at 14.3%

NET ABSORPTION

Q4 marked the first time Oahu experienced negative absorption in 2022, negative 63,168 sq. ft., largely due to two moveouts in downtown accounting for nearly 50,000 sq.ft. of space given back. Downtown experienced the most negative absorption followed by Kapiolani and Central Oahu with 26,465 sq.ft., 13,622 sq. ft., and 8,897 sq. ft. of negative net absorption, respectively. Both East Oahu and East Honolulu were the only submarkets to experience positive net absorption. Despite positive absorption in Q1-Q3, Oahu finished 2022 with 35,548 sq. ft. of negative net absorption, although still significantly less than what the market experienced in 2020 and 2021.

FIGURE 4: CAM & Asking Rates



Source: CBRE Research, Q4 2022.

FIGURE 5: Submarket Vacancy %

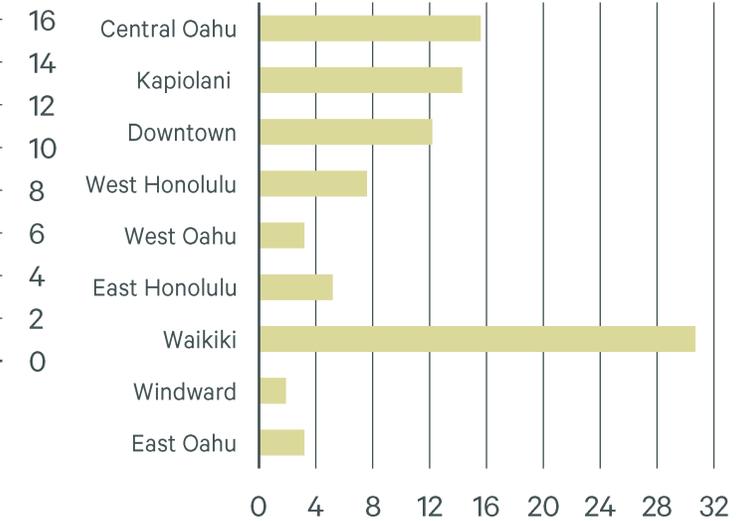
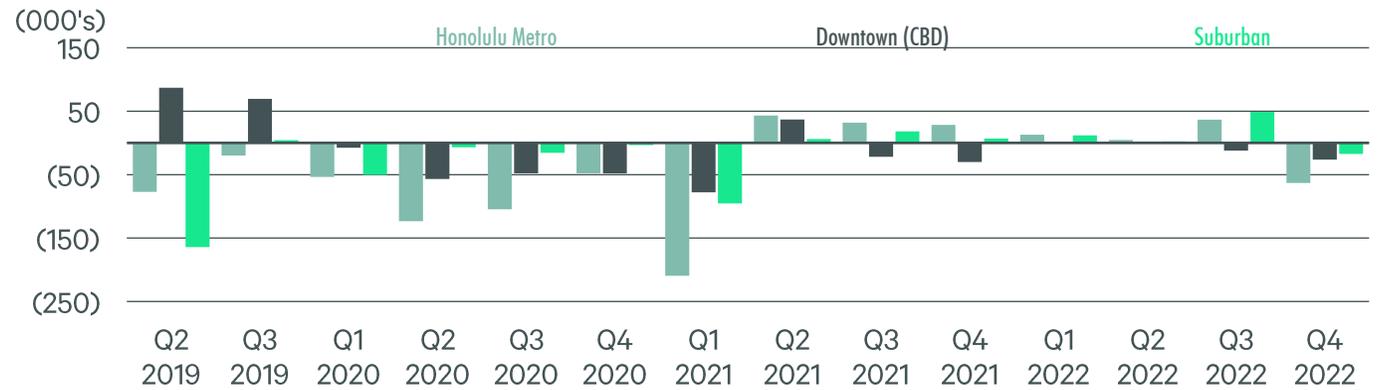


FIGURE 6: Historic Net Absorption (Sq.ft)



Source: CBRE Research, Q4 2022.

FIGURE 6: Market Statistics

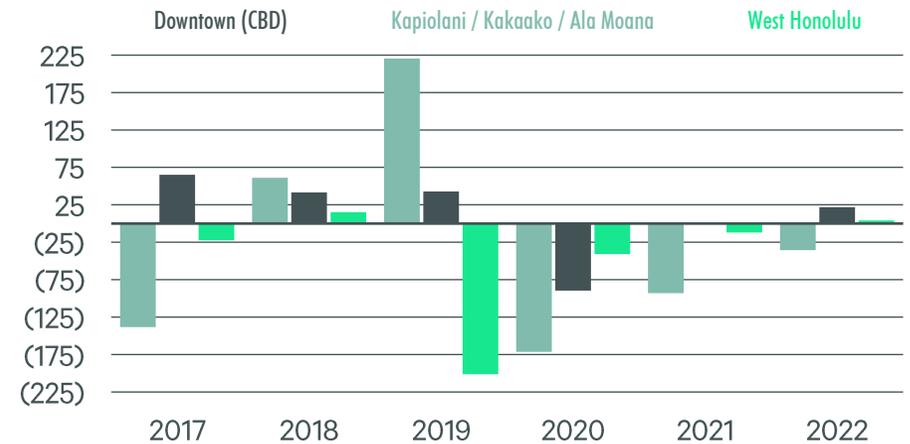
Submarket	Net Rentable Area (Sq.Ft)	Vacant (Sq.Ft)	Vacancy Rate (%)	Availability Rate (%)	Operating Expenses (\$/SF/Mo)	Low Gross Rent (\$/SF/Mo)	High Gross Rent (\$/SF/Mo)	Average Gross Asking Rent (\$/SF/Mo)	Q4 2022 Net Absorption (sq.ft)
Downtown (CBD)	5,172,139	631,896	12.2%	13.7%	\$1.45	\$2.75	\$2.93	\$2.84	(26,465)
Kapiolani	2,475,055	353,909	14.3%	16.3%	\$1.76	\$3.43	\$3.56	\$3.50	(13,622)
Waikiki	457,363	140,186	30.7%	31.5%	\$1.79	\$2.84	\$3.14	\$2.99	(2,454)
East Oahu	183,348	5,822	3.2%	5.9%	\$2.10	\$3.62	\$4.36	\$3.99	1,694
East Honolulu	130,403	6,764	5.2%	10.6%	\$1.14	\$2.18	\$2.80	\$2.49	435
West Honolulu	1,265,214	96,421	7.6%	7.4%	\$1.16	\$2.37	\$2.58	\$2.48	(3,651)
Central Oahu	328,155	51,355	15.6%	19.9%	\$1.27	\$3.09	\$3.81	\$3.45	(9,659)
West Oahu	327,624	71,208	21.7%	21.7%	\$1.63	\$3.39	\$3.48	\$3.43	(8,897)
Windward	123,114	2,282	1.9%	1.9%	\$1.48	\$3.03	\$3.03	\$3.03	(549)
Oahu	11,120,851	1,417,230	12.7%	14.2%	\$1.55	\$2.95	\$3.15	\$3.05	(63,168)

Source: CBRE Research, Q4 2022

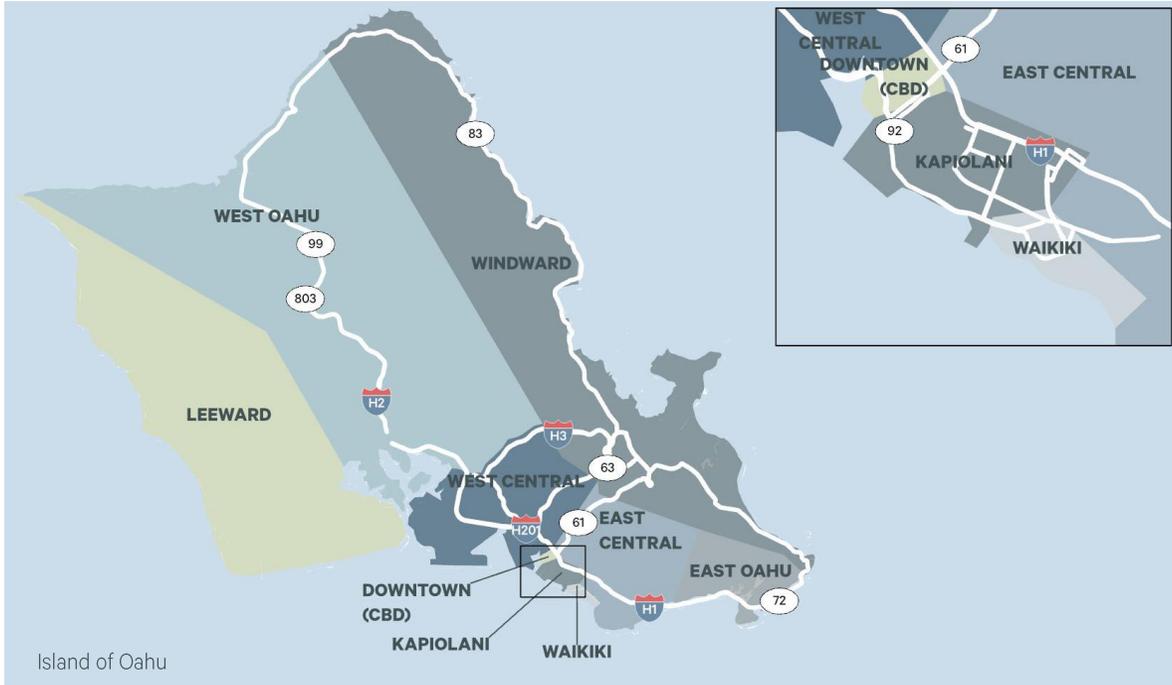
FIGURE 7: Historical Net Absorption Top 3 Submarkets by NRA (Sq. Ft.)

Year	Downtown (CBD)	Kapiolani / Kakaako / Ala Moana	West Honolulu
2017	(138,422)	65,913	(22,414)
2018	61,088	41,635	15,171
2019	220,578	42,843	(201,391)
2020	(171,416)	(89,547)	(40,829)
2021	(93,021)	128	(43,582)
2022	(26,465)	(13,622)	(3,651)

FIGURE 8: Historical Net Absorption Top 3 Submarkets by NRA (Sq. Ft.)



Market Area Overview



Survey Criteria

Market coverage includes Oahu multi-tenant Class A and Class B office buildings 20,000 sq. ft. and larger located within defined submarkets, and 40,000 sq. ft. and larger in the CBD. It excludes condominium and medical office buildings and government-owned office buildings.

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