

FIGURES | HONOLULU MULTIFAMILY | Q1 2024

# Multifamily fundamentals moderating, but remain healthy

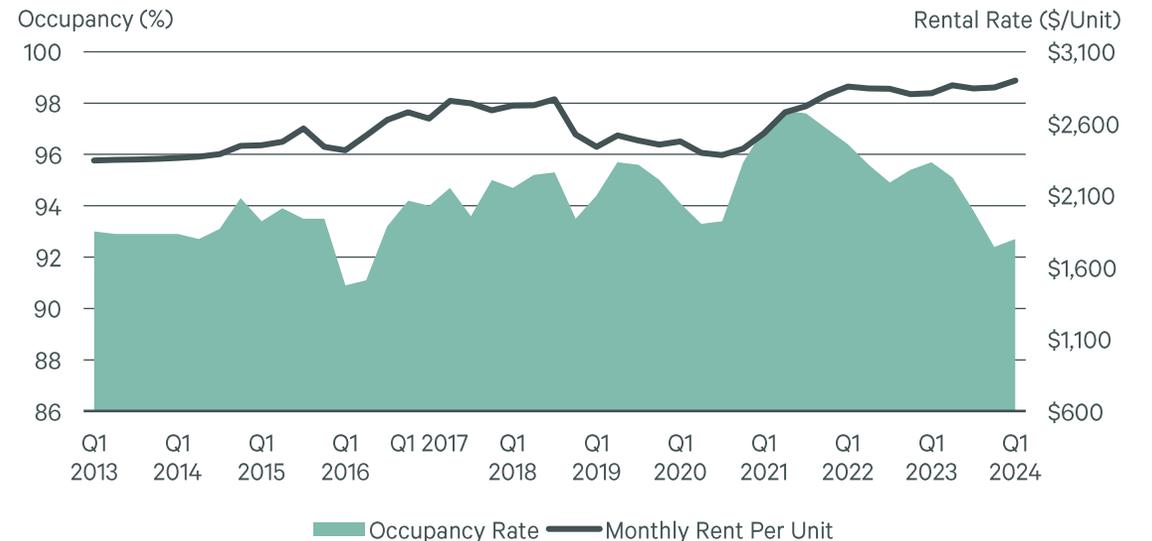


Note: Arrows indicate change from previous quarter unless otherwise indicated.

## MARKET SUMMARY

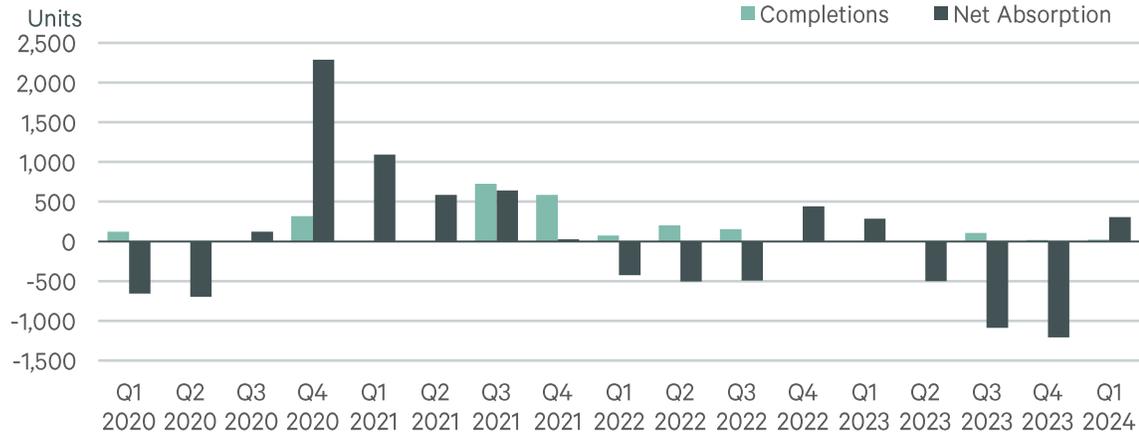
- The overall occupancy rate increased 30 basis points (bps) to 92.7% in Q1 2024.
- The average effective rent increased \$47 to \$2,899 per unit which represents a 3.0% increase on a year-over-year basis.
- Development activity remains muted with just 23 new units delivering in Q1 2024. This will increase, but supply pressures are minimal with fewer than 2,000 units underway and expected to deliver over the next two years.
- In the near-term, supply and demand dynamics will allow vacancy rates to drift higher and rent growth will remain muted as property owners forgo rent increases to grow or preserve occupancy.
- Demand-side tailwinds such as population and income growth, higher cost of home-ownership and a pullback in new developments breaking ground, will support healthy fundamentals over the medium- and long-term.

FIGURE 1: Occupancy and Average Asking Rental Rate



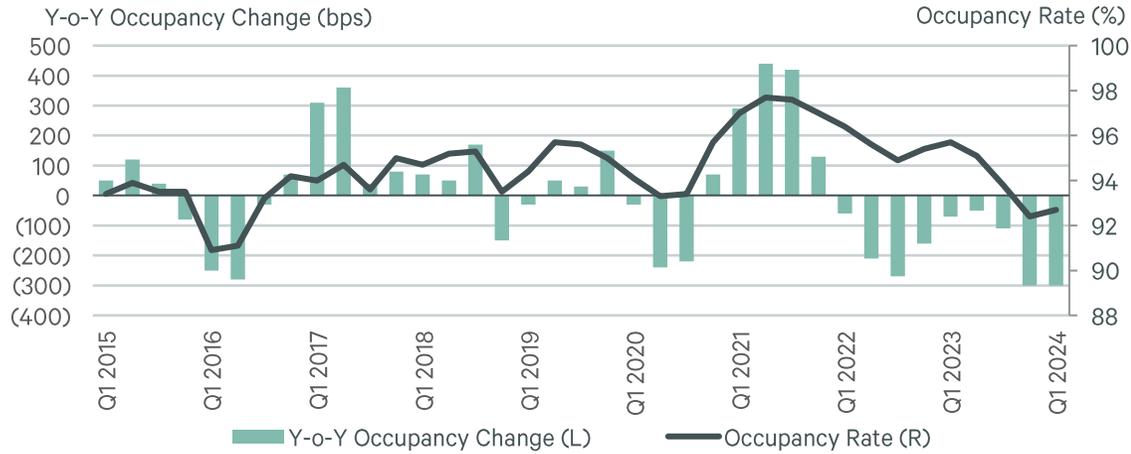
Source: CBRE Research, CBRE Econometric Advisors, Q1 2024.

FIGURE 2: Completions and Absorption



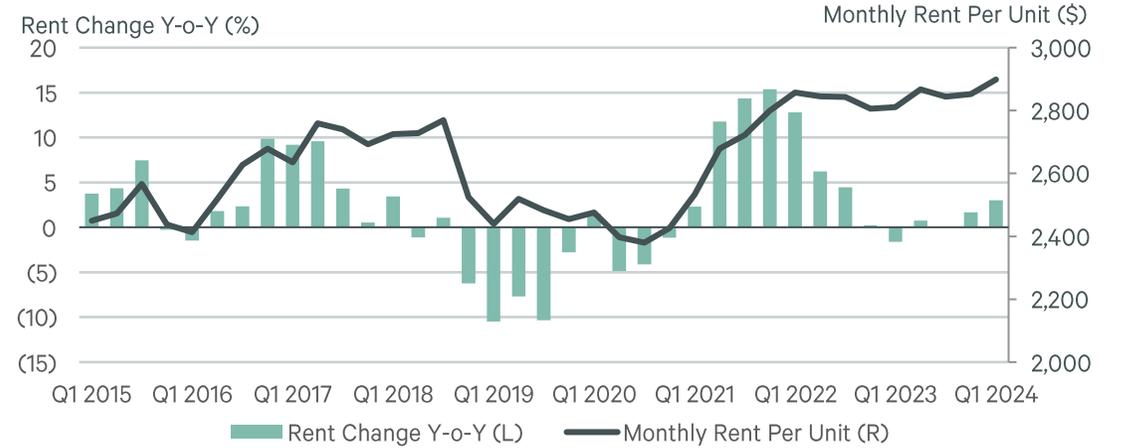
Source: CBRE Research, CBRE Econometric Advisors, Q1 2024.

FIGURE 3: Occupancy Rate Change Year-over-Year



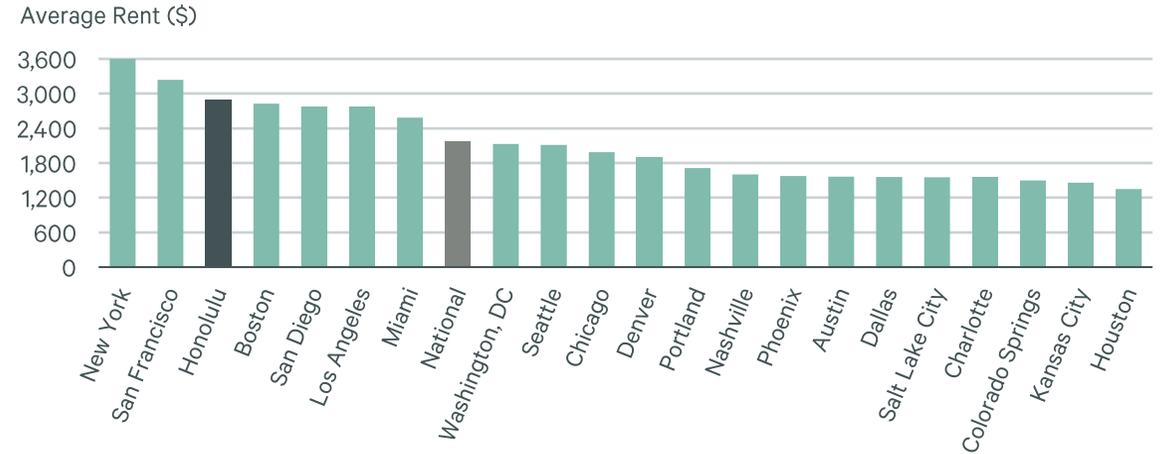
Source: CBRE Research, CBRE Econometric Advisors, Q1 2024.

FIGURE 4: Rent Change Year-over-Year



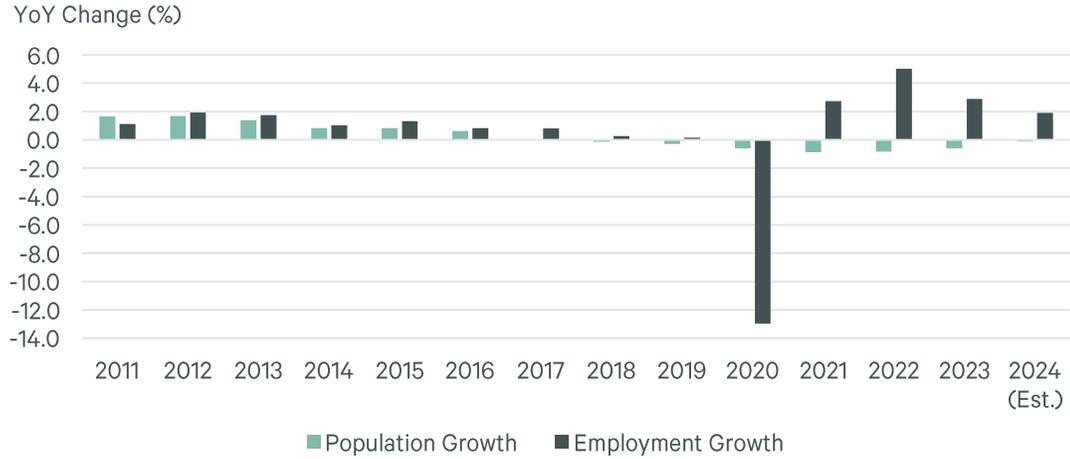
Source: CBRE Research, CBRE Econometric Advisors, Q1 2024.

FIGURE 5: Average Net-Effective Rent By MSA



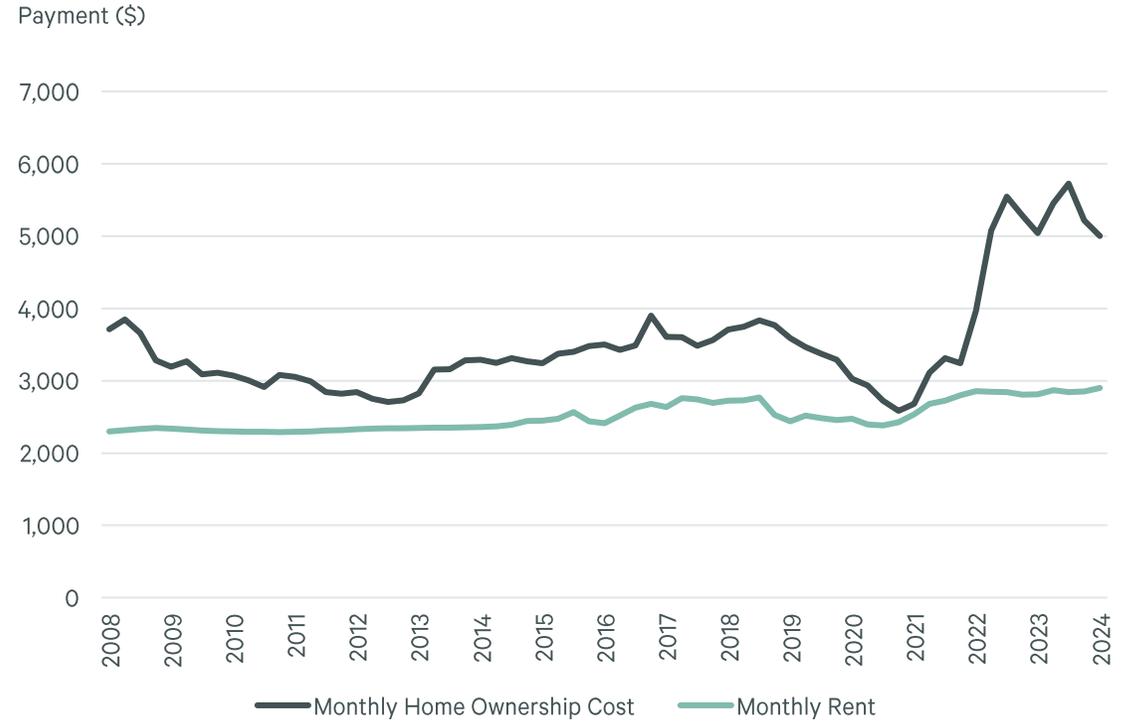
Source: CBRE Research, CBRE Econometric Advisors, Q1 2024.

FIGURE 6: Changes Over Time in Two Key Drivers of Demand



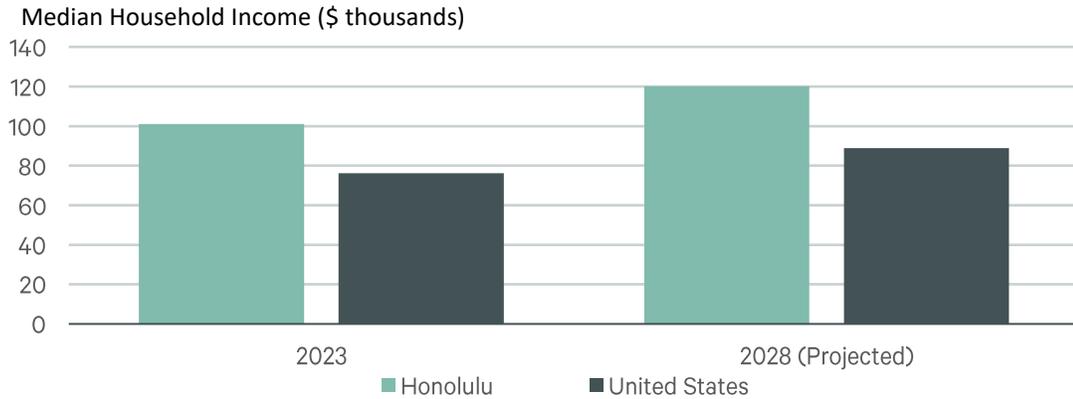
Source: CBRE Research, Oxford Economics, Q1 2024.

FIGURE 8: Monthly Rental Payment vs. Monthly Mortgage Payment for a Newly Purchased Home



Source: CBRE Research, CBRE Econometric Advisors, Freddie Mac, U.S. Census Bureau, Realtor.com®, FHFA, Q1 2024.

FIGURE 7: Median Household Income and National Comparison



Source: CBRE Research, Oxford Economics, Q1 2024.

FIGURE 11: Market Statistics by Submarket

SUBMARKET	Inventory (Units)	Vacancy Rate (%)	Absorption (Units)	Avg. Rent (\$/Unit)	Avg. Rent (\$/SF)	YoY Rent Growth (%)	YTD Net Absorption (Units)	YTD Deliveries (Units)
Central Honolulu	65,165	5.4	-97	2,672	4.21	1.2	-97	23
Outer Honolulu	22,543	7.9	110	2,972	2.98	3.6	110	0
<b>Total: Honolulu</b>	<b>87,685</b>	<b>7.3</b>	<b>306</b>	<b>2,889</b>	<b>3.06</b>	<b>3.0</b>	<b>306</b>	<b>23</b>

## Market Overview & Outlook

### Honolulu Rents and Rent Growth

Although rent growth is down significantly from its 2021 peak, Honolulu has managed to maintain positive year-over-year rent growth since 2020 with on quarter of negative growth (Q1 2023). At 3.0% in Q1 2024, Honolulu outpaces the national average of just 0.4%. For broader context, the pre-pandemic average U.S. rent growth was 2.7% annually between 2015 and 2019. Honolulu ranks among the most expensive rental markets in country. With an average effective monthly rent of \$2,889, Honolulu represents a 13.2% premium when compared to the U.S. average. That said, as noted later, with higher incomes, Honolulu ranks similarly for affordability as other higher-cost markets.

As additional units are delivered throughout 2024 and 2025, occupancy is expected to drift lower, suppressing rent growth over the short-term as property owners forgo rent increases in favor of maintaining occupancy. Looking further ahead, Honolulu’s multifamily market will rely on the durable demand-side tailwinds such as population and income growth, higher cost of home-ownership and pullback in new developments. CBRE expects these underpinnings will support strong fundamentals over the medium- and long-term.

### Affordability and Incomes

Although Honolulu rents are 31.7% higher than the national average, median household income remains 32.8%. And like many other highly desirable markets with rent-to-income ratios above 30% (e.g. San Diego, Los Angeles, Orange County, Boston, Seattle etc.), most of them have been above this threshold for many years and simply offer their residents additional value that makes it worth paying the premium. Additionally, economists believe that Honolulu’s income growth will outpace the U.S. average over the next five years which will support favorable rent growth as economic conditions improve.

Source: CBRE Research, Real Page Inc., Q1 2024.

### Supply, Demand, and Occupancy

Supply and demand dynamics are struggling to maintain balance as renter demand remains negative for a third consecutive quarter. Honolulu’s multifamily inventory will grow by fewer than 2,000 units over the next two years—which, by comparison, is nearly twice the typical pace. That said, these units only represent a 2.2% growth in inventory, well below the national average and many high-supply markets.

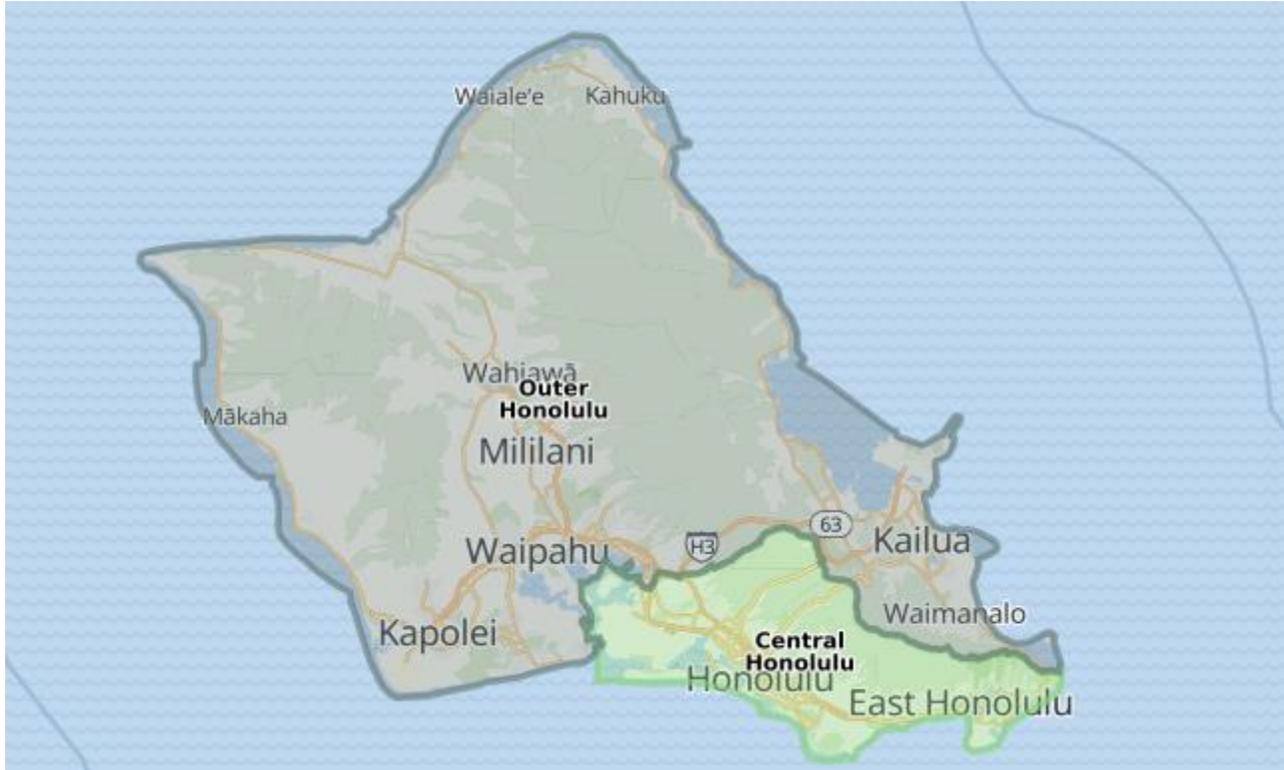
Although Honolulu posted one of the country’s lower occupancy rates (92.7%) in Q4 2021 as households migrated away from the expensive markets and flooded into “Zoom towns” across the country, this is typical for Honolulu where occupancy rates average below a 94%.

### Drivers of Demand

Historical data was gathered on dozens of variables thought to be significant drivers of multifamily demand to explain variation in renter demand over time and across markets. Many variables are familiar, such as job growth, the cost of owning vs. renting, mortgage rates and homeownership. Others were less common, such as the average age at marriage and first childbirth; urban livability metrics; population density; healthy living scores; and commute rankings & public transit scores.

The results reveal that while some of these inputs help explain renter demand at the margin, one thing is clear—job growth reigns supreme. Completions are also a strong indicator of demand. Developers have the pulse of renters in their cities and regions and they build where people want to live. Completions also represent the capacity for future growth, and like many other markets, Honolulu developers remain confident that housing demand will continue growing at a measured pace.

### Market Area Overview



Blair Bonnucelli

Managing Director

[Blair.Bonnucelli@cbre.com](mailto:Blair.Bonnucelli@cbre.com)

Zach DiSalvo

Associate Research Director

[Zach.disalvo@cbre.com](mailto:Zach.disalvo@cbre.com)

Maggie Lui

Field Research Analyst

[Maggie.lui@cbre.com](mailto:Maggie.lui@cbre.com)

Matt Vance

Senior Director – Head of Multifamily Research, Senior Economist

[matthew.vance@cbre.com](mailto:matthew.vance@cbre.com)

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