Colliers

Hawaii | Oahu

# Office

# 21Q1

"There are rough waters ahead, but being optimistic, there are also opportunities presenting themselves for office users.  We will see an increase in tour activity and lease transactions from companies looking to modify their occupancy and location in the coming months."

**Neal Hafner (S)** | Senior Associate

Accelerating success.

Colliers

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## Key Takeaways

- Dramatic loss of occupancy for the first three months of 2021
- Vacancy rates rose to 12.69%, a 110 basis point increase from Q4 2020
- Office sector lost 7,500 jobs during the past year
- Market forecasted to weaken through 2021

**Vacancy Rate** 12.69% — YOY ▲ FORECAST ▲

**Net Absorption** -161,460 SF — YOY ▼ FORECAST ▼

**Under Construction** 0 SF — YOY — FORECAST —

**Overall Class A Full Service Asking Rate:** $3.03/SF — YOY — FORECAST ▼

## Office Market Suffers Record Losses

At the outset of the pandemic, many of Oahu's businesses were forced to shutter their offices as a result of government mandated shelter-in-place requirements. More than a year later, many offices are still not fully occupied due to the Center for Disease Control's ("CDC's") 6-foot social distancing requirement. As a result, Oahu's office market posted a first quarter loss of 161,460 square feet of occupancy. This decline in net absorption exceeded even the worst quarterly performances that were reported during the Great Recession of 2008. In addition, Oahu's island-wide office vacancy rate broke the record for quarter-over-quarter increases, jumping from 11.58% to 12.69% for first quarter 2021.

On February 25, 2021, Honolulu Mayor Blangiardi announced that the City and County of Honolulu would move from Tier 2 to Tier 3 of the City's Reopening Strategy. While many retail businesses are allowed to operate at full capacity under Tier 3, business offices are still being encouraged to work remotely. Uncertainty remains for these businesses, as they are still unsure when it will be safe for their offices to begin to welcome back all of their workers.

## Market Indicators

**8.8%** Unemployment Rate: January 2021

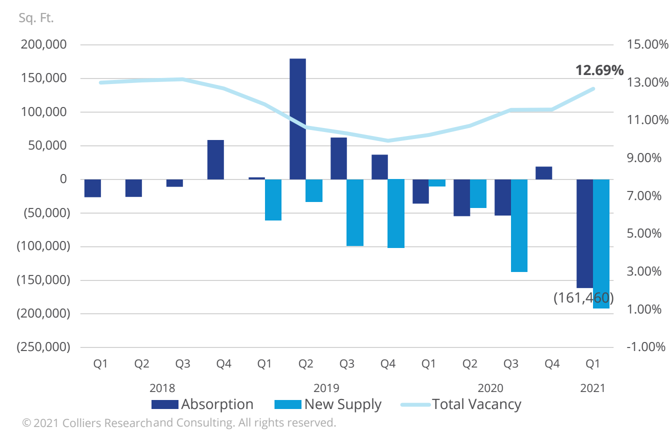
**79,200** Office Jobs: January 2021

**398,200** Non-Ag Wage and Salary Jobs: January 2021

## Historic Comparison

| | 20Q1 | 20Q4 | 21Q1 |
|---|---|---|---|
| Total Inventory (in Thousands of SF) | 14.297 | 14.119 | 13.927 |
| New Supply (in Thousands of SF) | - | - | - |
| Net Absorption (in Thousands of SF) | -46,938 | 19,283 | -161,460 |
| Overall Vacancy | 10.22% | 11.58% | 12.69% |
| Under Construction (in Thousands of SF) | 0 | 0 | 0 |
| Overall Asking Lease Rates (NNN) | $1.75 | $1.79 | $1.77 |

## Oahu Office Market Statistics 1Q2021






## Recent Transactions

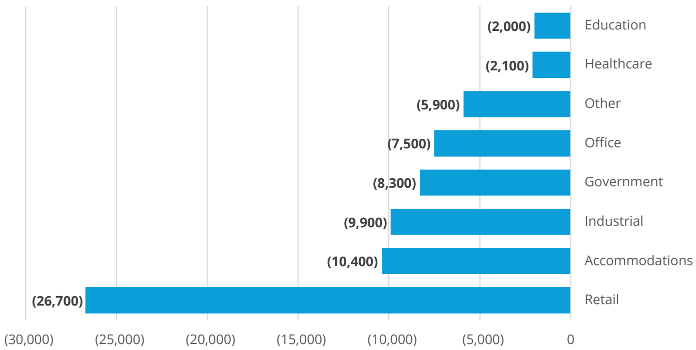
**Sale**
Honolulu Club Building
Honolulu | $21mm

**Sale**
Melim Building
Honolulu | $23mm

**Sale**
State Farm Building
Mililani | $10mm

## Job Growth Remains Elusive

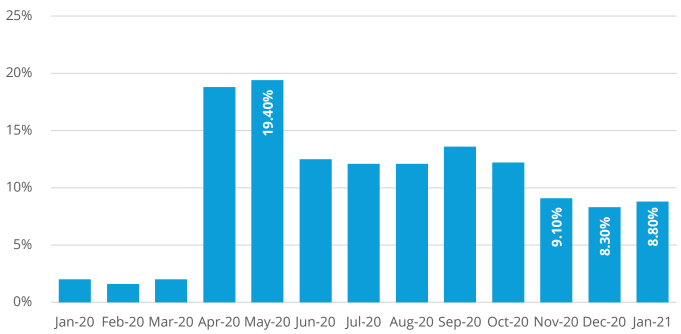
**2020 vs. 2021 January**
**YOY Job Gains/Losses**




Source: Dept. of Business Economic Development and Tourism

The pandemic's impact has been far-reaching as every major job category reported a loss of positions during the past year. The government's actions to curtail the spread of COVID-19 by shutting down businesses and enforcing CDC social distancing requirements adversely affected major sectors of Oahu's economy. Between January 2020 and January 2021, Oahu lost 72,800 positions, with those in the hospitality and retail sectors suffering the greatest number of job losses.

**Oahu Monthly Unemployment Rate**

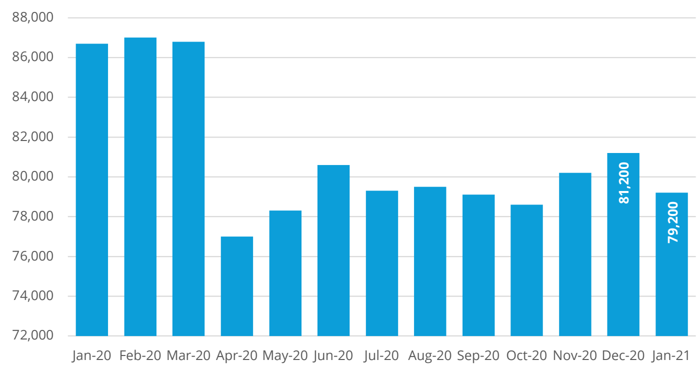



Source: Dept. of Business Economic Development and Tourism

Oahu's unemployment rate rose to a record high of 19.4% in May 2020, then generally declined during the subsequent eight months. Unfortunately, at 8.8%, the unemployment rate for January 2021 still remains higher than any other pre-pandemic monthly period.

For Oahu's office market, each office job is equivalent to roughly 140 to 150 square feet of occupancy. Should these job losses become permanent, this could potentially equate to a loss of over 1.0 million square feet of office tenancy. There is hope that these office layoffs are temporary, and as the economy recovers, office jobs will hopefully quickly rebound as well.

**Monthly Office Job Counts**

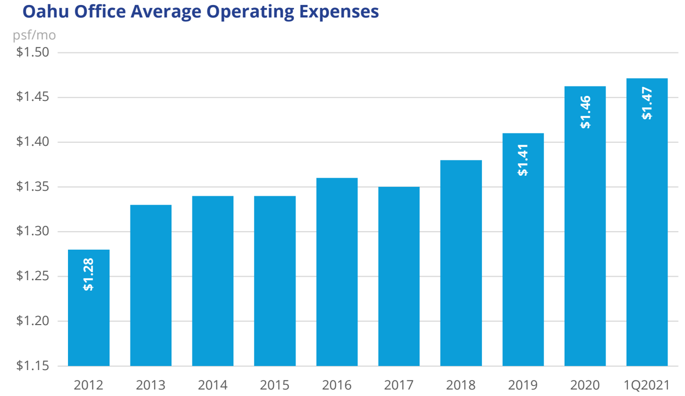



Source: Dept. of Business Economic Development and Tourism

## Building Operating Expenses Surge

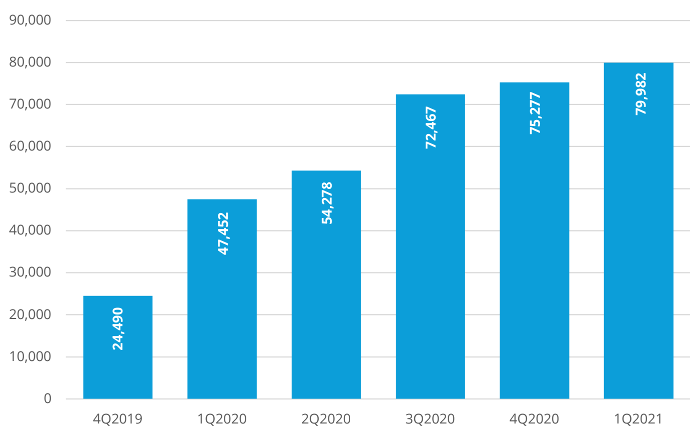
During the past five quarters, the average office building operating expense grew from $1.41 per square foot per month ("psf/mo") to $1.47 psf/mo. Much of this growth is associated with the increased costs of implementing COVID-19 security and sanitation measures. From elevator and entryway signage to the installation of new air filters, building managers are doing all they can to ensure the safety of their tenants and to prepare for increased re-occupancy.

**Oahu Office Average Operating Expenses**



# Office Market Indicators Begin to Stabilize

**Sublease Space**

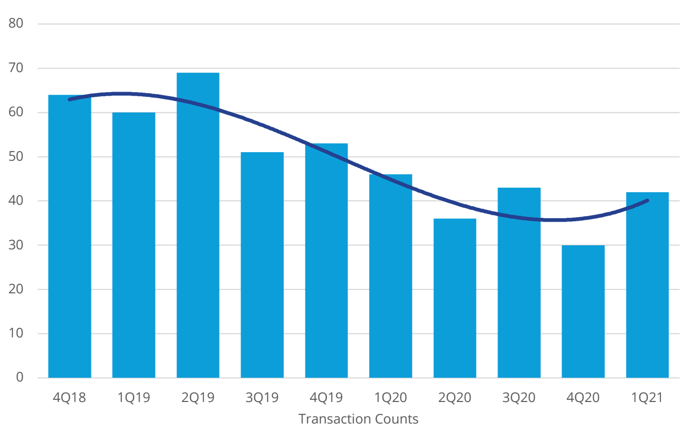





## Sublease Space Growth Rate Slows

Similar to major metropolitan markets in the mainland, the recession has caused a surge in available sublease space in Oahu's office market. While Oahu recorded a tripling of available sublease space for the past five consecutive quarters, the pace of sublease space entering the market appears to be slowing, with 4.5% of available space marketed for sublease in 1Q2021. While this number is above the national average of 0.9%, it pales in comparison to San Francisco's 54% sublease availability at year-end 2020.

**Office Leasing Velocity**

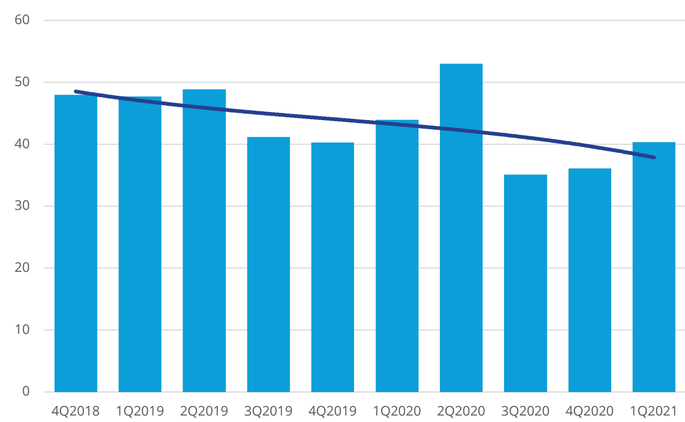





## Lease Velocity Shows Slight Uptick

Another indicator of a market in transition is the number of completed lease transactions. Prior to COVID-19, Colliers averaged 59.4 lease transactions per quarter, compared to an average of 39.4 transactions per quarter during 2020, a 34% slowdown in leasing velocity. However, 1Q2021 deal velocity has indicated an uptick in transaction activity, which may be the start of an upward trend for office leasing activity for the rest of the year.

**Average Lease Length Term**






## Average Lease Term Length Begins to Grow

Colliers reviewed ten quarters of lease transaction data and determined that average lease terms shortened from roughly 48 months (for leases completed during the first half of 2020) to an average of 36 months (for leases completed during the first half of 2020). The uncertainty of the market encouraged both landlords and tenants to negotiate shorter term leases. Not only do shorter terms allow landlords to avoid being locked into lower lease rents when the market is softening, but it also allows tenants to reduce long-term obligations, providing flexibility during ambiguous economic times. During 1Q2021, the average lease term lengthened from 36 to 40 months, marking what is hopefully a sign of recovery.

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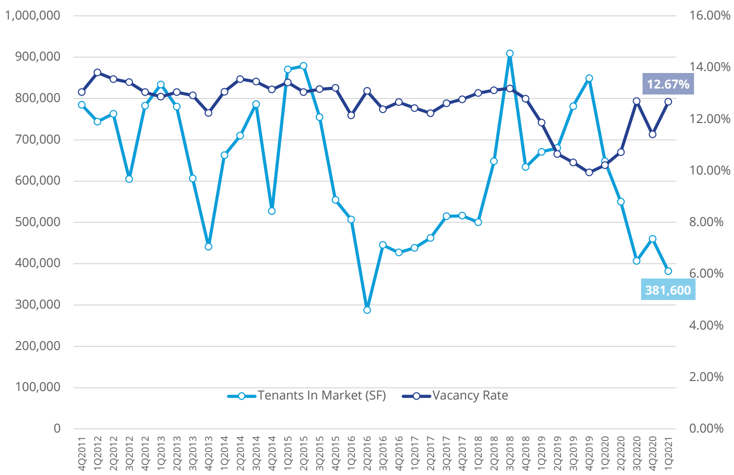
## Office Market Outlook Remains Uncertain

For a meaningful recovery to begin, the Oahu office market needs to regain the 7,500 positions lost during the past year. Many businesses operated in "survival mode" during the pandemic and will likely remain conservative in their approach until there is a noticeable improvement of their future business prospects. As rehiring typically does not occur until businesses enjoy an increase in sales, the office market tends to be a lagging economic indicator. In the past five quarters, the dramatic drop-off in tenant demand reported in Colliers' Oahu Office Supply vs. Demand Chart corroborates this trend.

Recent workforce polls indicated that the majority surveyed enjoyed the pandemic induced WFH trend and that their work-life balance improved. While the ability to avoid a commute and work in casual clothes is appealing, the jury is still out as to whether WFH remains a permanent replacement to centralized office facilities. Of those advocating a return to the office, many believe that collaboration, team bonding, mentoring/training and corporate branding suffer under WFH.

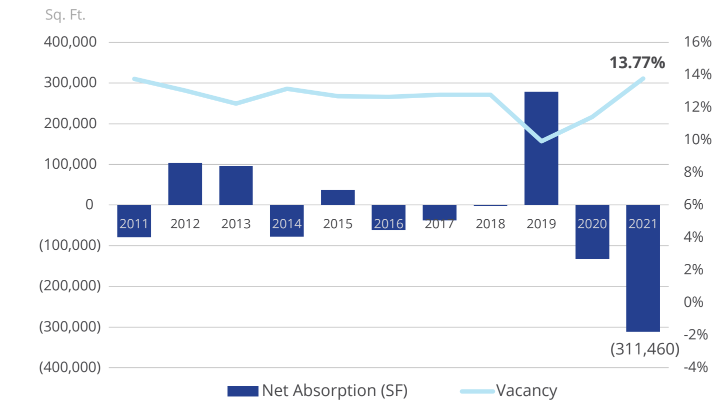
Colliers anticipates Oahu's office vacancy rates to continue to trend upward as the economy remains in flux. Should these emerging office workplace trends manifest itself in a reduction in demand, the office market may be vulnerable to additional softening. However, we believe that until the workforce can safely return to their offices, many businesses will postpone decisions regarding any major changes to their office space uses.

**Oahu Office Supply vs. Demand**






**Oahu Office Net Absorption vs. Vacancy Rate Forecast**



# Hawaii | Oahu | 1Q 2021 | Office | Market Statistics

| Downtown/Urban Core | Total Inventory SF | Direct Available Space | Sublease Available Space | Total Available Space | Vacancy Rate | Vacancy Rate Previous | Net Absorption Current | Net Absorption YTD | Under Construction | Deliveries YTD | Avg Direct Asking Rate (NNN) | Average Operating Expenses |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Central Business District | 6,641,549 | 816,794 | 51,864 | 868,658 | 13.08% | 13.06% | (67,400) | (67,400) | 0 | 0 | $1.49 | $1.36 |
| **Suburban** | | | | | | | | | | | | |
| Airport | 679,916 | 62,735 | 0 | 62,735 | 9.23% | 9.08% | 9,805 | 9,805 | 0 | 0 | $1.64 | $1.22 |
| East Oahu | 468,032 | 20,071 | 4,463 | 24,534 | 5.24% | 3.42% | (4,631) | (4,631) | 0 | 0 | $2.33 | $1.58 |
| Kakaako/Kapiolani/King | 3,538,779 | 482,068 | 4,514 | 486,582 | 13.75% | 11.39% | (83,039) | (83,039) | 0 | 0 | $1.65 | $1.57 |
| Kalihi/Iwilei/Kapalama | 883,227 | 144,608 | 0 | 144,608 | 16.37% | 13.19% | 11,867 | 11,867 | 0 | 0 | $1.44 | $1.17 |
| Leeward Oahu | 719,228 | 67,916 | 11,724 | 79,640 | 11.07% | 9.00% | (19,239) | (19,239) | 0 | 0 | $2.25 | $1.43 |
| Waikiki | 711,875 | 30,728 | 0 | 30,728 | 4.32% | 10.96% | 4,593 | 4,593 | 0 | 0 | $2.21 | $1.80 |
| Windward Oahu | 284,401 | 62,904 | 7,417 | 70,321 | 24.73% | 7.06% | (13,416) | (13,416) | 0 | 0 | $2.14 | $1.72 |
| Subtotal | 7,285,458 | 871,030 | 28,118 | 899,148 | 12.34% | 10.22% | (94,060) | (94,060) | 0 | 0 | $1.77 | $1.47 |
| TOTAL | 13,927,007 | 1,687,824 | 79,982 | 1,767,806 | 12.69% | 11.58% | (161,460) | (161,460) | 0 | 0 | $1.77 | $1.47 |

| Submarket/Class | Total Inventory SF | Direct Available Space | Sublease Available Space | Total Available Space | Vacancy Rate | Vacancy Rate Previous | Net Absorption Current | Net Absorption YTD | Under Construction | Deliveries YTD | Avg Direct Asking Rate (NNN) | Average Operating Expenses |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| A | 4,750,514 | 527,166 | 34,864 | 562,030 | 11.83% | 11.26% | (46,270) | (46,270) | 0 | 0 | $1.57 | $1.46 |
| B | 6,340,095 | 742,498 | 27,287 | 769,785 | 12.14% | 10.86% | (61,787) | (61,787) | 0 | 0 | $1.95 | $1.58 |
| C | 2,836,398 | 418,160 | 17,831 | 435,991 | 15.37% | 13.76% | (53,403) | (53,403) | 0 | 0 | $1.63 | $1.37 |
| TOTAL | 13,927,007 | 1,687,824 | 79,982 | 1,767,806 | 12.69% | 11.58% | (161,460) | (161,460) | 0 | 0 | $1.77 | $1.47 |



## Terms and Definitions

- **Inventory** - Office buildings greater than 20,000 square feet located on the island of Oahu. Owner-occupied, government, and medical buildings are not included.
- **Total Square Feet** - All rentable office space exclusive of common areas, elevator shafts and fire escapes.
- **Vacant Space** - Office space that is not occupied by a tenant. This includes sublease space that is unoccupied.
- **Vacancy Rate** - The ratio of vacant office space divided by the total office inventory square footage.
- **Net Absorption** - The net change in occupied space over a period of time. Year-to-date net absorption is the difference in occupied space between the end of the previous year and the current quarter.
- **Average Asking Rent** - The ratio of aggregate landlord asking rents divided by the total available space within a specific geography or building class.
- **Average Operating Expense** - The average rate of tenant expenses such as building utilities, management fees, building maintenance, real property taxes and insurance within a specific geography or building class.
- **Base Rents** - Rents exclusive of building operating expenses.
- **Full Service Gross Rents** - Base rents plus building operating expense. This is viewed as the tenant's total occupancy cost per square foot.
- **Building Classifications** - Adhering to the BOMA guidelines, Class A properties are buildings competing for premier office users with rents above average for the area. Buildings have high quality standard finishes, exceptional accessibility and a definite market presence. Class B buildings compete for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area and systems are adequate. Class C buildings are competing for tenants requiring functional space at rents below the average for the area.


## Market Contacts:

**Mike Hamasu**
Director of Research
mike.hamasu@colliers.com

**Nanette Vinton (S)**
Research Consultant
nanette.vinton@colliers.com

## Market Leaders:

**Sarah Morihara (B)**
President / Managing Director
sarah.morihara@colliers.com

**Andrew D. Friedlander (B) SIOR**
Principal Broker
andrew.friedlander@colliers.com

## Office Contributors:

**Alexander Peach (S)**
Senior Associate

**Brandon Bera (S) CCIM SIOR**
Vice President

**Janna Frash (S)**
Associate

**Karen Birkett (S) SIOR**
Vice President

**Megan Malloy (S)**
Associate

**Neal Hafner (S) CCIM**
Senior Associate