

Honolulu Office MarketView

Q3 2012

CBRE Global Research and Consulting



UNEMPLOYMENT
5.7%



TOTAL EMPLOYMENT
2.0%



FINANCIAL SERVICES
2.9%



OFFICE SERVICES
EMPLOYMENT
2.0%



BR CEO ECONOMIC
OUTLOOK INDEX
66.00

CHALLENGES AND UNCERTAINTY ABROAD AFFECTING HAWAII OFFICE MARKET

Quick Stats

Q3 2012		QoQ	YoY
Vacancy	15.2%	↑	↓
Gross Rents	\$2.89	↑	↑
Absorption (SF)	(32,311)	↓	↑

*The arrows are trend indicators over the specified time period and do not represent a positive or negative value (e.g. vacancy could be negative, but still represent a positive trend over a specified period).

*Ticker: All employment statistics are from most recent BLS data for Honolulu. Arrows are year-over-year trends.

Hot Topics

- Absorption turns negative
- Vacancy increases
- Lease rates increase

Honolulu's office market as a whole experienced some deterioration during the third quarter of 2012. However, it should be noted that submarket performance was variable, with pockets of both strength and weakness. Overall, net absorption was negative 32,311 SF, vacancy edged up 30 basis points to 15.2% and average asking rates were somewhat steady at \$2.89. Looking ahead, Honolulu's office market will continue to encounter challenges as a high level of uncertainty in the macro environment takes its toll on Hawaii.

During the last quarter, office related employment (the primary driver for office demand) continued to grow. In August (latest data available) the Bureau of Labor Statistics (BLS) reported the 12 month percentage change for job growth in financial services to be 2.9%, with financial services employment growing by 2.0%, over the same period of time. Growth in the financial services sector coincides with observations by CBRE professionals who noted an increase in mortgage company activity in the market.

Infrastructure projects also continue to bolster the local area's economy. However, as the November elections approach, there is some degree of uncertainty regarding government expenditures. For example, the future of Honolulu's rail project is somewhat uncertain. If the project does not move forward, such a development would negatively impact

the area's office market, with up to 100,000 SF of office space leased to firms directly related to the construction of the rail line.

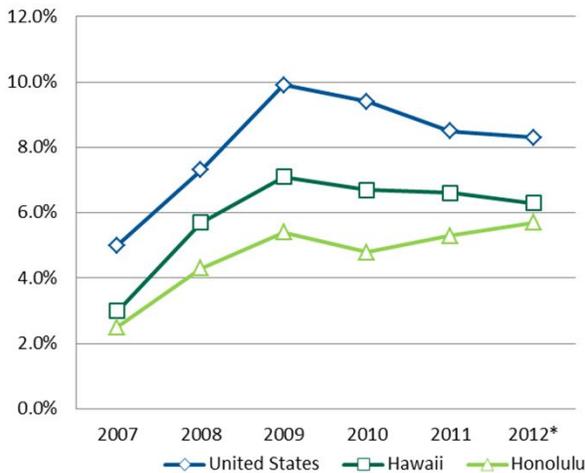
Aside from the rail project, elections will also determine the balance of power in Washington D.C. Commonly referred to as a "fiscal cliff", the combination of expiring tax cuts and automatic spending cuts set to take effect in 2013 will have to be addressed soon after the November 6th election. This uncertainty is casting a shadow over government expenditures, including many infrastructure projects across the county. However, it is worth noting that Hawaii is fairly well positioned to continue benefitting from federal dollars as the Asia-Pacific region's strategic importance grows.

Looking ahead, Hawaii will continue to encounter headwinds as the global economy continues to confront challenges. Along with U.S. fiscal policy, geopolitical issues in the Middle East maintain the potential to support high oil prices, which particularly affects Hawaii as a state highly dependent on petroleum fuels. Furthermore, as economic growth slows around the globe, especially in emerging markets, there is some downside risk to current tourism trends, which have been quite positive up to this point. The last quarter of 2012 and beginning of 2013 will be full of uncertainty and continue to challenge the local economy and by extension, Honolulu's office market.

Table 1: Honolulu Metropolitan Office Market

Submarket	Net		Availability Rate	Direct Vacancy	Sublease Vacancy	Average Asking Lease Rate			Absorption	
	Rentable Area	Available Area				Operating Expense	\$\$ SF / Month Low Gross	High Gross	3rd Qtr	YTD
Downtown (CBD)	5,088,599	792,298	15.6%	15.3%	0.3%	\$ 1.39	\$ 2.76	\$ 2.95	(2,067)	47,271
Kapiolani	2,764,137	356,761	12.9%	12.7%	0.7%	\$ 1.54	\$ 2.96	\$ 3.10	3,389	11,245
Waikiki	691,541	199,000	28.8%	28.4%	0.6%	\$ 1.63	\$ 2.85	\$ 3.11	8,650	27,886
East Oahu	173,332	7,918	4.6%	4.6%	3.5%	\$ 1.61	\$ 4.51	\$ 4.51	(304)	(1,905)
East Honolulu	157,343	19,669	12.5%	12.5%	0.0%	\$ 1.10	\$ 3.07	\$ 3.22	(3,153)	(7,315)
West Honolulu	1,401,457	206,793	14.8%	14.8%	0.8%	\$ 1.06	\$ 2.29	\$ 2.46	7,349	45,175
Leeward	308,780	28,078	9.1%	9.1%	0.0%	\$ 1.22	\$ 2.95	\$ 3.14	3,616	4,244
West Oahu	299,538	84,945	28.4%	28.4%	3.7%	\$ 1.57	\$ 3.57	\$ 3.81	(53,680)	(111,524)
Windward	208,958	14,187	6.8%	6.8%	0.0%	\$ 1.23	\$ 2.67	\$ 2.82	3,889	4,615
TOTAL	11,093,685	1,709,649	15.4%	15.2%	0.6%	\$ 1.40	\$ 2.79	\$ 2.98	(32,311)	19,692

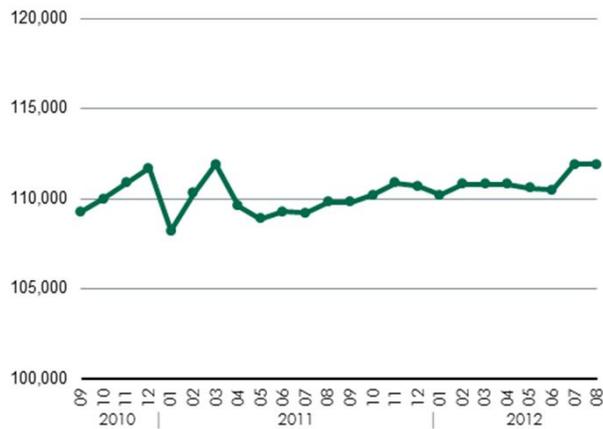
Chart 1: Unemployment



For the month of July (most recent data available), Honolulu’s unemployment rate stood at 5.7%; meanwhile the state-wide unemployment rate was 60 basis points higher at 6.3%. Compared to the national rate for the month of July, Honolulu’s unemployment rate was a full 2.6 percentage points lower than the U.S. average. Lackluster job growth continues to keep the metro area’s unemployment rate from experiencing more meaningful improvement. Since January 2009, the capital city’s unemployment rate has essentially stalled, generally fluctuating in a range from 5.2% to 6.3%.

*Source: BLS, July 2012

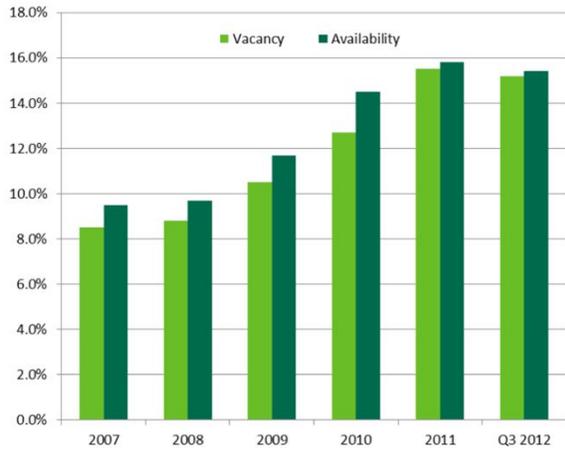
Chart 2: Office Sector Employment



Source: SOH, DLIR, Research and Statistics Office & U.S. DOL, Bureau of Labor Statistics

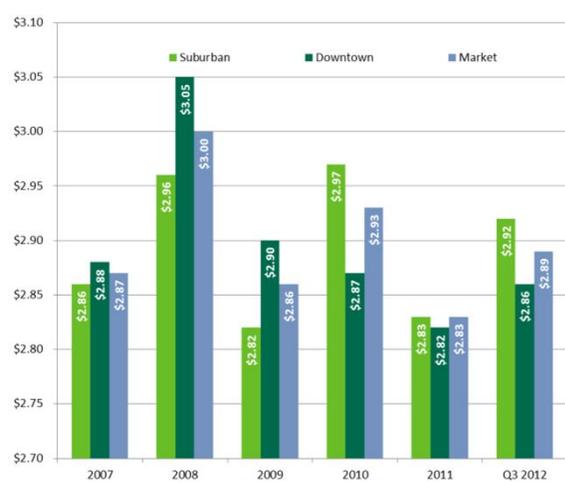
During the last quarter, office related employment (the primary driver for office demand) continued to grow. In August (latest data available) the Bureau of Labor Statistics (BLS) reported the 12 month percentage change for job growth in financial services to be 2.9%, with financial services employment growing by 2.0%, over the same period of time.

Chart 3: Availability / Vacancy



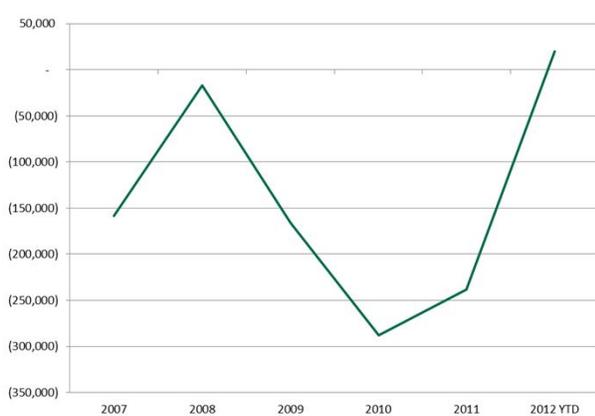
During the third quarter of 2012, both availability and vacancy increased. Availability experienced a 10 basis point increase, reaching 15.4%. Meanwhile, vacancy increased from 14.9% to 15.2%. Although office related job growth is positive, trends toward efficiency are continuing to suppress demand for office space. Furthermore as continuing uncertainty and challenges affect the market throughout the duration of 2012 and into 2013; rapid improvement in the market should not be expected during the near-term. However, an absence of new construction will help position the market for improvement as conditions in the broader economy improve.

Chart 4: Average Asking Gross Lease Rents

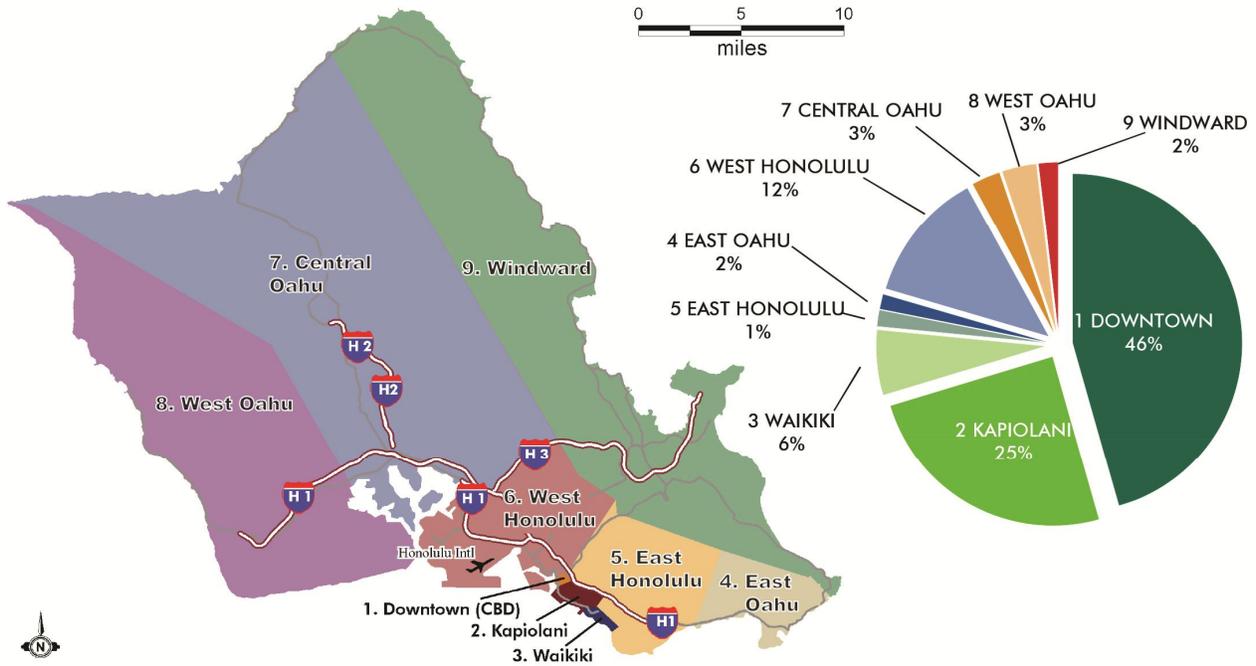


Average asking lease rates edged upward in the third quarter, going from \$2.86 at the end of the second quarter to \$2.89. However, to give some perspective, the increase was slight and represented an increase of around one percent. Subdued demand combined with elevated availability and vacancy will continue to limit any increases in average asking lease rates. Looking ahead, relative stability in average asking rates should be expected through the end of the year. Furthermore, continued geopolitical concerns in the Middle East will provide support for oil prices, with the potential to spike if tensions escalate. Any such development would affect building operating expenses and should be monitored.

Chart 5: Five Year Average Net Absorption



Honolulu's office market experienced negative net absorption of 32,311 SF during the third quarter of 2012. However, net absorption for Honolulu remains positive for the year at 19,692 SF. Although net absorption was negative market-wide, there were pockets of strength. The Waikiki and Kapiolani submarkets both experienced positive net absorption of 8,650 SF and 3,389 SF, respectively. Meanwhile, West Oahu continued to struggle with negative absorption reaching 53,680 SF. Looking ahead, weakness in the broader economy will continue to weight on Honolulu's office market performance through the near-term.



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