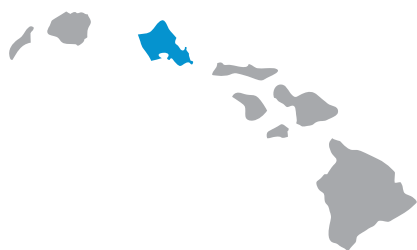




# OAHU FIRST QUARTER 2014 INDUSTRIAL MARKET REPORT



## MARKET INSIGHT

"It's the year 2005 once again, shortage of available industrial land and buildings will push rents and land prices skyward."

- Scott Mitchell (B) SIOR

## MARKET INDICATORS

FIRST QUARTER  
2013 to 2014

VACANCY	↓
NET ABSORPTION	↑
CONSTRUCTION	↔
RENTAL RATE	↑

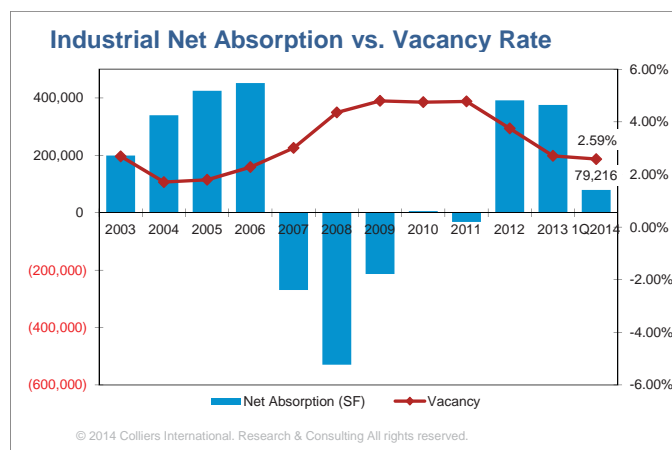
## INDUSTRIAL HIGHLIGHTS

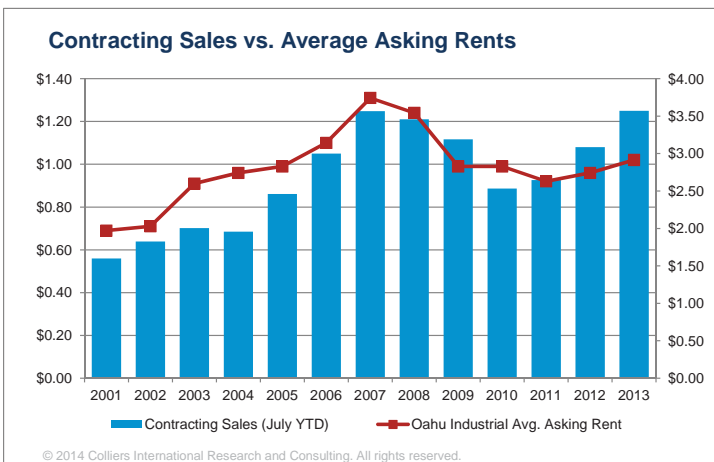
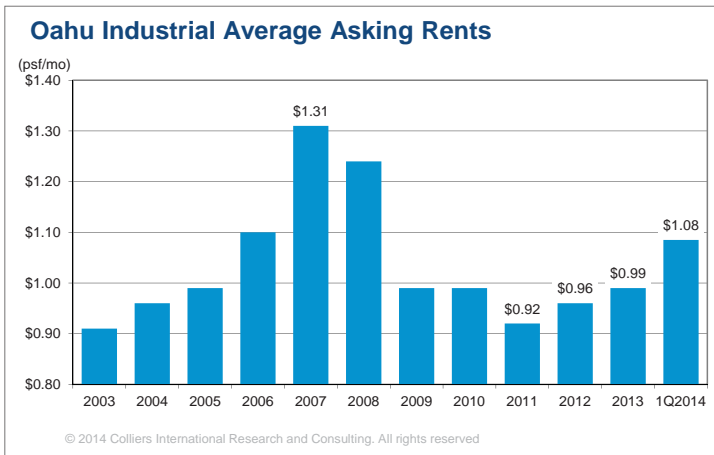
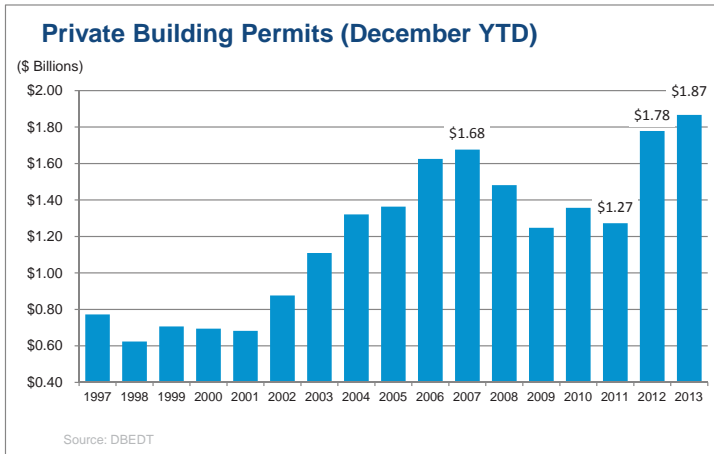
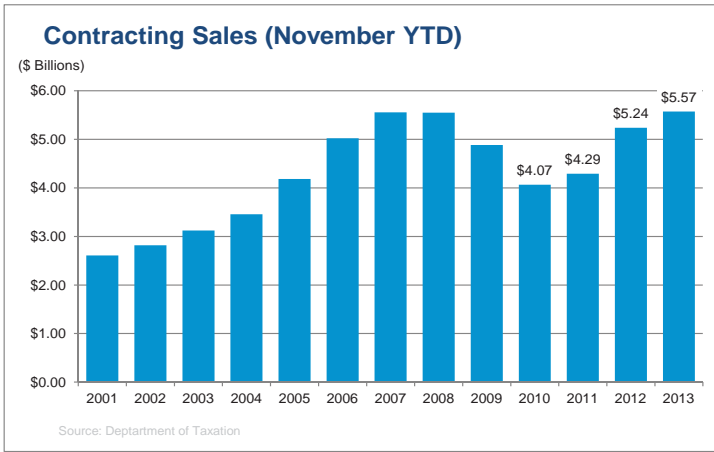
1Q ABSORPTION	79,216 SF
YTD NET ABSORPTION	79,216 SF
VACANCY RATE	2.59%
DIRECT WEIGHTED AVERAGE ASKING RENT	\$1.08 PSF/MO
AVERAGE NET OPERATING EXPENSE	\$0.39 PSF/MO

## Demand for Warehouse Space Remains Strong

After posting more than 79,000 square feet of occupancy growth for the first quarter of 2014, Honolulu's industrial vacancy rate fell to 2.59%, its lowest level in more than seven years. Over the past nine quarters, the average quarterly absorption rate was a robust 94,118 square feet. Although the pace of growth appears to be slowing, the decline in quarterly absorption is primarily due to the lack of available inventory. Demand for warehouse space remains strong as prime locations are quickly leased as they become available.

Honolulu's economy, which had been fueled over the past few years by strong tourism arrivals and visitor spending, is now passing the baton to the construction industry. November year-to-date contracting sales grew 36.9% from the 2010 level of \$4.07 billion to a record \$5.57 billion in 2013. Construction activity is rapidly growing as evidenced by the building permit volume jumping 47.2% from \$1.27 billion to \$1.87 billion over the past two years.





As a result of this growth, many industrial businesses were on a hiring binge over the past few years. The industrial sector added 6,700 jobs over the past two years, with the greatest gains among the natural resources/mining/construction industries which added 2,800 positions. The warehouse/transportation/utilities category boosted counts by 1,600 jobs.

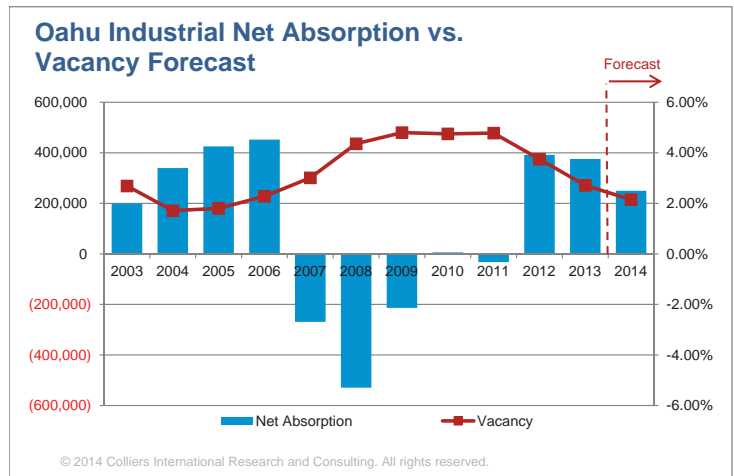
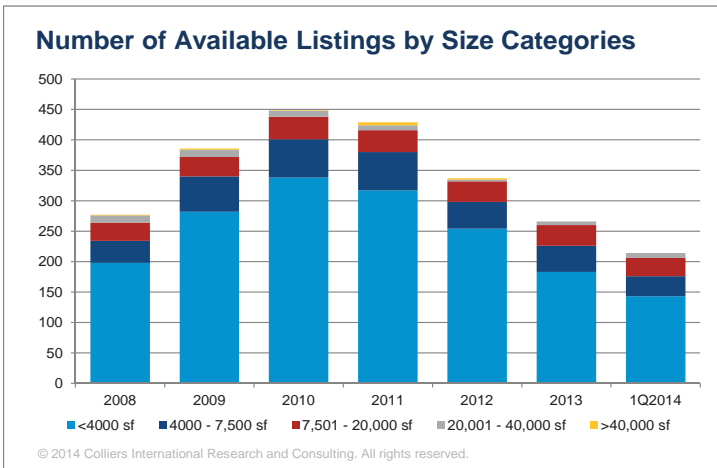
The State of Hawaii recently reclaimed the Kapalama Military Reserve for the expansion of Honolulu Harbor. As a result, 1.25 million square feet of space was removed from the industrial inventory. This site was fully-occupied and tenants were forced into the private sector where rents were more than double the below-market rates they had been paying.

The direct weighted average net asking rental rate has continued to climb. Since 2011, the average asking rent rose by 17.9% and now stands at \$1.08 per square foot per month (“psf/mo”). This mirrors the growth pattern established between 2003-2006 when rents rose rapidly from \$0.91 psf/mo to \$1.10 psf/mo. Prospective tenants will continue to face a difficult leasing environment as little new development is planned for the near term time horizon.

With a shortage of available warehouse space and rents continuing to increase, landlords with a low cost basis in industrial-zoned land may find that this is the time to begin planning for future development. If market conditions continue at a similar pace, rents could escalate by another 20% by year-end 2015.

## Rental Rates Projected to Soar

As a tool to help predict market movement, Colliers performs correlation analyses to measure economic factors and their relationships to changes in market rents. A strong relationship exists between construction sales activity and island-wide average asking rents. In the past two construction boom cycles, warehouse rents rose at an accelerated rate. With the strong growth in construction activity, Colliers projects that growth in rents will likely hit double digits by mid-year.



Likewise, the amount of available space will likely fall below 1.0 million square feet by year’s end, resulting in vacancy rates dropping to levels not seen since 2006. Oahu’s industrial market is entering a severe shortage situation with a sizable shrinkage of available listings under 7,500 square feet. Over the past three months, the number of listings in this size category declined by 22.1%. The amount of available square footage posted a corresponding drop of 20.1%. As a result, small industrial users are facing increased competition for available warehouse space which will likely lead to increases in rental rates.

By year-end 2014, Colliers projects that the industrial vacancy rate will fall below 2.3%. Urban locations will continue to be in high demand and even functionally obsolete properties will be considered as potential options for desperate tenants.

## Featured Properties for Lease



**2045 Lauwiliwili Street, Unit 901  
Kapolei, Hawaii 96707**

This warehouse includes office space with 2 ADA compliant restrooms and is served by a grade level overhead door. This unit has 18’ ceilings, upgraded landscaping and includes 6 unreserved parking stalls.

TMK: (1) 9-1-75-22  
 Available Size: 3,200 SF  
 Asking Rent: \$1.00 PSF/MO  
 Operating Expenses: \$0.31 PSF/MO  
 Contact: Scott L. Mitchell (B) SIOR  
 Guy V. Kidder (B) CCIM, SIOR  
 Gail Jennings (S)



**91-110 Hanua Street  
Kapolei, Hawaii 96707**

Class A high cube warehouse with chill/freezer, dry storage and office. Located in a gated facility with on-site management and ample parking

TMK: 1-9-1-26-9  
 Available Size: 16,335 SF  
 (6,804 SF chill/freezer & 9,531 SF dry)  
 Base Rent: \$1.25 PSF/MO refrigerated  
 \$0.90 PSF/MO dry  
 Operating Expenses: \$0.235 PSF/MO  
 Contact: Gail Jennings (S)  
 William Froelich (S) JD, CCIM, SIOR

## 1ST QUARTER 2014 Oahu Industrial Market Statistics

## INDUSTRIAL MARKET - BY SUBMARKET AREA

	NO. OF BUILDINGS	BUILDING AREA (SF)	AVAILABLE SPACE (SF)	1Q NET ABSORPTION (SF)	VACANCY RATE	DIRECT WTD. AVG. NET ASKING RENT (NNN) (PSF/MO)*	AVG. NET OP. EXP. (PSF/MO)
KALIHI / SAND ISLAND	755	9,680,317	226,555	23,669	2.34%	\$0.98	\$0.37
IWILEI	96	2,353,679	62,969	(15,836)	2.68%	\$1.29	\$0.44
AIRPORT / MAPUNAPUNA	236	8,762,857	84,336	31,206	0.96%	\$1.29	\$0.34
BOUGAINVILLE / HALAWA	104	3,428,232	67,585	23,910	1.97%	\$0.99	\$0.30
PEARL CITY / PEARL CITY INDUSTRIAL / AIEA	76	2,407,716	94,539	42,450	3.93%	\$1.06	\$0.41
WAIPAHAU / MILLTOWN	156	3,153,740	143,543	15,544	4.55%	\$1.07	\$0.32
GENTRY BUSINESS PARK	66	1,775,915	67,924	(15)	3.82%	\$1.12	\$0.46
CAMPBELL INDUSTRIAL PARK / KAPOLEI BUSINESS PARK / KENAI	256	6,483,359	225,895	(53,682)	3.48%	\$1.08	\$0.27
KAILUA	54	538,429	30,570	360	5.68%	\$1.44	\$0.31
KANEOHE	41	602,851	9,877	11,610	1.64%	\$0.47	\$0.64
<b>TOTALS</b>	<b>1,840</b>	<b>39,187,095</b>	<b>1,013,793</b>	<b>79,216</b>	<b>2.59%</b>	<b>\$1.08</b>	<b>\$0.39</b>

\* Weighted average rents are calculated on I-1 and I-2 zoned properties. IMX zoned properties, which can be used for retail have been excluded from this rent calculation.

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## TERMS AND DEFINITIONS

- INVENTORY - Industrial buildings greater than 2,500 square feet located on the island of Oahu, inclusive of owner user, and single tenant buildings.
- TOTAL SQUARE FEET - All rentable industrial space exclusive of common areas, yard space and fire escapes.
- VACANT SPACE - Industrial space that is not occupied by a tenant. This includes sublease space that is unoccupied.
- VACANCY RATE - The ratio of vacant industrial space divided by the total industrial 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.
- DIRECT WEIGHTED AVERAGE ASKING RENT (NNN) - The ratio of aggregate landlord asking rents divided by the total available space within a specific geography.
- AVERAGE OPERATING NET EXPENSE - The average rate of tenant expenses such as building utilities, management fees, building maintenance, real property taxes and insurance within a specific geography.
- BASE RENTS - Rents exclusive of building operating expenses.

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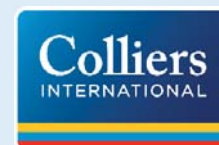
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