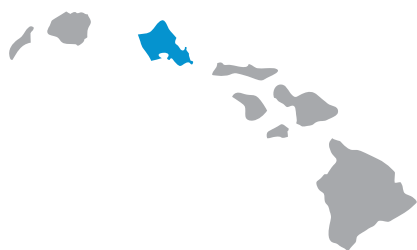


OAHU FIRST QUARTER 2015 INDUSTRIAL MARKET REPORT



MARKET INSIGHT

"This is the tightest industrial market we have seen in a decade. There is no relief in sight."

- Ronald Ward (S)

MARKET INDICATORS

FIRST QUARTER
2014 to 2015

VACANCY ↓

NET ABSORPTION ↑

CONSTRUCTION ↔

RENTAL RATE ↑

INDUSTRIAL HIGHLIGHTS

1Q ABSORPTION 26,441 SF

VACANCY RATE 2.05%

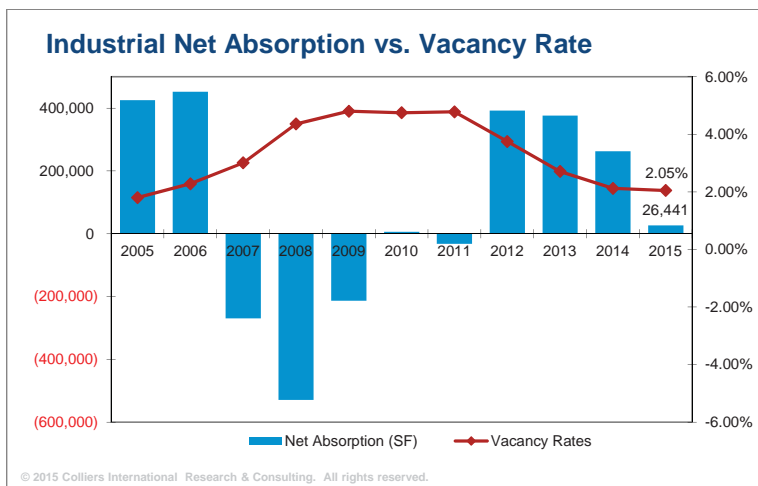
DIRECT WEIGHTED AVERAGE ASKING RENT \$1.15 PSF/MO

AVERAGE NET OPERATING EXPENSE \$0.43 PSF/MO

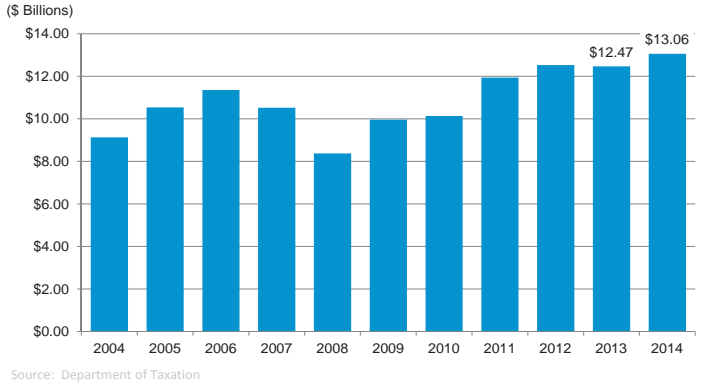
Vacancy Rates Drop Again

The first quarter 2015 Oahu industrial market recorded 26,441 square feet of positive net absorption resulting in a miniscule vacancy rate of 2.05%. Oahu now boasts the lowest vacancy rates in the country.

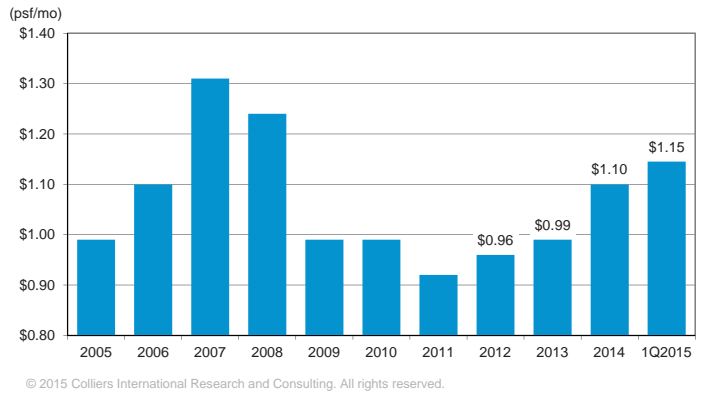
Tenant relocation and expansion efforts are being hampered by the severe island-wide shortage of warehouse space. Vacancy rates for urban Honolulu industrial properties (from Kakaako to the Airport) are below 1.8% and have resulted in tenants having to expand their geographic search boundaries. Even with this effort, many are unable to find a suitable location. Of the ten submarkets tracked, only the Kailua submarket had a vacancy rate above 5.0%.



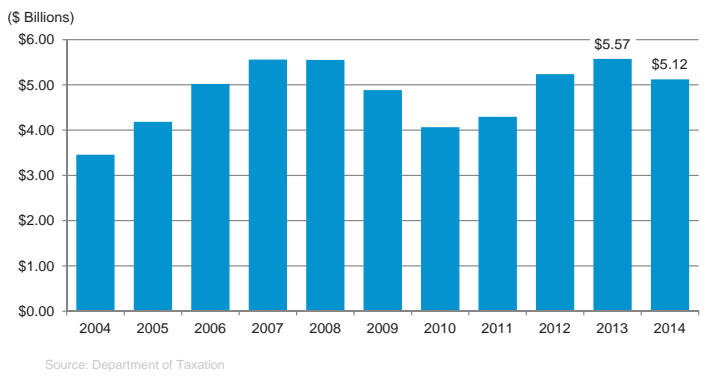
Wholesale Sales (November YTD)



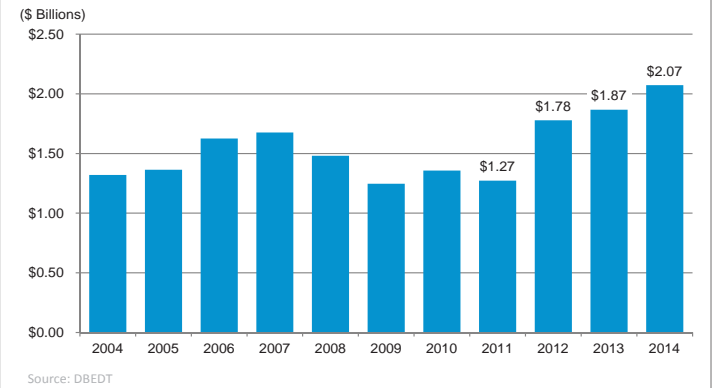
Oahu Industrial Average Asking Rents



Contracting Sales (November YTD)



Private Building Permits (December YTD)

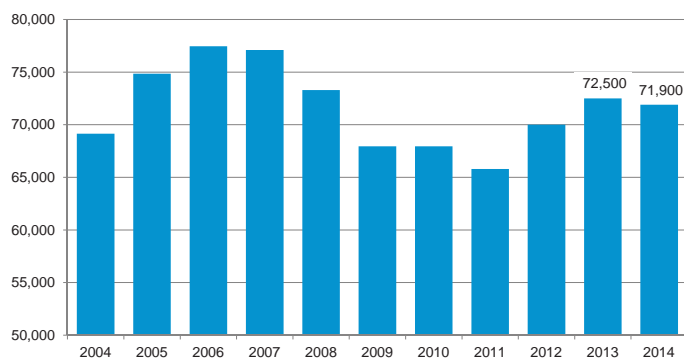


For large tenants, this problem is even more severe. For companies seeking a building greater than 20,000 square feet, there are only two spaces currently available. For those trying to find a location sized between 7,500 and 20,000 square feet, there are only 24 spaces available. This is a decline of 75% when compared to the number of spaces available three years ago.

The combination of positive job growth and a rise in consumer confidence is helping to fuel retail sales which hit a record \$24.69 billion (November 2014 year-to-date). This jump in consumer spending corresponds to the boost in wholesale sales activity which reached a record \$13 billion (November 2014 year-to-date). Wholesale/distribution firms constitute a large percentage of the users of warehouse space on Oahu and these burgeoning businesses are filling many warehouses to overcapacity.

As tenants compete with each other for limited warehouse spaces, rents have escalated at a rapid pace. At the end of the first quarter of 2015, rents rose to \$1.15 per square foot per month (“psf/mo”). This is a jump of 19.8% over the past nine quarters. Anecdotally, a prime warehouse located in Kapolei had three tenants competing for the space. All three firms agreed to a long term lease with a full price offer and very little free rent. The listing agent mentioned that all three were willing to pay a premium to secure the space. Only a few times in the past fifteen years have lease premiums been offered by a prospective tenant and generally only for prime retail locations on Kalakaua Avenue. This is a first for a warehouse space.

While contracting sales activity remained elevated over the past three years, there was an 8% decline in November 2014 year-to-date sales when compared to the prior twelve month period. The University of Hawaii Economic Research Organization (“UHERO”) 2015 Hawaii Construction Forecast indicated that while the 2014 construction sector performance fell below expectations, much of this decline had to do with the slowdown in single family home development activity and the long lag times for obtaining high rise residential building permits.

Oahu Industrial Jobs (December)

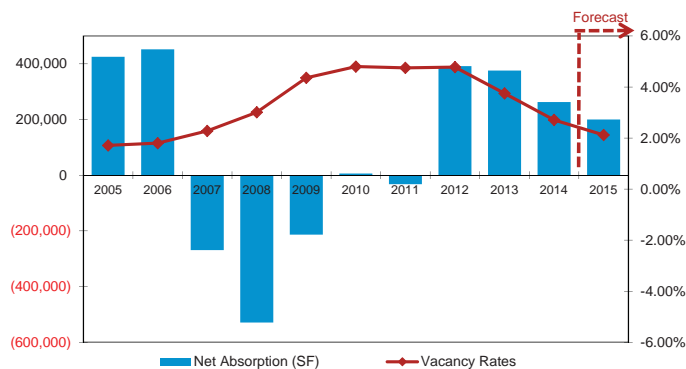
Source: DBEDT

The construction sector outlook for 2015 is much more positive. UHERO projects that the contracting tax base will increase by a healthy 9.4% and total commitments to build will increase to \$4.7 billion. This is a 6.9% gain over 2014 levels. While the industrial sector posted a loss of 600 jobs between December 2013 and December 2014, UHERO anticipates that construction jobs will reverse course and generate positive gains for the next three years.

With both the wholesale distribution industry and the construction sector firing on all cylinders, Oahu's warehouse marketplace is not likely to see any reprieve. Warehouse developers are faced with a limited inventory of developable industrial-zoned land in urban Honolulu, rising land prices, and soaring construction costs. Speculative warehouse development is not anticipated within urban Honolulu anytime soon.

Even if a developer were to find suitable land in the urban core, the acquisition price would likely be in excess of \$100 per square foot. With a floor area ratio of 0.5, land costs would be equivalent to \$200 per buildable square foot. Warehouse construction prices currently range from of \$150 to \$200 per square foot for hard and soft costs. In order for a developer to make a project work, current rents would have to double to provide anything close to an acceptable return.

Colliers anticipates that by year-end 2015, vacancy rates will fall to a new record low and rents will escalate by an additional 15% or more. Landlords will be in the driver's seat, as tenants will continue to face a tough time locating an appropriate site for their businesses. The last time the market faced a shortfall of available space like this, tenants resorted to spending their own money to upgrade functionally obsolete buildings. This is likely to occur again as the current market continues to tighten.

Industrial Net Absorption vs. Vacancy Rate Forecast

© 2015 Colliers International Research & Consulting All rights reserved.

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.

1ST QUARTER 2015 Oahu Industrial Market Statistics

INDUSTRIAL MARKET - BY SUBMARKET AREA

	NO. OF BUILDINGS	BUILDING AREA (SF)	AVAILABLE SPACE (SF)	1Q2015 NET ABSORPTION (SF)	VACANCY RATE	DIRECT WTD. AVG. NET ASKING RENT (NNN) (PSF/MO)*	AVG. NET OP. EXP. (PSF/MO)
KALIHI / SAND ISLAND	758	9,709,879	174,504	(32,122)	1.80%	\$1.29	\$0.37
IWILEI	97	2,355,935	40,392	4,752	1.71%	\$1.04	\$0.49
AIRPORT / MAPUNAPUNA	236	8,813,893	40,518	45,126	0.46%	\$1.11	\$0.52
BOUGAINVILLE / HALAWA	104	3,401,022	71,972	43,614	2.12%	\$1.06	\$0.32
PEARL CITY / PEARL CITY INDUSTRIAL / AIEA	77	2,422,874	68,588	17,622	2.83%	\$1.17	\$0.41
WAIPAHAU / MILLTOWN	156	3,143,343	128,758	(23,284)	4.10%	\$0.75	\$0.32
GENTRY BUSINESS PARK	67	1,778,759	64,043	(3,598)	3.60%	\$1.16	\$0.45
CAMPBELL INDUSTRIAL PARK / KAPOLEI BUSINESS PARK / KENAI	256	6,483,359	174,201	(10,188)	2.69%	\$1.30	\$0.41
KAILUA	57	547,429	29,800	(8,700)	5.44%	\$1.70**	N/A
KANEHOE	41	602,851	11,086	(6,781)	1.84%	\$0.44	\$0.66
TOTALS	1,849	39,259,344	803,862	26,441	2.05%	\$1.15***	\$0.43

* 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.

** Only gross rents are quoted.

*** Does not include Kailua gross rents in calculation.

© 2015 Colliers International Research & Consulting. All rights reserved.



EXECUTIVE MANAGEMENT

Sarah Lee Morihara (S)
President/Managing Director
+1 808 523 9706
sarah.morihara@colliers.com

CONSULTING & RESEARCH

Mike Y. Hamasu
Consulting & Research Director
+1 808 523 9792
mike.hamasu@colliers.com

Nanette M. Vinton (S)
Research Consultant/Project Manager
+1 808 523 9764
nanette.vinton@colliers.com

INDUSTRIAL SERVICES

Andrew D. Friedlander (B) SIOR
Principal Broker
+1 808 523 9797
andrew.friedlander@colliers.com

Scott L. Mitchell (B) SIOR
Executive Vice President
+1 808 523 9702
scott.mitchell@colliers.com

Guy V. Kidder (B) CCIM SIOR
Senior Vice President
+1 808 523 9735
guy.kidder@colliers.com

William "Bill" Froelich (B) JD CCIM SIOR
Senior Vice President
+1 808 523 9711
william.froelich@colliers.com

Ronald C. Ward (S)
Vice President
+1 808 523 9747
ronald.ward@colliers.com

Alika Cosner (S)
Senior Associate
+1 808 523 8339
alika.cosner@colliers.com

Gail Jennings (S)
Associate
+1 808 523 8332
gail.jennings@colliers.com

Jammie Wong (S)
Associate
+1 808 523 8311
jammie.wong@colliers.com

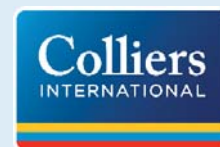
COLLIERS INTERNATIONAL

220 South King Street, Suite 1800
Honolulu, Hawaii 96813

TEL +1 808 524 2666

FAX +1 808 521 0977

Colliers International makes no guarantees, representations or warranties of any kind, expressed or implied, regarding the information including, but not limited to, warranties of content, accuracy and reliability. Any interested party should undertake its own inquiry as to the accuracy of the information. Colliers International excludes unequivocally all inferred or implied terms, conditions and warranties arising out of this document and excludes all liability for loss and damages arising there from. This publication is the copyrighted property of Colliers International and/or its licensee(s). ©2015. All rights reserved.



Accelerating success.