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Oahu | Hawaii
Research & Forecast Report

INDUSTRIAL MARKET REPORT

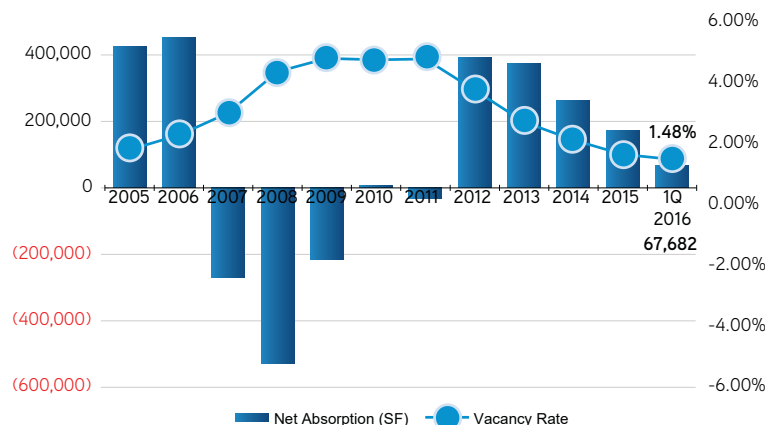
First Quarter 2016

Market Squeezed Tighter

Mike Hamasu Director of Research | Hawaii

Tenants continued to scramble to find relocation and expansion space as tight market conditions persisted. The Oahu industrial market posted a gain of more than 67,000 square feet of net absorption for the first quarter of 2016 as vacancy rates fell to a new historic low of 1.48%.

Industrial Net Absorption vs. Vacancy Rate



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Healthy demand from the boom occurring in the construction sector has taxed the industrial market to levels not experienced in nearly ten years. The surge in the economy is helping to boost sales and profits for many construction and wholesale distributors which need to source larger facilities to accommodate the increased business. These prospective tenants have become increasingly frustrated as the lack of available warehouse space is inhibiting their ability to expand.

“I expect about 400,000 square feet of available space to hit to market over the next 18 months.”

Guy V. Kidder (B), CCIM, SIOR
Senior Vice President

| Market Indicators Relative to prior quarter | 1Q2016 (From 4Q2015) |
|--|----------------------|
| VACANCY | ↓ |
| NET ABSORPTION | ↓ |
| CONSTRUCTION | ↔ |
| RENTAL RATE | ↑ |
| AVG. OPERATING EXPENSE | ↑ |

Summary Statistics

| 1Q 2016 Industrial Market | |
|-------------------------------------|----------------|
| 1Q 2016 Net Absorption | 67,682 SF |
| Vacancy Rate | 1.48% |
| Direct Weighted Average Asking Rent | \$1.17 PSF/Mo. |
| Average Operating Expense | \$0.35 PSF/Mo. |

Heading into the sixth consecutive year, the number of available listings has declined and now stands at 136. While this number is low, the fewest number of listings was in the last boom cycle (2005/2006) when the market had fewer than 66 availabilities.

With so few available spaces on the market, a domino effect that slows leasing velocity is occurring. For example, if a 50,000 square foot tenant is unable to expand into a larger facility, their 50,000 square foot space is not available for the 40,000 square foot tenant that is seeking a larger facility. Thus, both tenants would likely remain in their current space and hinder market absorption.

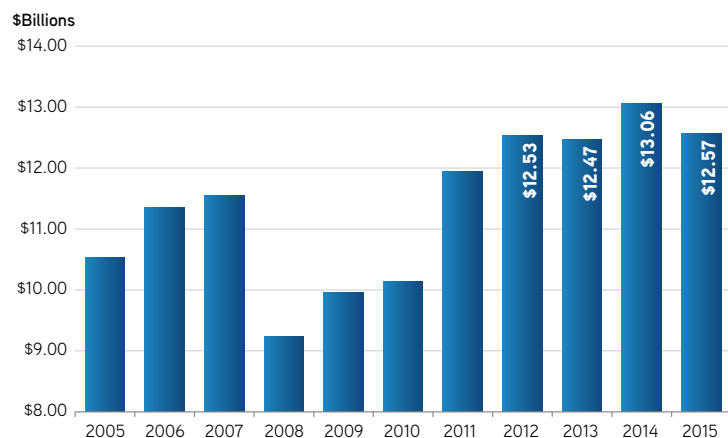
Healthy Economic Growth Continues

As previously mentioned, the construction sector is providing much of the fuel for economic growth on Oahu. The November 2015 year-to-date contracting sales volume posted a robust 22.5% jump in revenue over the previous year.

In addition to record high contractor sales, construction permit volume for 2015 reached a new peak of \$2.44 billion. Permit volume is a good indicator of future construction activity and 2016 is projected to be another healthy year for development.

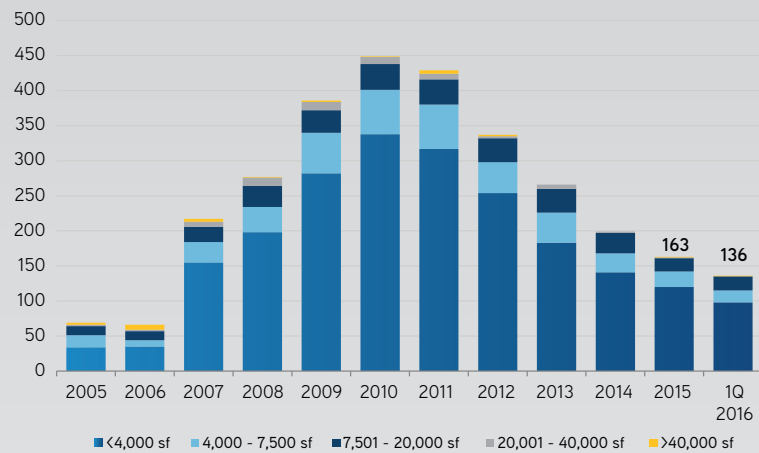
Despite a slight decline from last year's levels, \$12.57 billion in wholesale sales revenue was recorded for 2015. This is the second highest level over the past decade.

Wholesale Sales (November YTD)



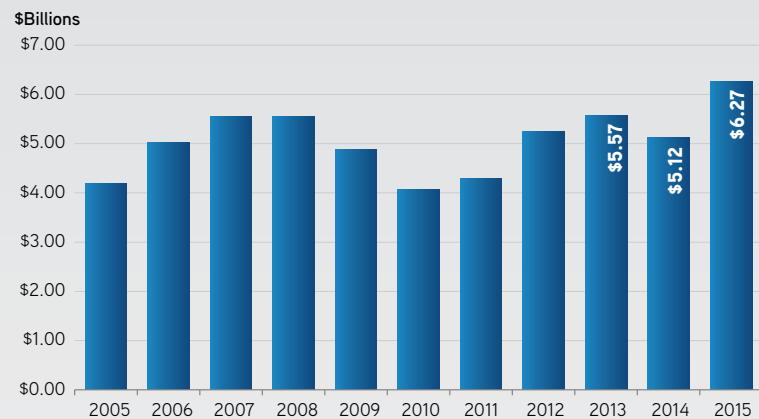
Source: Department of Taxation

Number of Available Listings by Size Categories



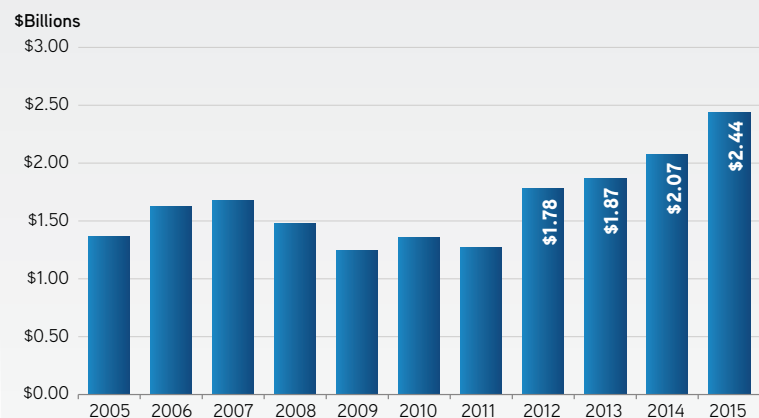
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Contracting Sales (November YTD)



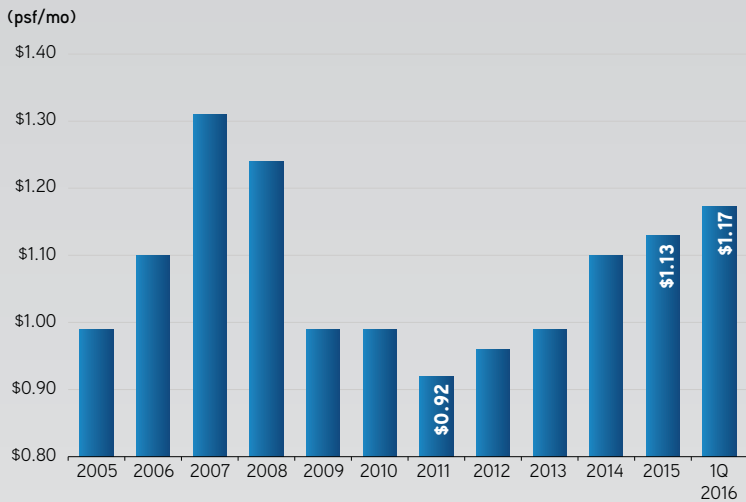
Source: Department of Taxation

Private Building Permits (December YTD)



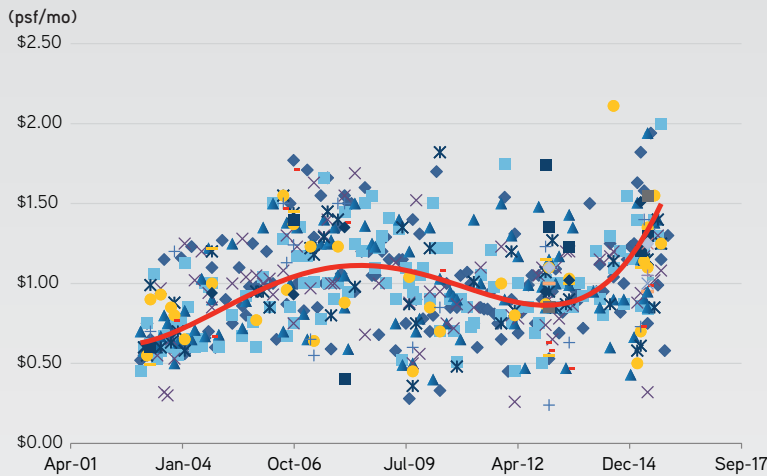
Source: DBEDT

Oahu Industrial Direct Weighted Average Asking NNN Rents



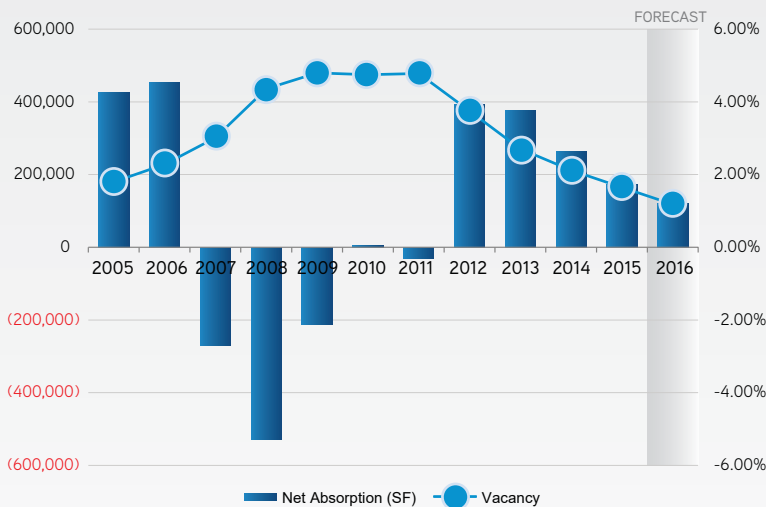
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Oahu Industrial Lease Comparables Regression Chart



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Oahu Industrial Net Absorption vs. Vacancy Rate Forecast



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The direct weighted average asking industrial base rent for Oahu rose to \$1.17 per square foot per month (“psf/mo”), a gain of 3.5% over the past quarter and a total 27.2% jump since 2011. The increased competition for the limited inventory of available spaces is helping to spur landlords to increase rents.

The Oahu Industrial Lease Comparables Regression Analysis Chart provides a clearer idea of where negotiated industrial rents are heading. Colliers plots negotiated base rents for warehouse lease transactions and identified a best fitted line for the median base rent. The chart corroborates that rents are rising rapidly, and have actually exceeded \$1.35 psf/mo for urban Honolulu locations.

Little Change Anticipated

With little warehouse development anticipated for 2016, Oahu’s industrial market will continue to face tight market conditions. Warehouse rents are projected to jump by at least 10% by the end of the year. Despite healthy rental rate growth, rising land and construction costs will continue to limit the speculative development discussion for the West Oahu market, and in particular, the Kapolei Business Park, Campbell Industrial Park and Kenai Industrial Park.

For tenants faced with the difficult task of finding an appropriate warehouse space for their businesses, brokers will advise them to be aggressive, persistent, and be flexible. Under current market conditions, a new listing will garner immediate interest and tenants must be prepared to act quickly in order to secure the space. For those firms willing to be flexible on their target geographic location or be creative with their space requirements (i.e. separate warehouse operation from back-office operations), this approach could potentially provide a wider range of options.

1ST QUARTER 2016 Oahu Industrial Market Statistics

| INDUSTRIAL MARKET - BY SUBMARKET AREA | | | | | | | | |
|---------------------------------------|------------------|--------------------|------------|----------------------|-------------------------|--------------|---|----------------------------|
| | NO. OF BUILDINGS | BUILDING AREA (SF) | TENURE* | AVAILABLE SPACE (SF) | YTD NET ABSORPTION (SF) | VACANCY RATE | DIRECT WTD. AVG. NET ASKING RENT (NNN) (PSF/MO)** | AVG. NET OP. EXP. (PSF/MO) |
| HONOLULU | | | | | | | | |
| Iwilei | 97 | 2,355,935 | Fee Simple | 80,722 | (24,922) | 3.43% | \$1.09 | \$0.42 |
| Kalihi | 695 | 9,358,530 | Fee Simple | 169,521 | 15,890 | 1.81% | \$1.22 | \$0.36 |
| Sand Island | 72 | 564,353 | Leasehold | 14,443 | (4,500) | 2.56% | \$0.82 | \$0.30 |
| Mapunapuna | 105 | 4,193,541 | Leasehold | 27,800 | 15,124 | 0.66% | \$1.22 | \$0.43 |
| Airport | 127 | 4,662,873 | Fee Simple | 5,300 | 29,527 | 0.11% | \$1.20 | \$0.30 |
| Total Honolulu | 1,096 | 21,135,232 | | 297,786 | 31,119 | 1.41% | \$1.17 | \$0.38 |
| CENTRAL OAHU | | | | | | | | |
| Bougainville | 20 | 806,460 | Leasehold | 0 | 0 | 0.00% | \$1.25 | \$0.38 |
| Halawa | 84 | 2,594,562 | Leasehold | 17,784 | 20,896 | 0.69% | \$1.25 | \$0.25 |
| Pearl City/Aiea | 32 | 1,660,582 | Fee Simple | 36,264 | (8,264) | 2.18% | \$1.76 | \$0.45 |
| Pearl City Industrial Park*** | 45 | 762,292 | Fee Simple | 2,380 | 12,033 | 0.31% | \$1.20 | \$0.37 |
| Gentry Business Park | 66 | 1,778,759 | Fee Simple | 29,353 | (4,585) | 1.65% | \$1.25 | \$0.38 |
| Milltown | 36 | 432,280 | Fee Simple | 10,900 | 0 | 2.52% | \$1.30 | \$0.37 |
| Waipahu | 128 | 2,716,063 | Fee Simple | 46,825 | 6,815 | 1.72% | \$0.59 | \$0.14 |
| Total Central Oahu | 411 | 10,750,998 | | 143,506 | 26,895 | 1.33% | \$1.15 | \$0.30 |
| WEST OAHU | | | | | | | | |
| Campbell Industrial Park | 121 | 4,960,296 | Fee Simple | 34,633 | (8,050) | 0.70% | \$1.18 | \$0.23 |
| Kapolei Business Park | 51 | 1,431,910 | Fee Simple | 98,121 | 2,427 | 6.85% | \$1.21 | \$0.34 |
| Malakole Industrial Park | 3 | 197,000 | Fee Simple | 0 | 0 | 0.00% | \$1.18 | \$0.23 |
| Kenai Industrial Park | 12 | 90,680 | Fee Simple | 0 | 0 | 0.00% | \$1.18 | \$0.23 |
| Kalaeloa Industrial | 5 | 47,137 | Fee Simple | 0 | 0 | 0.00% | \$0.00 | \$0.12 |
| Total Kapolei | 192 | 6,727,023 | | 132,754 | (5,623) | 1.97% | \$1.20 | \$0.31 |
| WINDWARD OAHU | | | | | | | | |
| Kapaa Industrial **** | 59 | 551,704 | Fee Simple | 7,800 | 5,329 | 1.41% | \$1.98 | \$0.31 |
| Kaneohe | 41 | 602,851 | Fee Simple | 7,589 | 9,962 | 1.26% | \$0.51 | \$0.66 |
| Total Windward | 100 | 1,154,555 | | 15,389 | 15,291 | 1.33% | \$1.25 | \$0.48 |
| OAHU TOTALS | 1,799 | 39,767,808 | | 589,435 | 67,682 | 1.48% | \$1.17 | \$0.35 |

*Leasehold tenure associated with industrial parks with 75% or more of land under ground lease

** 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.

*** Pearl City Industrial Park is a submarket associated with Pearl City/Aiea trade area

**** Only gross rents are quoted.

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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.
- > **NNN RENTS** - Rents exclusive of building operating expenses.

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