



Accelerating success.

Oahu | Hawaii  
Research & Forecast Report

# INDUSTRIAL MARKET REPORT

Second Quarter 2016

## Getting Blood from a Turnip

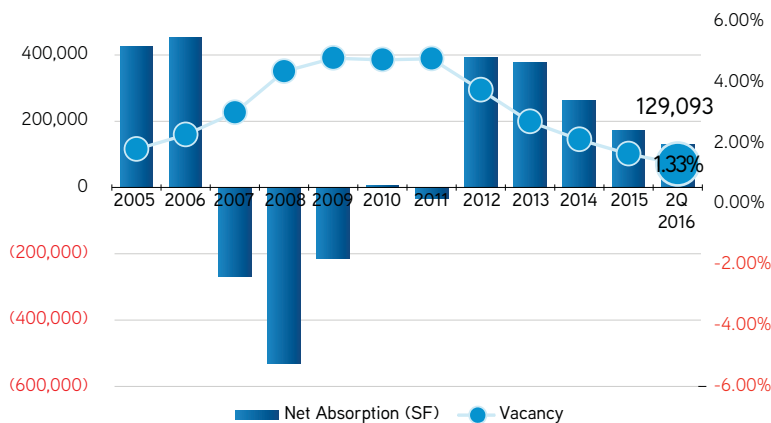
Mike Hamasu Director of Research | Hawaii

The industrial market continues to get squeezed tighter and tighter. The Oahu market posted a second quarter gain of 61,411 square feet of net absorption, pushing the year-to-date occupancy gain to 129,093 square feet. As a result, the island-wide industrial vacancy rate fell to another record low at a miniscule 1.33%.

*“It is nearly impossible for the industrial market to get any tighter.”*

Ronald S. Ward (S)  
Senior Vice President

### Oahu Industrial Net Absorption vs. Vacancy Rate



©2016 Colliers International Research and Consulting. All rights reserved.

Warehouse tenants struggled to find expansion or relocation space in an exceedingly challenging marketplace. A prospective tenant could heed the advice of an experienced broker and do all the right things by starting their search early, providing an expansive geographic search area, and expressing a willingness to be flexible on lease start dates, they could still be left without a warehouse space to call home.

Businesses seeking a warehouse over 4,000 square feet would have to compete for the 34 listings that were available island-wide in the second quarter of 2016. This is a 69.4% drop in listings of this size since 2010. There has been an even more dramatic drop (71.3%) in the listings less than 4,000 square foot in size. The majority of Oahu’s industrial tenants fall under this category.

Market Indicators	2Q2016 (From 1Q2016)
Relative to prior quarter	
ABSORPTION	↑
VACANCY RATE	↓
RENTAL RATES	↓
CONSTRUCTION	↔

### Summary Statistics

2Q 2016 Industrial Market	
2Q 2016 Net Absorption	129,093 SF
Vacancy Rate	1.33%
Direct Weighted Average Asking Rent	\$1.13 PSF/Mo.
Average Operating Expense	\$0.36 PSF/Mo.

## Economy Starting to Slow

A combination of factors contributed to the current severe shortfall of warehouse space on Oahu. Wholesalers boosted demand for warehouses as they stockpiled retail goods to meet increased sales activity established by a strengthening consumer market. The recent boom in construction activity fueled the need for yard and warehouse space to store construction materials and equipment. The removal of millions of square feet of State-owned airport and harbor facilities from the market and the re-purposing of former industrial space in the urban core also exacerbated the island's warehouse inventory.

Oahu wholesale sales for the twelve month period from March 2015 to February 2016 slowed for the second consecutive year. This decline corresponded to a similar drop in retail sales during this time period. Despite the surge in visitor counts to Oahu over the past few years, rising hotel room rates have taken their toll on visitor travel budgets which likely impacted overall retail spending. Unfortunately, this trend is continuing as wholesale sales for the first two months of 2016 reflect a 20.7% decline in sales.

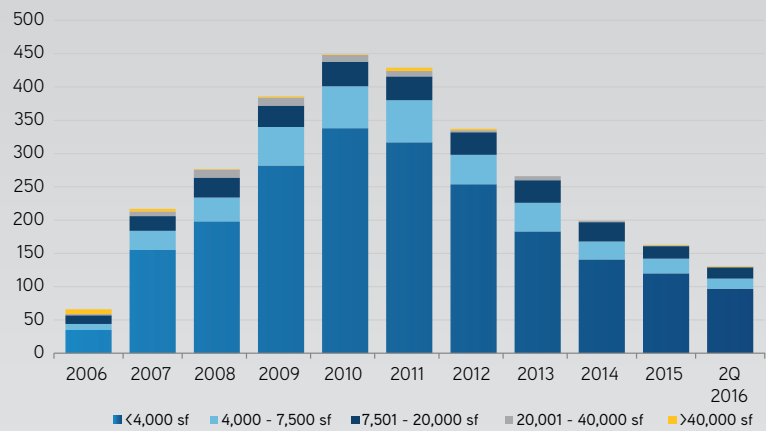
While contracting sales revenue reflects what has already been spent on construction projects, Oahu building permit dollar volume provides insight into what construction activity is being planned. For the first three months of 2016, \$341.49 million in permits were generated; this is a 52% decline from the record \$711.33 million in first quarter volume recorded last year.

## Bottom of the Barrel Syndrome

The current tight market conditions have created an unusual situation where the direct weighted average asking rental rates have actually declined over the past three months from \$1.17 per square foot per month ("psf/mo") at the end of the first quarter to \$1.13 psf/mo at the end of the second quarter. Typically, as demand grows and the supply of space shrinks, rents start to rise. Upon closer analysis of the available warehouse listings, many of the remaining spaces are functionally obsolete and possibly suffering from deferred maintenance issues which warrant below market asking rents. This "bottom of the barrel" syndrome also occurred during 2006 when vacancy rates fell below 2%, but led to an increase in asking rents.

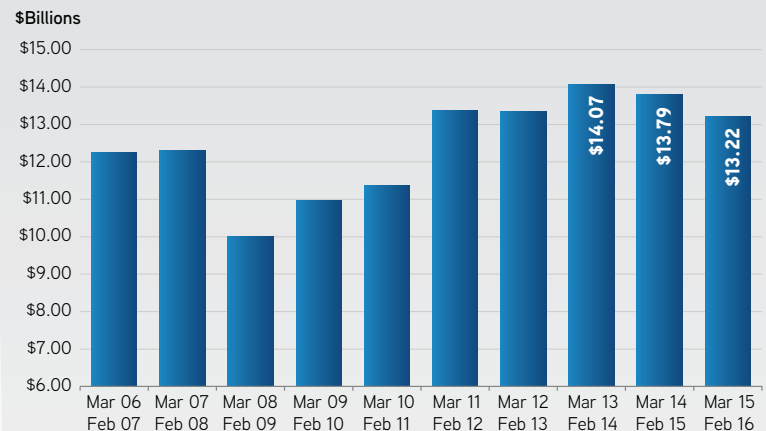
The Colliers Oahu Industrial Lease Comparables Regression chart plots negotiated base rents for warehouse lease transactions and provides a more accurate reflection of where industrial rents have trended. This chart indicates that Oahu industrial warehouse rents have risen above \$1.35 psf/mo.

## Number of Available Oahu Industrial Listings by Size



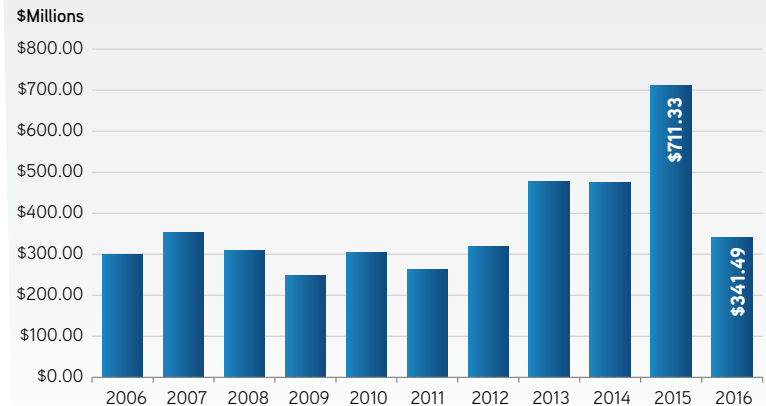
© 2016 Colliers International. Research & Consulting. All rights reserved.

## Wholesale Sales (Mar-Feb)



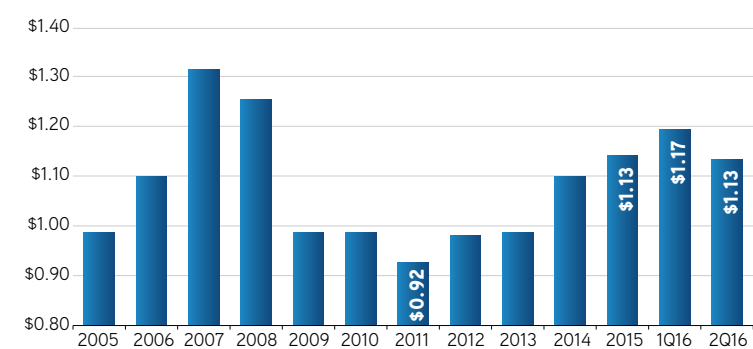
Source: Department of Taxation

## Private Building Permits (March YTD)



Source: DBEDT

## Oahu Industrial Direct Weighted Average Asking NNN Rents



© 2016 Colliers International. Research & Consulting. All rights reserved.

# Glimmer of Hope for Prospective West Oahu Tenants

The combination of high land and construction costs along with permitting delays make speculative warehouse development in urban Honolulu very difficult. However, for those tenants located in West Oahu, there are a few potential options which may provide a reprieve from the difficulties of finding suitable space.

1. Kapolei Business Park Owner-User Projects: There are several Kapolei owner-user developments located at Kapolei Business Park Phase II that are considering adding more warehouse “for lease” space to their developments. These projects could potentially add up to an additional 40,000 square feet of available space within the next 12 months.

2. Kapolei Trade Center: The owners of the Kapolei Trade Center, a 93-unit project, have reapplied for a Condominium Property Regime which could potentially provide up to 216,000 square feet of available space to lease or purchase. After a thorough inspection and review by the Department of Planning & Permitting; final approval of the Condominium Property Regime is now needed from the Real Estate Commission in order for the project to begin marketing the units for sale. Marketing is expected to commence in the middle of the third quarter of 2016

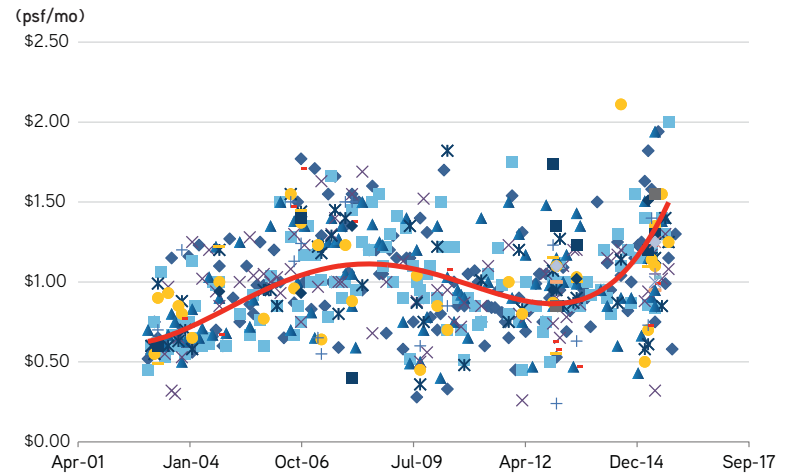
3. Speculative Development: Avalon Development is considering building a speculative 100,000 square foot warehouse in Kapolei Business Park Phase II. Conceptual designs have been drawn up and should this project move forward, spaces may become available to lease in the third quarter of 2016 with occupancy expected for late 2017.

## Market Conditions Likely to Remain the Same

The outlook for the near term time horizon calls for the existing tight industrial market conditions to persist. There does not appear to be any near term solutions for the lack of available industrial space. While speculative warehouse development is being explored in West Oahu, these buildings would not be delivered for another 12 to 18 months, at the earliest. However, these projects will not provide any relief for urban Honolulu tenants that will continue to suffer from a dwindling supply of warehouse listings.

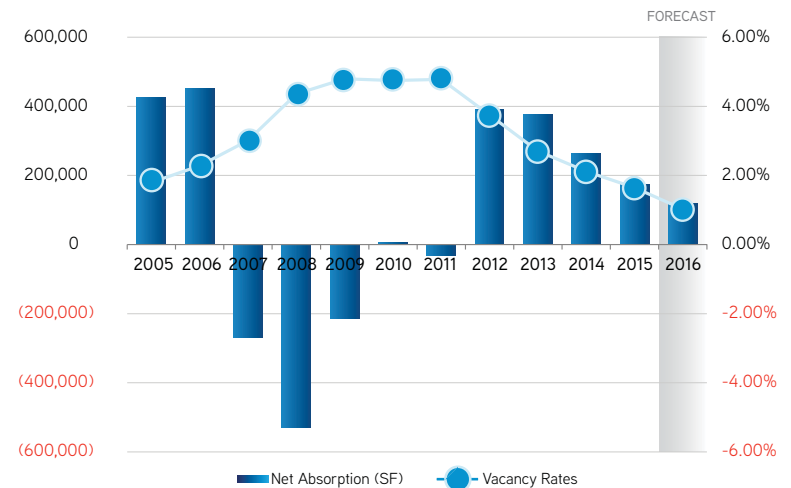
The University of Hawaii Economic Research Organization and the State Department of Business, Economic Development and Tourism forecasted that the current economic cycle should remain healthy through 2017. Given this, the recent decline to building permit volumes and wholesale and contracting sales may be just an anomaly, or alternatively, perhaps a potential indicator that the local economy is nearing its apex. Either way, Colliers forecasts that vacancy rates will remain below 2% for the rest of the year.

### Oahu Industrial Lease Comparables Regression Chart



© 2016 Colliers International. Research & Consulting. All rights reserved.

### Oahu Industrial Net Absorption vs. Vacancy Rate Forecast



© 2016 Colliers International. Research & Consulting. All rights reserved.

## 2ND QUARTER 2016 Oahu Industrial Market Statistics

### INDUSTRIAL MARKET - BY SUBMARKET AREA

	NO. OF BUILDINGS	BUILDING AREA (SF)	TENURE*	AVAILABLE SPACE (SF)	2Q2016 NET ABSORPTION (SF)	YTD NET ABSORPTION (SF)	VACANCY RATE	DIRECT WTD. AVG. NET ASKING RENT (NNN) (PSF/MO)**	AVG. NET OP. EXP. (PSF/MO)
<b>HONOLULU</b>									
Iwilei	97	2,355,935	Fee Simple	57,403	23,319	(1,603)	2.44%	\$1.23	\$0.51
Kalihi	695	9,358,530	Fee Simple	149,973	19,548	35,438	1.60%	\$1.12	\$0.33
Sand Island	72	564,353	Leasehold	14,443	0	(4,500)	2.56%	\$0.82	\$0.30
Mapunapuna	106	4,199,381	Leasehold	34,652	(6,852)	8,272	0.83%	\$1.21	\$0.40
Airport	127	4,662,873	Fee Simple	5,300	0	29,527	0.11%	\$1.20	\$0.30
<b>Total Honolulu</b>	<b>1,097</b>	<b>21,141,072</b>		<b>261,771</b>	<b>36,015</b>	<b>67,134</b>	<b>1.24%</b>	<b>\$1.14</b>	<b>\$0.38</b>
<b>CENTRAL OAHU</b>									
Bougainville	20	806,460	Leasehold	0	0	0	0.00%	\$1.25	\$0.38
Halawa	84	2,594,562	Leasehold	0	17,784	38,680	0.00%	\$1.25	\$0.25
Pearl City/Aiea	32	1,660,582	Fee Simple	39,789	(3,525)	(11,789)	2.40%	\$1.30	\$0.48
Pearl City Industrial Park***	45	762,292	Fee Simple	3,955	(1,575)	10,458	0.52%	\$1.14	\$0.41
Gentry Business Park	66	1,778,759	Fee Simple	42,917	(13,564)	(18,149)	2.41%	\$1.27	\$0.45
Miltown	36	432,280	Fee Simple	2,000	8,900	8,900	0.46%	\$1.30	\$0.47
Waipahu	128	2,716,063	Fee Simple	46,825	0	6,815	1.72%	\$0.59	\$0.14
<b>Total Central Oahu</b>	<b>411</b>	<b>10,750,998</b>		<b>135,486</b>	<b>8,020</b>	<b>34,915</b>	<b>1.26%</b>	<b>\$1.01</b>	<b>\$0.34</b>
<b>WEST OAHU</b>									
Campbell Industrial Park	121	4,960,296	Fee Simple	14,620	20,013	11,963	0.29%	\$1.15	\$0.24
Kapolei Business Park	51	1,431,910	Fee Simple	99,758	(1,637)	790	6.97%	\$1.21	\$0.35
Malakole Industrial Park	3	197,000	Fee Simple	0	0	0	0.00%	\$1.15	\$0.24
Kenai Industrial Park	12	90,680	Fee Simple	0	0	0	0.00%	\$1.15	\$0.24
Kalaeloa Industrial	5	47,137	Fee Simple	0	0	0	0.00%	\$0.00	\$0.12
<b>Total Kapolei</b>	<b>192</b>	<b>6,727,023</b>		<b>114,378</b>	<b>18,376</b>	<b>12,753</b>	<b>1.70%</b>	<b>\$1.20</b>	<b>\$0.33</b>
<b>WINDWARD OAHU</b>									
Kapaa Industrial ****	59	551,704	Fee Simple	8,800	(1,000)	4,329	1.60%	\$1.96	\$0.31
Kaneohe	41	602,851	Fee Simple	7,589	0	9,962	1.26%	\$0.51	\$0.66
<b>Total Windward</b>	<b>100</b>	<b>1,154,555</b>		<b>16,389</b>	<b>(1,000)</b>	<b>14,291</b>	<b>1.42%</b>	<b>\$1.29</b>	<b>\$0.47</b>
<b>OAHU TOTALS</b>	<b>1,800</b>	<b>39,773,648</b>		<b>528,024</b>	<b>61,411</b>	<b>129,093</b>	<b>1.33%</b>	<b>\$1.13</b>	<b>\$0.36</b>

\*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.

© 2016 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.
- > **NNN RENTS** - Rents exclusive of building operating expenses.

#### EXECUTIVE MANAGEMENT CONSULTING & RESEARCH

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

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

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

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

#### INDUSTRIAL SERVICES

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

Kaione Crabb (S)  
Associate  
+1 808 223 1978  
kaione.crabb@colliers.com



Accelerating success.

Colliers International | Hawaii

220 S. King Street, Suite 1800 | Honolulu, Hawaii 96813

+1 808 524 2666

colliers.com/hawaii