



# A New Industrial Revolution

## Move Supports Job Growth in Kapolei

**A** CRITICAL SHORTAGE OF INDUSTRIAL SPACE on Oahu is set to cause severe pain for businesses being displaced by the take back of industrial lands for urban renewal in Honolulu. It couldn't come at a worse time, with the construction industry booming, wholesale/distribution businesses that use the bulk of industrial space posting record sales, and businesses scrambling to find expansion or relocation space in a rapidly overheating market. The squeeze is already on in the face of a 2.37 percent vacancy rate, which Colliers Hawaii forecasts will fall below 2 percent by year-end 2015.

**BUT RELIEF IS ON THE WAY** in the form of a fortuitous partnership between Christine Camp's Honolulu-based Avalon Development Company and Walton Street Capital, L.L.C., a Chicago-based private equity real estate investment firm that will revolutionize the indus-

trial real estate market on Oahu. The partnership acquired 177 acres of prime industrial land in Kapolei, with plans to subdivide and bring them to market starting in early 2015.

"We plan to subdivide the lands into lots ranging from a half acre up to seven

acres," said Camp.

Camp said that having 100 percent funding and construction plans in place gives them control of the entire 177 acres, with the flexibility of offering various options – from half acre lots up to as much as 20 acre lot sizes. The company can also build a turnkey operation for those businesses that prefer to move into a ready-to-use facility and bypass the complexities of real estate planning and construction.

The project includes 54 acres in Kapolei Business Park, and 122 acres in Kapolei Business Park West. The project is master-planned in five phases, starting with the Kapolei Business Park and working its way to Kapolei Business Park West. Camp said that Phase 1, which broke ground in August, is already approved for sale and should be ready to close escrow by early 2015.

Camp has long been a strong proponent of Kapolei, dating back to 2006 when her company began development of the mixed-use retail/office Kapolei Pacific Center in the City of Kapolei.

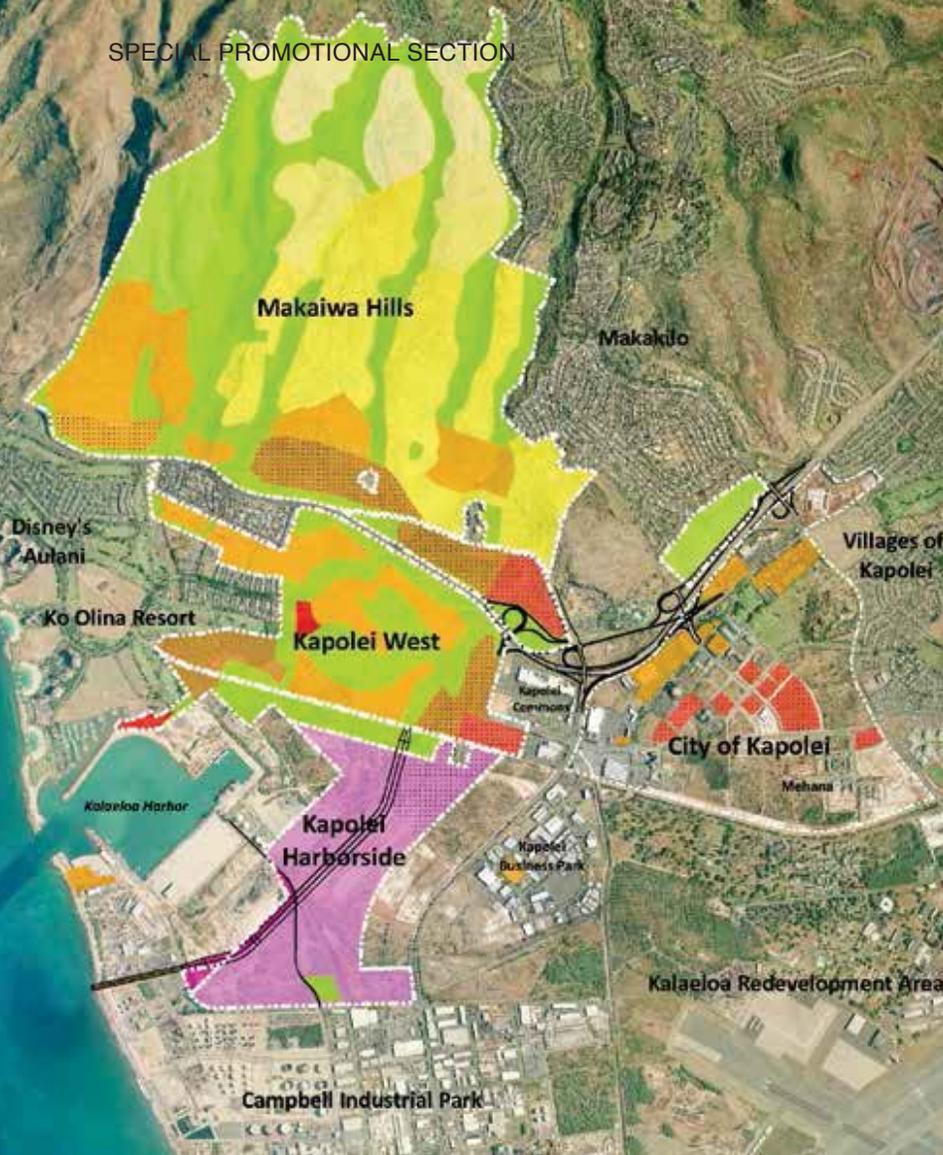
## Western Kapolei

Along with Kapolei Harborside, two mixed-use residential projects, Makaiwa Hills and Kapolei West, are some of the last opportunities for development on entitled, developable lands in Kapolei. Makaiwa Hills, a Makaiwa Hills LLC project, is the last coastal hillside residential area planned on Oahu, and offers stunning views of the southern and western coastline. Aina Nui Corporation's Kapolei West is bordered by both the City of Kapolei and the Ko Olina Resort and combines the appeal of urban and resort living. The three projects are advantageously located in close proximity to the centers of commerce in the City of Kapolei, and to the Ko Olina Resort.

With two phases complete, phase 3 is now being planned to roll out over the next few years.

In the meantime, Camp fully appreciates the value of being in the right place at the right time in the industrial market. "For all of the reasons cited by the Colliers Hawaii industrial real estate experts, Kapolei is the only place to be now and in the foreseeable future," she said. "We see a migration of industrial space users looking for a place to call home. With very few opportunities in town, Kapolei has become a target for businesses seeking to relocate or expand their operations."

She continued, "Our Kapolei industrial project offers users the opportunity for fee simple ownership, clean flat usable land, new infrastructure, lower land



*"With very few opportunities in town, Kapolei has become a target for businesses seeking to relocate or expand their operations."*

—CHRISTINE CAMP  
Avalon Development Company

costs, close proximity to the growing use of Kalaeloa Harbor, and being able to operate in a State Enterprise Zone, all while interest rates are historically low."

Camp said the Kapolei industrial projects would also generate employment opportunities for the community. "With all the growth in the economy, Honolulu has one of the lowest unemployment rates in the country," she said. "Kapolei provides employers the opportunity to be closer to the state's fastest growing employee base. And for those people who have made West Oahu their home with its lower cost of housing and a myriad of new housing options, we believe our project will help foster job growth and add to the quality of life for residents who want to work where they live and play."

## Kapolei Harborside

Just west and south of Avalon's Kapolei Business Park West industrial development lies Kapolei Properties LLC's Kapolei Harborside, the largest, most contiguous industrial parcel on the island of Oahu. Its 450 prime industrial acres are immediately adjacent to Kalaeloa Barbers Point Harbor, the state's second busiest airport, and the James Campbell Industrial Park, the state's largest industrial park and a Foreign Trade Zone. Just minutes away from the H-1 Freeway, Kapolei Harborside will be at the center of new industrial, light manufacturing, maritime, and mixed-use development that will re-energize and expand the industrial real estate market on Oahu. ■



Scott Mitchell



Guy Kidder

# Q&A: Industrial Investment On The Rise

**HAWAII'S REAL ESTATE** is experiencing a realignment of land uses, especially on Oahu, which is transforming the industrial real estate market. What is this realignment, and how will it impact Kapolei and investors who

are considering business opportunities in the region?

Kapolei Magazine talked to Colliers International Hawaii's experts in the company's Industrial and Investment Services Division.

**WILLIAM (BILL) FROELICH**  
*Vice President, Industrial and Investment Services Division, Colliers International Hawaii*

**Q What is the general state of the industrial real estate market in Hawaii?**

**A** Extremely supply constrained. Oahu is unique in that its population of around one million is served by less than 40 million square feet of industrial space. Compare it to a city like San Jose, CA where a similar population supports 400 million square feet of industrial space.

This is one reason that rental rates

are three times the national average, and our vacancy rate is the lowest in the country -- even lower than Los Angeles at 2.37 percent at mid-year. A 7 percent vacancy rate is generally recognized as equilibrium where tenants and landlords have equal bargaining power. Even during the recession, we didn't see vacancy rates much above 5 percent.

**Q What are the supply/demand factors for industrial space?**

**A** Our supply of industrial spaces is currently dwindling due to the recapture of one million square feet of industrial space at Kapalama, rail-related eminent domain takings,

future upzoning in Transit Oriented Development areas, as well as a condo development boom in Kakaako. All of this is pushing out industrial space. In the future, most of the near term supply will be in the form of raw land, which does little to help our compressed vacancy rates over the next three years.

Although we do not have the abilities to attract businesses from neighboring states, we have many factors creating strong demand for industrial space stemming from overall economic improvement, tourism being at an all time high, strong military spending, rail, sewer and road upgrades, and Kakaako and Ala Moana developments. All these factors affect industrial demand.



Bill Froelich

**GUY V. KIDDER**

*Vice President, Investment & Industrial Services  
Division, Colliers International Hawaii*

**Q We know that there is a scarcity of industrial space in Honolulu. What does this mean for Kapolei?**

**A** You're right! There is and will continue to be a scarcity of industrial space in town. We have already seen millions of square feet of improved industrial space disappear from the Honolulu market. With this growing trend of gentrification of industrial land in town, we will see more space lost. Since all the other industrial areas are nearly full, we expect almost all the future growth in industrial buildings and jobs will be in Greater Kapolei in the near to mid-term.

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—SCOTT MITCHELL,

**Q How do you see vacancy and rental rates trending over the next few years?**

**A** Warehouse properties in town are disappearing from our inventory and being reclaimed by government or being redeveloped by the private sector into higher and better uses. In a supply constrained market, reductions in supply can cause our current situation in a strong market – severe lack of available warehouse space (2.37 percent island wide vacancy) combined with strong demand. This creates conditions

that will encourage land values and lease rents to spike in the near future as an offset to the imbalance in the supply side of the supply demand equation.

As we wait for the new supply to flow into the market, industrial land prices and lease rents across the island will continue to rise. My indicators point to a 30 to 50 percent increase in lease rates and land values by the end of 2016. That being said, these increases are far less dramatic than the 300 percent growth in land values we saw in the 2004 through 2008 land sales in Waipahu and greater Kapolei.

**SCOTT MITCHELL**

*Executive Vice President,  
Investment & Industrial Services Division,  
Colliers International Hawaii*

**Q How do you see the market for industrial land now and over the next few years?**

**A** Existing Industrial stock is becoming the victim of urban renewal at an ever accelerated pace. The pressure that has been exerted on the remaining inventory has caused vacancy to decline to unprecedented levels and any remaining infill development parcels have already been absorbed.

If you throw into that mix, a public

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and private sector construction boom, a flourishing tourism industry and inexpensive capital, you cannot help but to be bullish on anything industrial for the next several years.

A recent study based on businesses being displaced from urban Honolulu and job growth identified demand for industrial land at an average of approximately 34 acres per year over the next five years. But the study also noted that in times of supply constraint and intensified construction activity, outsized demand over the averages can occur.

**Q What are the opportunities for industrial real estate investors in Kapolei in the current market?**

**A** Any near and midterm investment into the industrial marketplace can only, and will be in Kapolei. Three industrial parks totaling a little over 200-acres will be brought to market over the next several years.

In this cycle we expect industrial investment opportunities to cover all aspects of development.

The first step in the process has already occurred with the re-trading and recapitalization of bulk land parcels in Kapolei. This happened as the market was bottoming post-recession and will complete once infrastructure is built and finished lots can be delivered to the marketplace.

The next step or opportunity will be for owner/users to acquire parcels and expand their facilities. Pent up demand is building now and seeking an outlet.

We are expecting space rents to spike this year. Once these rents approach the \$1.25 per square foot per month level, we will see "speculative" and

"Build-to-Suit" construction as well.

Lastly, and this will take place on an island-wide basis, you will see the rehabilitation of older, functionally obsolete facilities as tenants demand more for

their increased rents.

For the most part, and with the exception of the rehabilitation of functionally obsolete facilities, the only place this can happen is in Kapolei. ■

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## PROFILE

# The Power of a Vision

## ► Christine Camp / Avalon Development Company

**TO MANY PEOPLE** who only know the public Christine Camp, it may seem that she has led a charmed life. In a sense, it has been charmed, but entirely because of her personal drive in pursuing her goals, and very hard work.

Camp was 10 when she came to Hawaii from South Korea with her family. When she arrived, she knew very little English, except “My name is Hyun Hee Camp” and “I am hungry.” And she knew her ABCs.

Life had been hard in Korea, and it was hard in their new home, but they managed to make ends meet. The children were expected to help out, and Camp started working at age 12. Making the transition to a new country and to public school was challenging, but sympathetic teachers helped her to blossom and do well. The straight-A student was also strong willed and in an act of defiance against her disciplinarian mother, she left home at age 15 and moved into a rundown apartment house in Kaimuki.

Most of her neighbors were women, some with kids, living in grinding poverty. “I saw what it felt like not to have hope,” said Camp. “The only bright light was two college students who were a couple. They were smart, happy, and they had hope for the future.”

*“From the first day that I arrived in Kapolei, I believed in the vision that it would one day become a thriving city.”*

It was then that she realized that education was her future. “I packed up my ego and went home,” she said.

Camp completed her high school education, and her first full-time job was with a development company, RK Development, where the owner saw her potential and gave her the opportunity to learn and grow. She would work her way through college, gaining the skills she would need to be a developer.

After RK Development, Camp went on to a successful career working for Castle & Cooke and Alexander & Baldwin. Then in 1999 at the young age of 32, Camp started her own firm, Avalon Development Company.

“It started as a one-woman office on a shoe string budget,” said Camp. Today, Avalon is a multifaceted vertically integrated real estate business with a team of 25 professionals. The company has developed retail centers, an industrial park, condominiums, offices and rental apartments. It also provides fee development, facility and property management, and brokerage services.

Camp has a long relationship with Kapolei, beginning with Castle & Cooke’s first single-family project, Kumu Iki, in the Villages of Kapolei in 1990. She eventually made a personal \$6.7 million investment in 2006 to buy a block in Kapolei’s urban core, where she built a school and the regional Social Security Administration office building.

“From the first day that I arrived in Kapolei, I believed in the vision that it would one day become a thriving city,” said Camp. “I believe that it has already reached that status, and I feel fortunate that Avalon will be a part of its growth for the foreseeable future.” ■

