

Industrial Market Report

HONOLULU | THIRD QUARTER 2010

“The next 12 months will be a very opportunistic time in commercial real estate.”

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

MARKET INDICATORS

THIRD QUARTER
2009 2010 2011

VACANCY	▲	▲	▲
NET ABSORPTION	▼	▼	▼
CONSTRUCTION	◀	◀	◀
RENTAL RATE	▼	▼	◀

INDUSTRIAL HIGHLIGHTS

YTD NET ABSORPTION: 112,503

VACANCY RATE: 4.36 %

DIRECT WEIGHTED
AVERAGE ASKING
RATE NNN: \$ 0.91 PSF/MO

AVERAGE OPERATING
EXPENSE: \$ 0.32 PSF/MO

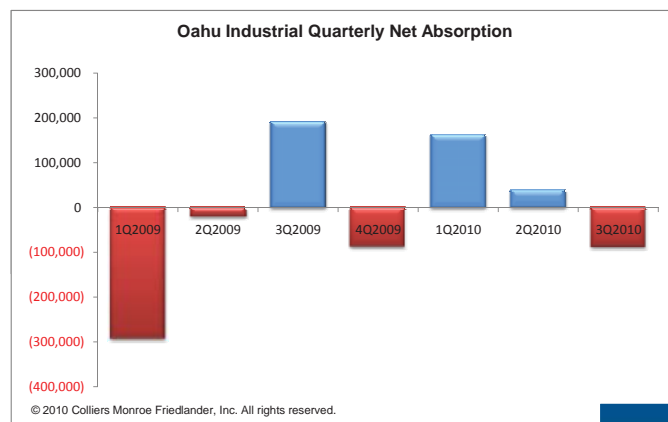
Lost Occupancy Posted for Third Quarter

Negative net absorption of 88,000 square feet for the third quarter resulted in island-wide vacancy rates rising to 4.36% from the second quarter vacancy rate of 4.14%. After generating 201,000 square feet of growth for the first two quarters of 2010, the third quarter was disappointing as the increase in vacancy only fuels speculation that the industrial sector has yet to establish a bottom to the market. Despite this setback, there still remains optimism that recovery and growth will return in 2011 with a more definitive growth pattern being established over the next few months.

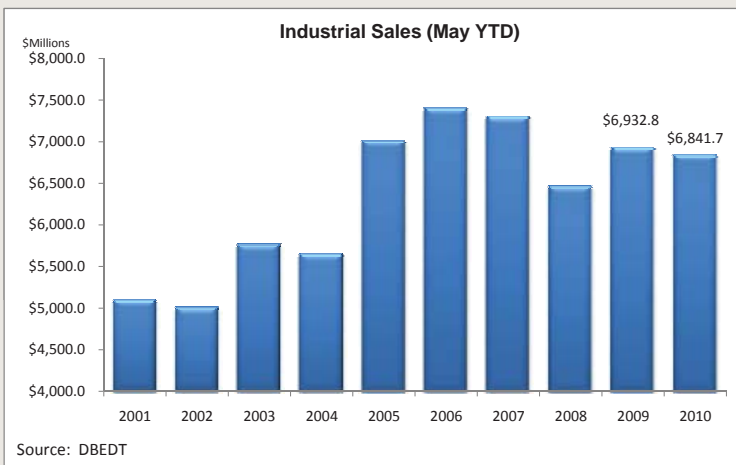
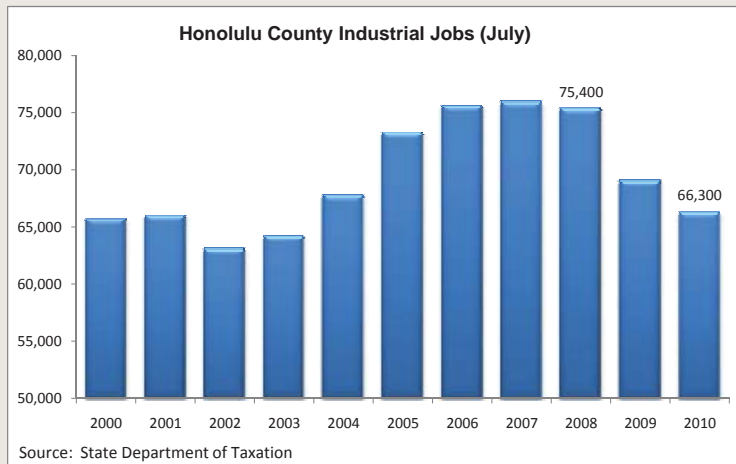
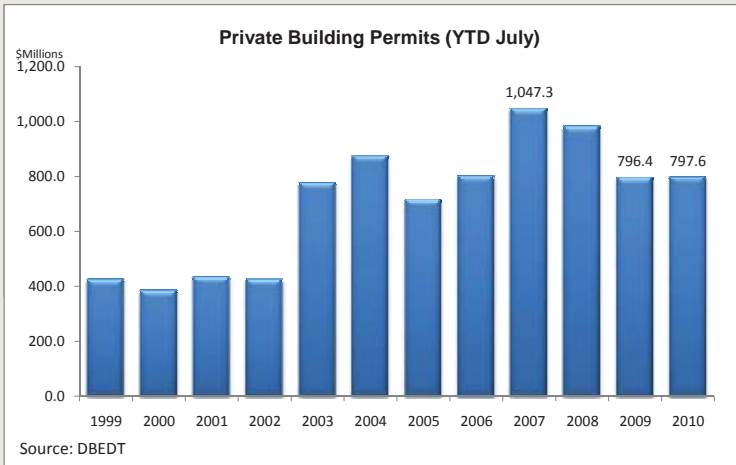
On a larger scale, the National Bureau of Economic Research (NBER) has pegged June 2009 as the

end of the recession in the United States. Locally, economists from the State of Hawaii and University of Hawaii Research Economic Organization (UHERO) are expressing confidence that Hawaii is in the midst of recovery and that job growth should be establishing itself in the near term. However, these forecasts appear marginally optimistic with real personal income and jobs projected to rise at roughly a 1.0% rate for 2011 and a 1.2% rate for 2012.

With the meager pace of growth, any improvement to the economy is eagerly anticipated. Several market indicators are showing that the economy appears to be mending with industrial sales activity, construction permit volume and



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tourism arrival counts posting growth over 2009 levels. Wholesale/distribution firms, who constitute the primary market for warehouse space in Honolulu, posted increased sales activity. Additionally, construction permit volume generated a boost during the past few months, pushing year-to-date levels over those established in 2009. The State's hospitality industry, which fuels roughly a quarter of the economy, is benefiting from a healthy rise in visitor counts and tourism expenditures.

Honolulu's unemployment rate inched downward from 5.8% to 5.6% between July and August 2010. Speculation is that this change is due not to jobs being created, but to fewer claims filed and fallout from those discouraged by the poor jobs market. Construction jobs continue to be difficult to attain and are far behind job count levels established at the construction peak in 2007. As a hopeful sign, at a recent job fair, a small number of construction firms sought staffing for government construction projects.

The island-wide direct weighted average asking base rent registered at \$0.91 per square foot per month (psf/mo) in the third quarter of 2010. This is an 8.1% decline from the year-end 2009 level and is similar to the average base rent level that was established in 2003. This continues a three year consecutive trend of falling rents for the industrial sector.

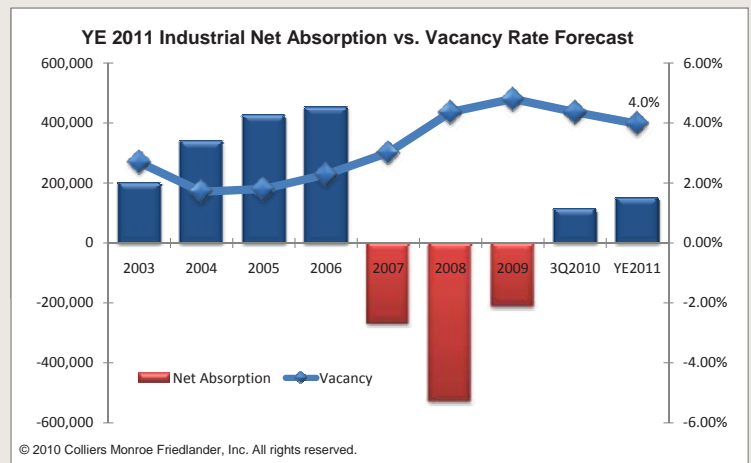
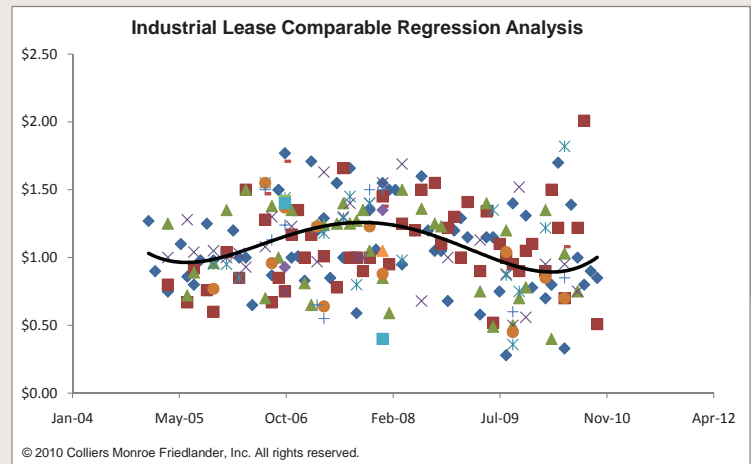
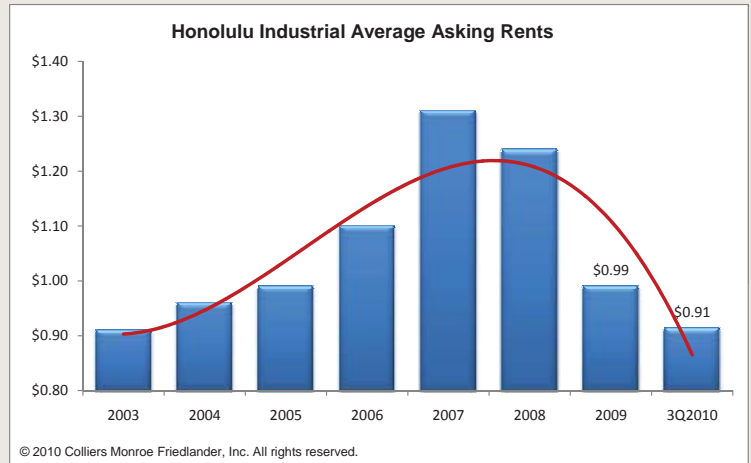


2029 LAUWILIWILI STREET

The Kaneohe, Pearl City, Waipahu/ Milltown, Airport/Mapunapuna and Campbell/Kapolei industrial markets registered the greatest drops in average asking base rents after posting double-digit declines over the past nine months. Recently negotiated leases are garnering higher rents than those of a few months ago, as reflected by our Industrial Lease Comparable Regression Analysis.

The softening in rental rates is causing a change in tenant demand in the marketplace. For those tenants that had relocated to outlying industrial markets when urban industrial rental prices rose dramatically over the past few years, many are considering relocating back to the urban core as in-town rents are becoming more affordable. This relocation is resulting in weakening demand for industrial space in West Oahu and Leeward Oahu industrial parks.

The industrial market's mid-term outlook calls for vacancy rates to fluctuate between 4.0% and 4.5% as the market tries to establish firm footing before rebounding in 2011. For urban industrial parks, demand appears to be growing and vacancy rates are anticipated to decline. Outlying markets such as Campbell/Kapolei and Waipahu/ Milltown are anticipated to experience a rise in vacancy rates with rents likely to continue to decline over the near term. Asking rents for urban industrial parks, such as Airport/Mapunapuna, Kalihi/Sand Island and Iwilei, are projected to remain stable as demand remains healthy for in-town locations.



Industrial Market Statistics

Submarket	Number of Buildings	Building Area	Available Space	YTD Absorption	Vacancy Rate	Wtd. Avg. Net Asking Rent	Avg. Net Op Exp.
Kalihi / Sand Island	699	9,193,148	410,694	108,843	4.47%	\$0.92	\$0.36
Kapalama Military Reserve	19	1,250,000	0	0	0.00%	N/A	N/A
Iwilei	94	2,433,603	25,587	48,762	1.05%	\$1.27	\$0.47
Airport / Mapunapuna	220	8,418,972	123,166	42,237	1.46%	\$0.86	\$0.31
Bougainville / Halawa	104	3,305,626	130,264	(42,130)	3.94%	\$1.02	\$0.30
Pearl City / Pearl City Industrial / Aiea	75	2,375,466	125,284	(76,778)	5.27%	\$1.09	\$0.37
Waipahu / Milltown	149	3,025,345	129,736	13,713	4.29%	\$0.87	\$0.32
Gentry Business Park	66	1,775,845	178,321	20,833	10.04%	\$0.99	\$0.46
Campbell Industrial Park / Kapolei Business Park / Kenai	253	5,605,778	502,254	3,734	8.96%	\$0.80	\$0.24
Kailua	50	514,989	43,475	(17,650)	8.44%	\$1.05	\$0.31
Kaneohe	41	542,801	8,604	10,939	1.59%	\$0.83	\$0.33
Totals	1,770	38,441,573	1,677,385	112,503	4.36%	\$0.91	\$0.32

*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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Featured Properties



FOR LEASE 800 North Nimitz Highway

TMK: I-1-5-13-23
 Zoning: IMX-1
 Size Available: 9,000 SF warehouse
 2,500 SF office
 Gross Rent: \$17,000/mo. warehouse/yard space
 (electricity separately metered)
 \$4,625/mo. office space
 (all utilities including central AC)
 Tenant Parking: 10,000 SF of paved yard
 Term: Flexible
 Contact: William Froelich (S) JD CCIM



FOR SALE Kapolei Business Park

TMK: (1) 9-1-75:35
 Area: Kapolei, Oahu, Hawaii
 Address: Kalaeloa Blvd. and Lauwiliwili St.
 Zoning: I-2 Intensive Industrial
 Tenure: Fee Simple Condominium
 Purchase Price: \$25.00 PSF
 Contact: Scott Mitchell (B) SIOR
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