



# Industrial Market Report

HONOLULU | THIRD QUARTER 2011

*“Strong wholesale sales counterbalanced weak contracting sales, as markets moved sideways during the third quarter.”*

- William Froelich (S) JD CCIM SIOR  
Vice President

## MARKET INDICATORS

THIRD QUARTER  
2010 2011 2012

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

## INDUSTRIAL HIGHLIGHTS

3Q NET ABSORPTION: 8,602 SF

YTD NET ABSORPTION: (1,265) SF

VACANCY RATE: 4.70 %

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

AVERAGE OPERATING  
EXPENSE: \$ 0.32 PSF/MO

## Searching for the Bottom of the Cycle

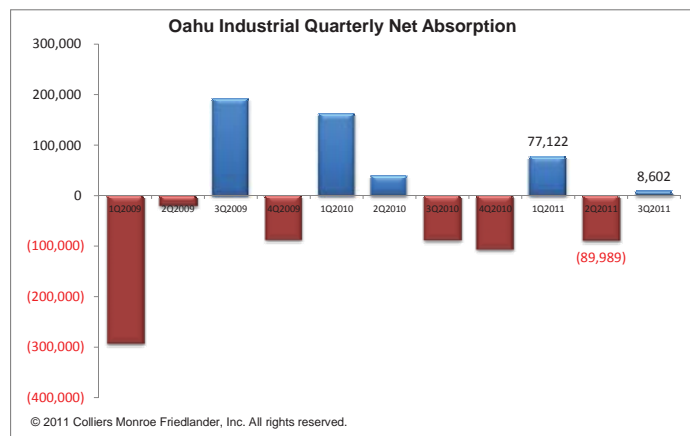
Honolulu’s industrial market posted 8,602 square feet of positive absorption over the third quarter, indicating that current market conditions improved over the second quarter, when nearly 90,000 square feet of negative net absorption was recorded. Although this volatility may appear significant, in a 38 million square foot market, the impact is minimal. Vacancy rates stabilized at 4.70% for the third quarter, down slightly from the 4.74% recorded at mid-year 2011. On the surface, it appears that the market has reached its bottom, but it still remains questionable as to whether a near term recovery will establish itself.

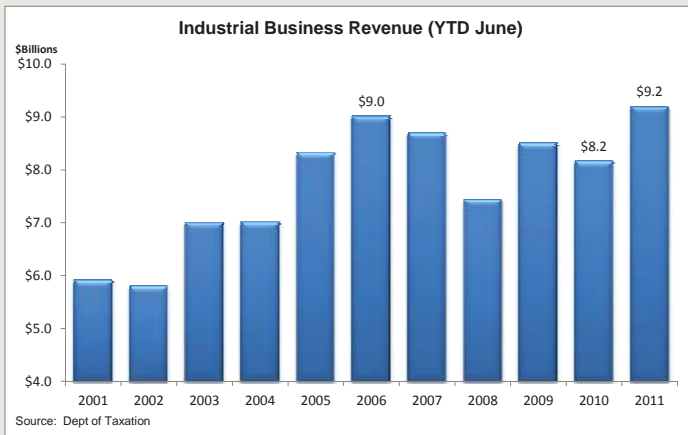
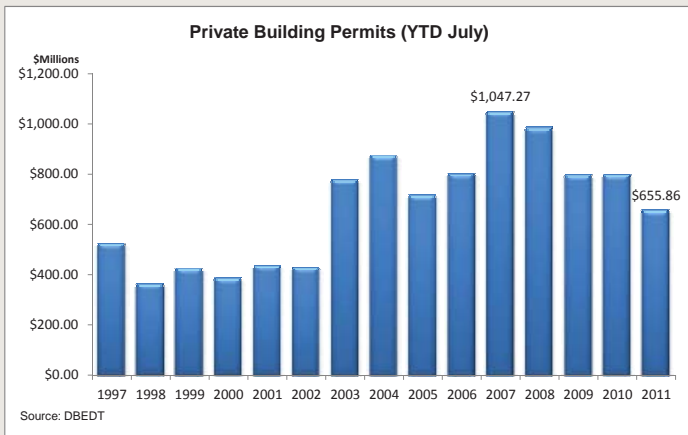
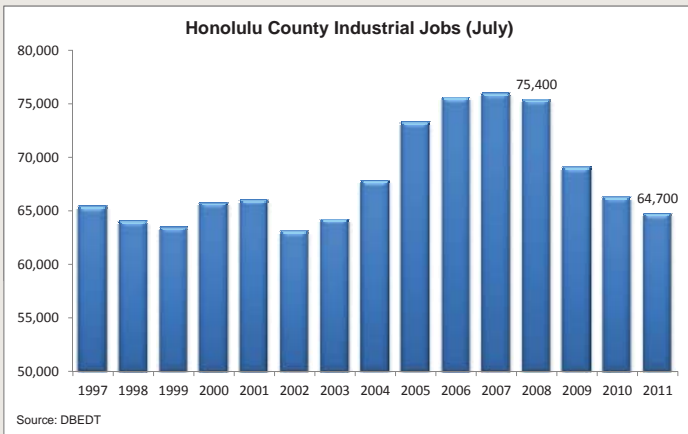
An indication of how industrial businesses are faring can be

determined by looking at employment rates. Comparing July 2011 to July 2010, there were 2.4% fewer industrial jobs with the largest declines being witnessed among the transportation/warehouse and manufacturing sectors which lost 1,300 and 800 jobs, respectively. Luckily, some of these job losses were offset by the 1,450 job gain in the construction industry.

Despite an increase in jobs among construction contractors, building permit volume, which tracks potential construction activity, indicates that the construction sector still remains lethargic. Year-to-date July 2011 figures reveal that \$655.9 million in permits were requested versus last year’s level of \$797.6 million.

Contributing to this drop was the \$113 million reduction in requests for residential and commercial building permits for the first





seven months of 2011.

Even with the slowdown in construction activity and the overall loss of industrial sector jobs, year-to-date June 2011 industrial business revenue is ahead of last year's levels by a healthy 12.6%. The first half of 2011 saw a record high level of industrial sales revenue that reached \$9.2 billion. Wholesale sales posted the majority of the gains by generating a \$927.4 million increase over last year's figures. Additionally, production sales activities generated a healthy 18% gain over 2010 levels.

Losses in occupancy occurred among construction firms, but were offset by the gains experienced among wholesale distribution firms, resulting in nominal growth in the overall marketplace. Additionally, compared to the end of last year, the number of small spaces (under 7,500 square feet) actually declined by 5.5% from 401 listings to 379. These small listings were replaced by additional listings in the 7,500 to 20,000 square foot range which grew by nearly 77,000 square feet over the past nine months.

The third quarter average asking rent declined to \$0.91 per square foot per month ("psf/mo"). This is an 8.1% drop from the year-end 2010 average rate of \$0.99 psf/mo and marks the fourth consecutive year of shrinking rents. This average asking rent is now equivalent to the rate posted at year-end 2003.



NEWTOWN BUSINESS PARK

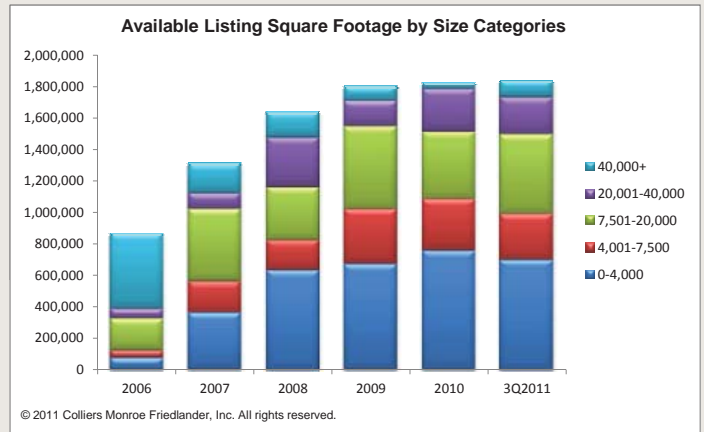


WATERHOUSE COMMERCIAL BUILDING

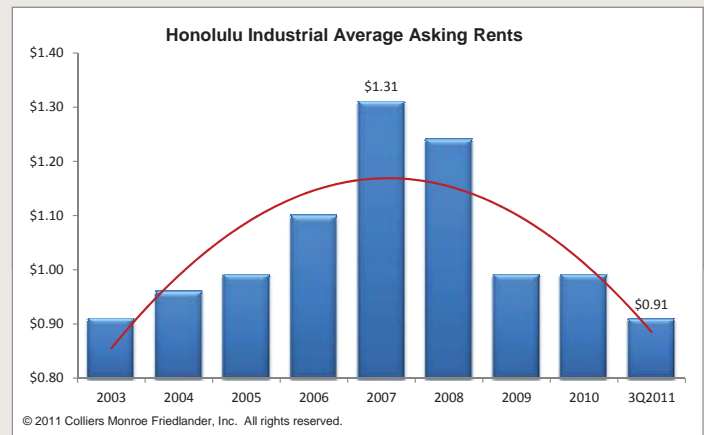
## Bouncing Along the Bottom

As discussed in prior market reports, the volatility being experienced in the industrial market reflects the uncertainty that permeates through the business marketplace and influences the pace in which relocation or expansion decisions are made. Industrial businesses are typically low margin and are very price sensitive to rental rate changes. With the recent declines to rent, many businesses have considered relocating back to the urban core to be closer to their clientele and to reduce their transport/commuting costs (due to rising gas prices). The migration from outlying markets to central Honolulu locations contributed to rising vacancies in Campbell/Kapolei industrial parks, which now exceed 9%.

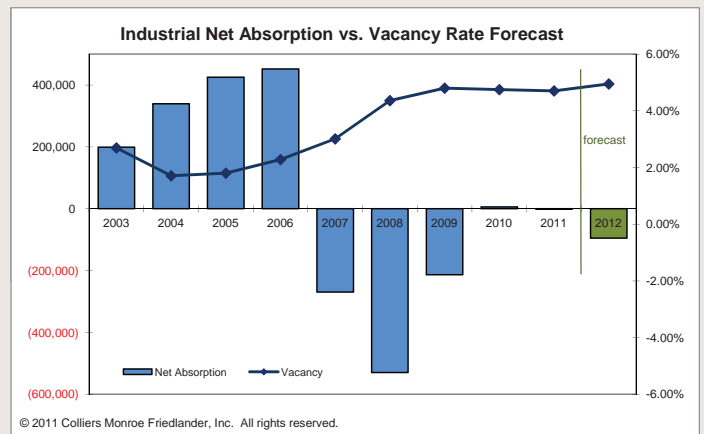
Very little change is anticipated in the near term to reverse the outlook for the industrial marketplace for the rest of 2011. Industrial sales growth has been limited to wholesale distribution firms benefiting from the retail and resort market's resurgence which is not anticipated to influence growth in other industrial business sectors. Although vacancy rates are projected to continue to rise into 2012, the hope is that the residential housing market and associated construction activity will begin to reappear in 2012 and help to stabilize the market.



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## Third Quarter 2011 Oahu Industrial Market Statistics

	Number of Buildings	Building Area	Available Space	3Q Net Absorption	YTD Absorption	Vacancy Rate	Wtd. Avg. Net Asking Rent	Avg. Net Op. Exp.
Kalihi / Sand Island	715	9,431,105	464,304	9,191	80,013	4.92%	\$0.91	\$0.32
Kapalama Military Reserve	19	1,250,000	0	0	0	0.00%	N/A	N/A
Iwilei	95	2,433,603	51,170	(22,417)	(5,925)	2.10%	\$1.17	\$0.51
Airport / Mapunapuna	224	8,439,140	148,957	(10,839)	(34,087)	1.77%	\$0.91	\$0.30
Bougainville / Halawa	104	3,368,883	170,845	32,346	(24,597)	5.07%	\$0.89	\$0.32
Pearl City / Pearl City Industrial / Aiea	76	2,407,716	211,712	(21,007)	(54,656)	8.79%	\$0.97	\$0.38
Waipahu / Milltown	153	3,127,234	67,864	63,440	3,175	2.17%	\$0.85	\$0.32
Gentry Business Park	66	1,775,845	157,174	(4,288)	19,668	8.85%	\$1.06	\$0.47
Campbell Industrial Park / Kapolei Business Park / Kenai	256	5,605,778	514,924	(43,444)	6,541	9.19%	\$0.82	\$0.24
Kailua	49	510,189	26,100	2,516	5,891	5.12%	\$1.08	\$0.31
Kaneohe	41	546,601	16,831	3,104	2,712	3.08%	\$1.00	\$0.31
<b>Totals</b>	<b>1,798</b>	<b>38,896,094</b>	<b>1,829,881</b>	<b>8,602</b>	<b>(1,265)</b>	<b>4.70%</b>	<b>\$0.91</b>	<b>\$0.32</b>

\* 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 BAMBOO COMMERCE CENTER

Address: 2312 Kamehameha Highway  
Honolulu, Hawaii 96819  
TMK: I-1-2-17-2  
Zoning: IMX-1  
Size Available: 40,500 SF  
Base Rent: \$1.10 psf/mo  
Op. Expenses: \$0.31 psf/mo (est. for 2011)  
Term: Negotiable  
Contact: William Froelich (S) JD CCIM SIOR



### FOR LEASE 218 MOHONUWA PLACE

Address: 218 Mohonua Place  
Honolulu, Hawaii 96819  
TMK: I-1-2-23-24  
Zoning: I-2 (Intensive Industrial)  
Land Area: 34,096 SF Building Area: 21,360 SF  
Base Rent: \$0.89 psf/mo  
Op. Expenses: \$0.14 psf/mo (est. for 2011)  
Contact: Guy V. Kidder (B) CCIM SIOR  
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