

Industrial Market Report

HONOLULU | FIRST QUARTER 2010

“So far we’ve weathered the economic storm, but the future is still uncertain.”

-Ronald Ward (S)
Vice President, Industrial Division

MARKET INDICATORS

FIRST QUARTER
2008 2009 2010

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

INDUSTRIAL HIGHLIGHTS

NET ABSORPTION: 161,142 SF

VACANCY RATE: 4.37 %

AVERAGE ASKING
BASE RATE: \$ 1.01 PSF/MO

AVERAGE OPERATING
EXPENSE: \$ 0.31 PSF/MO

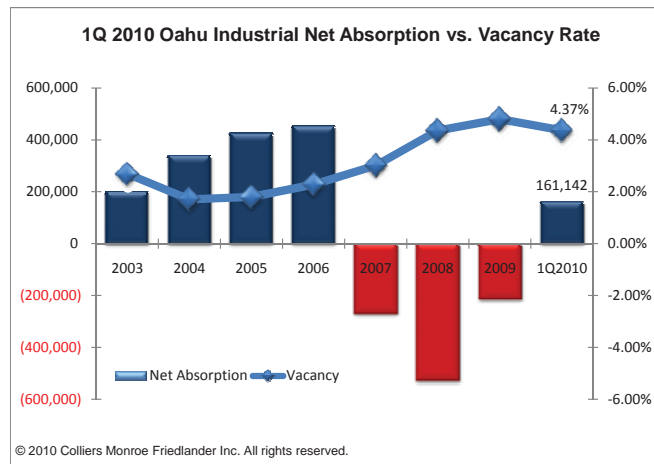
Healthy Leasing Bolsters Occupancy Growth

The Oahu industrial market posted 161,142 square feet of positive net absorption for the first quarter of 2010 reversing a three-year trend. Bolstered by several large industrial lease transactions to national credit tenants such as Servco Pacific and Wal-Mart, which leased a combined 124,000 square feet over the past quarter, the Oahu industrial vacancy rate stands at 4.37%, returning to levels established at year-end 2008.

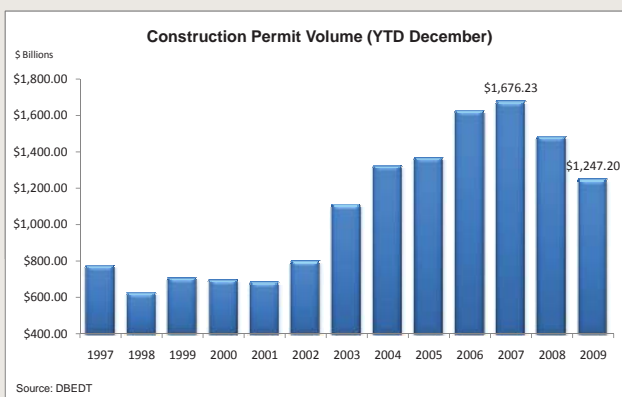
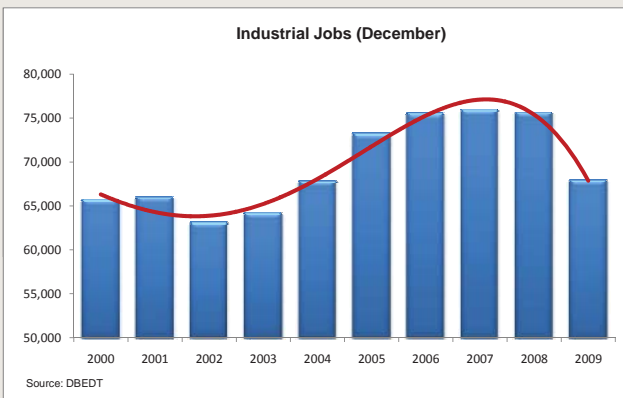
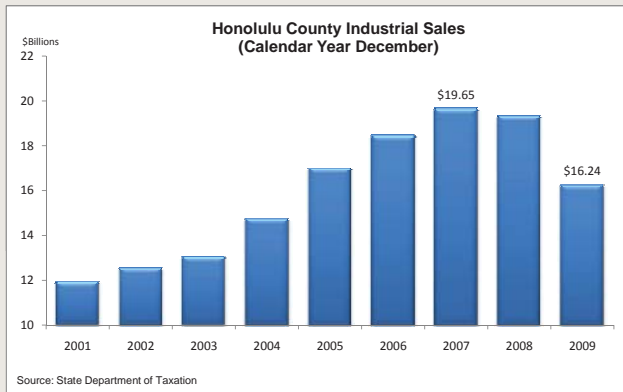
Additionally, average asking rents posted a slight gain over year-end 2009 figures. The direct weighted average asking rent rose to \$1.01 per square foot per month (“psf/mo”) from \$0.99 psf/mo that was

recorded at year-end 2009. This apparent leveling off of rents is after the market had already reported a decline in average asking rents of 24.4% from the record rent level established at year-end 2007.

Whether or not this is the beginning of a stabilization in the industrial sector remains to be seen as the economy continues to provide mixed signals. Despite the University of Hawaii Economic Research Organization (“UHERO”) having already predicted the end of the recession and that a market recovery has begun, there is still great hesitancy among businesses to adopt more aggressive business



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practices. The latest UHERO report indicated that job growth should return to most industry sectors by the second quarter of 2010, but overall job counts will still show a net loss for the year. The UHERO report is even more optimistic for 2011 and is more aligned with our beliefs that the industrial real estate market won't likely bottom out until year-end 2010.

Capital improvement projects, owner-user development efforts, and many warehouse lease expansions appear to be on hold until the future demonstrates more definitive confirmation that the worst of the recession is over. Of those firms that are contemplating growth, many are benefiting from government stimulus funds or transit-oriented projects. The City & County's light rail project is fueling an increase in industrial space demand from planning, engineering and construction firms.

Overall, the industrial sector has already lost 10.78% or 7,700 jobs from December 2008 to December 2009. The heaviest declines were posted by construction-related firms. Despite recent gains in residential home sales, construction activity still remains depressed as permit volume for calendar year 2009 fell by 15.8% or more than \$238 million since 2008. In addition to difficult economic conditions hampering future construction activity, the continuation of the financial turmoil on Wall Street will compound the ability of developers to secure financing for near-term development projects.

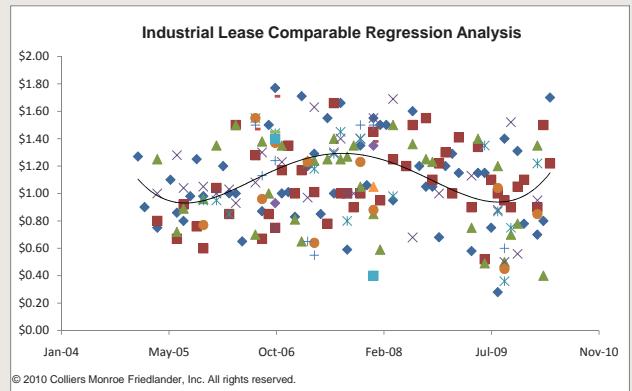
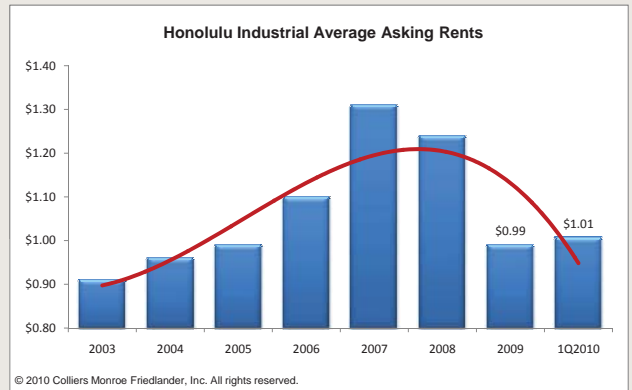
Moreover, year-end 2009 industrial sales activity dropped by nearly 16% over year-end 2008 levels. The greatest decline was experienced among the wholesale and distribution firms. This is the direct result of resort retail sales being impacted by declines in air passenger arrivals and island residents adopting conservative spending habits. Overall, retail sales are down by more than 11% over year-end 2008 figures.

Weakened market demand over the past year resulted in dramatic declines in the direct weighted average asking rent. Landlords outwardly were more aggressive in courting prospective tenants and provided increased concessions to woo tenants to their properties. It is not uncommon to hear of introductory discounted rental rates, an increase in free rent, and even a boost to brokerage commissions being used to elicit positive interest for vacant warehouse space. There also is a growing dichotomy among urban and outlying market areas. For those highly desirable urban warehouse

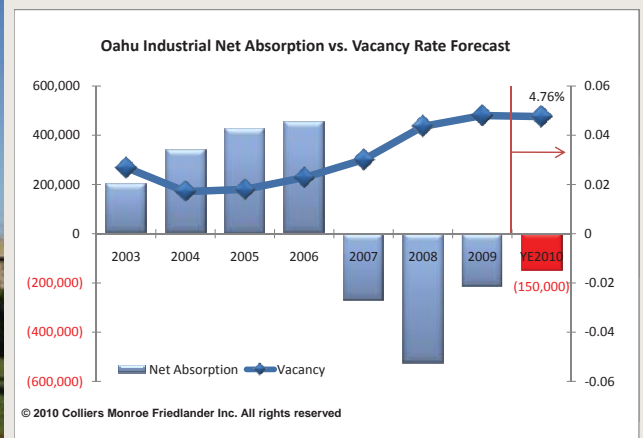
locations where tenant demand has remained healthy, landlord concessions are relatively minimal in comparison to outlying areas where vacancy is higher and tenant demand is weaker.

Many parts of the country faced a period of unrestricted development during the 2003 to 2007 time period, and consequently, a dramatic rise in vacancy rates due to the economic downturn. In hindsight, it was fortunate that on Oahu, warehouse development was primarily concentrated in the industrial condominium market. At one point, industrial condominium vacancy constituted nearly 25% of all the vacant warehouse space on the island and it is this available product that influenced much of the volatility in the industrial asking rents over the past few years. Initially, industrial condominiums were a unique product type with asking lease rents ranging from \$1.55 to \$1.60 psf/mo. When the recession and the financial crisis hit in 2008, these projects were faced with a drop in tenant/buyer interest and a subsequent decline in asking rents. Average asking rents have now returned to 2004-2005 levels.

Colliers anticipates that the industrial sector will continue to face volatility and uncertainty until the end of 2010. Despite an apparent improvement in market performance, difficult challenges remain for many industrial businesses that still face tight margins, falling sales and increased operating expenses. Vacancy rates are forecasted to remain near 5% at year-end. Rents are projected to fall by another 5%, eclipsing levels established in 2003, prior to the recent boom period.



91-329 KAUHI STREET



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	695	9,142,450	381,392	176,975	4.17%	\$0.99	\$0.32
Kapalama Military Reserve	19	1,250,000	0	0	0.00%	N/A	N/A
Iwilei	93	2,433,603	28,600	45,749	1.18%	\$1.05	\$0.41
Airport/Mapunapuna	219	8,411,597	111,832	53,571	1.33%	\$0.97	\$0.30
Bougainville / Halawa	104	3,305,626	91,951	(3,817)	2.78%	\$0.97	\$0.33
Pearl City/Pearl City Industrial / Aiea	74	2,327,769	57,444	(8,938)	2.47%	\$1.14	\$0.40
Waipahu/Milltown	149	3,025,345	194,914	(51,465)	6.44%	\$0.97	\$0.32
Gentry Business Park	66	1,775,845	168,917	30,237	9.51%	\$0.99	\$0.48
Campbell Industrial Park/Kapolei Business Park/Kenai	252	5,605,778	603,501	(97,513)	10.77%	\$1.03	\$0.24
Kailua	41	497,314	25,800	6,300	5.19%	\$1.09	\$0.31
Kaneohe	41	542,801	9,500	10,043	1.75%	\$1.10	\$0.21
Totals	1,753	38,318,128	1,673,851	161,142	4.37%	\$1.01	\$0.31

*Weighted average asking 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



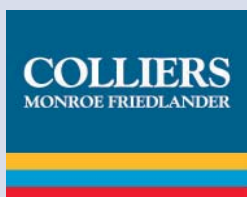
FOR SALE KAPOLEI WAREHOUSE

Address: 91-462 Komohana Street
 TMK: (1) 9-1-32-66
 Zoning: I-2 (General Industrial District)
 Lot Size: 17,300 SF
 Building Size: 9,280 SF
 Asking Price: \$1,650,000 (Fee Simple)
 Property Type: Net Lease Investment / Owner User
 Contact: William Froelich (S) JD CCIM



FOR LEASE KAPOLEI WAREHOUSE

Address: 2045 Lauwiliwili Steet
 Zoning: I-2 (General Industrial District)
 Size Available: 1,620 SF to 22,136 SF
 Term: 5 to 10 Years
 Asking Rent: \$0.85 to \$0.95 psf
 CAM: \$0.35 PSF
 Contact: Scott L. Mitchell (B) SIOR
 Guy V. Kidder (B) CCIM SIOR



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