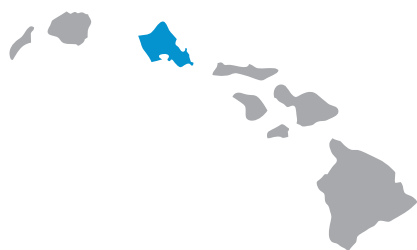




# OAHU THIRD QUARTER 2012 INDUSTRIAL MARKET REPORT



## MARKET INSIGHT

"Despite variations in quarterly absorption, market trends still indicate recovery."

- Ronald Ward (S)  
Vice President

## MARKET INDICATORS

	THIRD QUARTER	
	2011	2012
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↔	↑

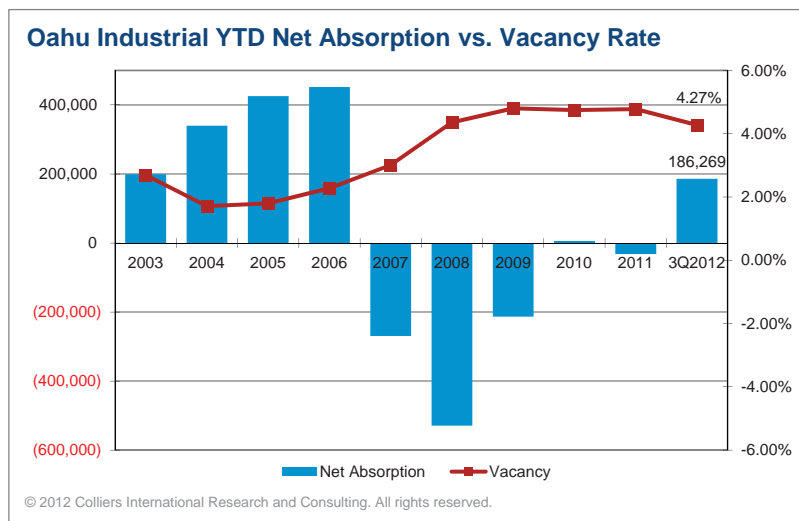
## INDUSTRIAL HIGHLIGHTS

3Q NET ABSORPTION	(23,922) SF
YTD NET ABSORPTION	186,269 SF
VACANCY RATE	4.27%
DIRECT WEIGHTED AVERAGE ASKING RENT (NNN)	\$0.98 PSF/MO
AVERAGE NET OPERATING EXPENSE	\$0.34 PSF/MO

## Industrial Market Growth Stalls for Third Quarter

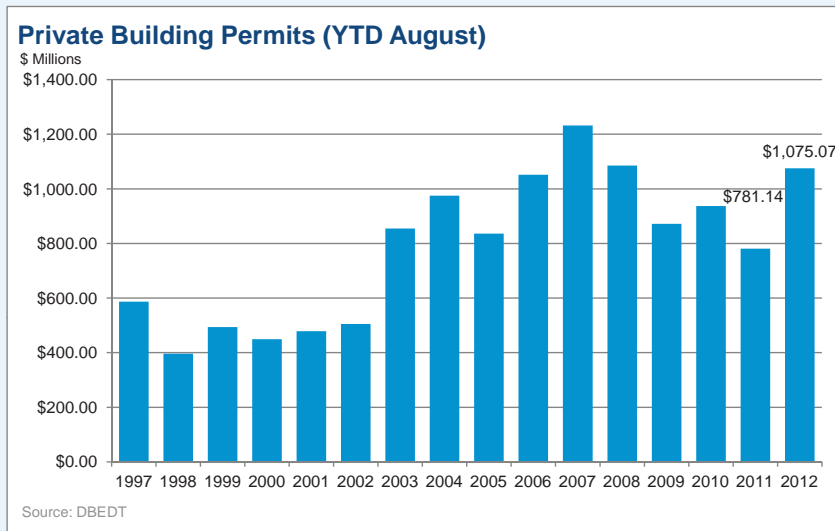
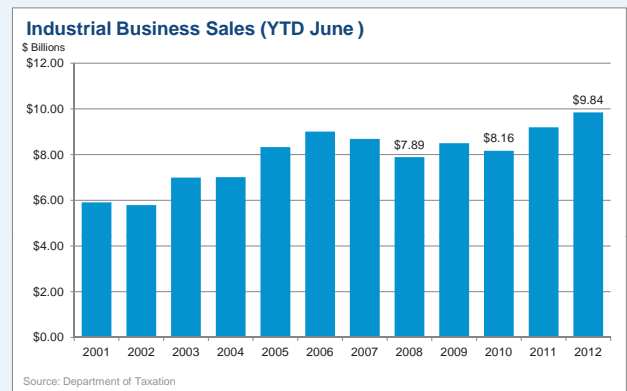
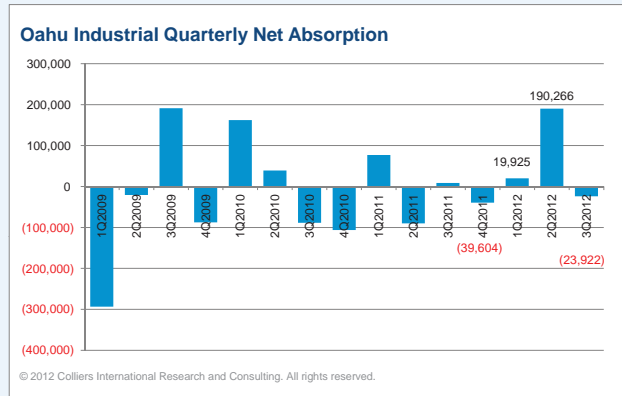
Although there was anticipation that the industrial market had transitioned into recovery, the third quarter of 2012 generated a negative 23,922 square feet of net absorption from the prior quarter. However, year-to-date absorption still remains positive at 186,269 square feet. Vacancy rates at the end of the third quarter registered at 4.27%, down from 4.78% at year-end 2011, but slightly higher than the 4.23% recorded at mid-year 2012.

Of the eleven industrial submarkets on Oahu, the Iwilei, Airport/Mapunapuna, Waipahu/Milltown, and Kaneohe areas posted third quarter losses in tenancy due to several larger spaces (over 10,000 square feet) becoming available this quarter. Together, these markets had a combined total of nearly 141,000 square feet of negative net absorption.



The volatility in the quarterly absorption levels appears to be merely a reflection of the vulnerability that the market has to changes among large tenants. For an industrial market of 39 million square feet, a positive or a negative change of 100,000 square feet in occupancy generally reflects little overall change to the market. After years of up and down quarterly movement along the “x” axis, vacancies in Honolulu’s industrial market has remained at or near 4% over the past four years.

Despite the uncertainty that still may remain as to the direction of the market, indicators are providing evidence of stabilization. Industrial business revenues, which include wholesale distribution, contracting, production and manufacturing sales, rose by a healthy 7% over the previous year’s activity to \$9.84 billion. The rebound in visitor arrivals spurred an 11.2% jump over June year-to-date 2012 tourism expenditures. This, in turn, boosted wholesale sales activity by 6.6% over the same period. Colliers anticipates that the distribution warehouse market in urban Honolulu will continue to remain healthy through the end of the year.



Construction spending has also increased. Contracting business sales volume as of June year-to-date 2012 is 16.7% ahead of last year’s levels at \$2.63 billion. Additionally, construction permit volume for 2012 so far is a whopping 37.6% or \$294 million above year-to-date August 2011 figures. Having returned to 2006 levels, this sizeable gain in building permit volume is the precursor to construction activity. Most of these gains occurred over the past two quarters and reflect a rising optimism among developers that the next market cycle is heading into recovery.



Over the past year, the growth in the construction and wholesale/distribution sectors has helped push up tenant leasing activity levels. Brokers are indicating that property tours by prospective tenants have increased and that deal flow is improving as both landlords and tenants are realizing that this is a good time to actively negotiate longer term leases.

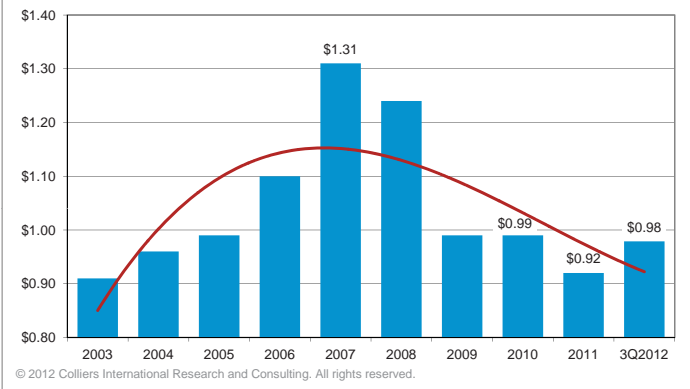
Another market influence involves the relocation of Kapalama Military Reserve tenants who have received their notices from the State to vacate as the government takes back the land for harbor expansion purposes. Many of these tenants are scouring locations near Honolulu Harbor before their businesses become displaced. Unfortunately however, finding a quality space in an urban core location remains increasingly difficult as available inventory remains tight. These additional displaced tenants will likely increase the challenge.

## Rental Rates Begin to Rise

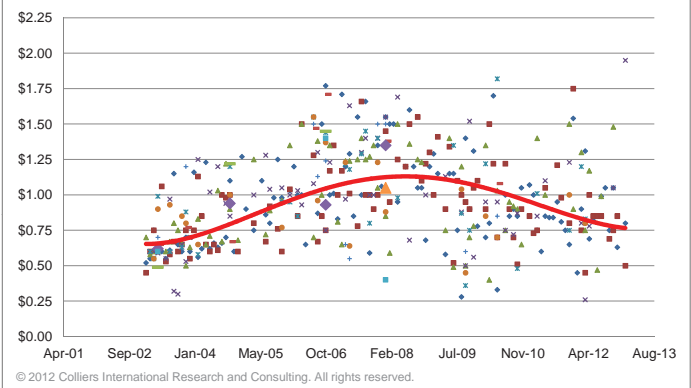
The average asking base rent for industrial space on Oahu increased for the third consecutive quarter, rising from \$0.92 per square foot per month (“psf/mo”) at year-end 2011 to \$0.98 psf/mo currently. This is a healthy gain of 6.5% over the past nine months and likely reflects the increase in competition among tenants seeking desirable space.

The discrepancy between “asking” and “getting” rents has long been disputed by brokers. In an effort to rectify this, the Colliers Oahu Industrial Lease Comparables Regression Analysis chart plots base rents from actual lease transactions and fits a trend line to determine the direction of rental rates. Based on the model, it appears that rents have begun to flatten out after a noticeable decrease over the past few years. Negotiated third quarter 2012 rents are hovering around \$0.97 psf/mo.

Honolulu Industrial Average Asking Rents



Oahu Industrial Lease Comparables Regression Analysis



## Outlook Remains Favorable

Colliers’ review of the industrial market indicators reflects a strong upward bias towards an improving marketplace. Both construction and wholesale/distribution firms appear to be poised for growth as each sector is benefiting from healthy demand. As such, vacancy rates are anticipated to continue to trend downward under 4% over the next six months with the average asking rent nearing \$1.00 psf/mo.



Iwilei Business Center

THIRD QUARTER YEAR 2012 Oahu Industrial Market Statistics

INDUSTRIAL MARKET - BY SUBMARKET AREA

	NO. OF BUILDINGS	BUILDING AREA	AVAILABLE SPACE	3Q NET ABSORPTION	YTD NET ABSORPTION	VACANCY RATE	DIR. WTD. AVG. ASKING RENT (NNN)	AVG. NET OP. EXP.
KALIHI / SAND ISLAND	722	9,521,581	404,684	29,718	117,269	4.25%	\$1.07	\$0.42
KAPALAMA MILITARY RESERVE	19	1,250,000	0	0	0	0.00%	N/A	N/A
IWILEI	96	2,433,603	132,268	(34,649)	(44,671)	5.44%	\$0.84	\$0.40
AIRPORT / MAPUNAPUNA	229	8,580,726	191,037	(44,244)	(42,080)	2.23%	\$1.00	\$0.37
BOUGAINVILLE / HALAWA	104	3,389,717	135,792	33,407	63,940	4.01%	\$0.82	\$0.29
PEARL CITY / PEARL CITY INDUSTRIAL / AIEA	76	2,407,716	111,640	13,209	85,742	4.64%	\$0.97	\$0.32
WAIPAHU / MILLTOWN	153	3,133,070	190,995	(49,801)	(115,511)	6.10%	\$0.98	\$0.32
GENTRY BUSINESS PARK	66	1,775,915	150,037	12,793	(1,702)	8.45%	\$1.06	\$0.47
CAMPBELL INDUSTRIAL PARK / KAPOLEI BUSINESS PARK / KENAI	254	5,605,778	327,232	16,415	102,388	5.84%	\$0.97	\$0.21
KAILUA	49	510,189	10,960	11,540	17,740	2.15%	\$0.30	\$0.31
KANEOHE	41	602,851	19,969	(12,310)	3,154	3.31%	\$0.86	\$0.30
<b>TOTALS*</b>	<b>1,809</b>	<b>39,211,146</b>	<b>1,674,614</b>	<b>(23,922)</b>	<b>186,269</b>	<b>4.27%</b>	<b>\$0.98</b>	<b>\$0.34</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 SALE**

### Maui Business Park - Phase 2 Kahului, Maui, Hawaii

Size Available: 0.42 - 2.44 Acres Total Lot Size: 75 Acres  
 Base Rent: \$838,965 - \$6,385,024 Zoning: M-1  
 Lot Type: Commercial/ Other (land)  
 Contact: William R. Froelich (S) JD CCIM SIOR  
 Marty Kenney (B)  
 Chirs Millen (S) CCIM



**FOR LEASE**

### 3169 Kopaka Street Honolulu, Hawaii

TMK: (1) 1-1-14: parcel 63 Zoning: I-2 Intensive Industrial  
 Available Size: 5,063 SF - 8,015 SF Term: 3 to 10 years  
 Base Rent: \$1.10 to \$1.40 psf/mo CAM: \$0.35 psf/mo  
 Contact: Scott L. Mitchell (B) SIOR  
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