



OAHU YEAR-END 2013

APARTMENT MARKET REPORT



Rental Housing Market Remains Strong

Historically, Oahu’s rental housing market conditions have been tight due to the high demand created by a lack of affordably priced homes for sale and minimal new rental development. The 2011 Hawaii Housing Planning Study issued by the State of Hawaii estimated the number of rental housing units in Oahu at 43,424. Based on the 2010 U.S. Census of an estimated 960,000 Oahu residents, approximately 44.1% occupy rental housing.

Demographics remain favorable that demand for rental housing will continue to grow. Comparing the total number of Oahu housing units (single family and multifamily) against the total population, it was clear the population is growing at a faster pace than the development of new housing stock. For Oahu, population counts have increased between 2002 and 2012 at roughly 0.9% or roughly 8,562 residents per year, while the number of housing units has grown at an average annual rate over the past five years at 3,200 units. As this disparity grows, the existing shortfall of housing will continue to expand, pushing demand for rental housing higher. Rents will likely increase, leading to a surge in real estate investor interest.

MARKET INSIGHT

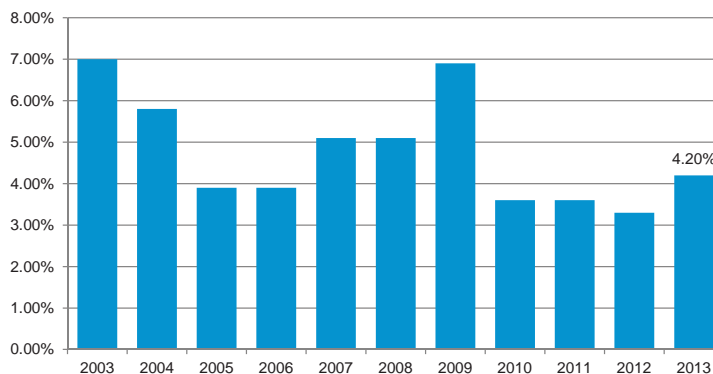
“Apartments are the most popular real estate investment type in Hawaii as investors are confident about high occupancy rates and accelerating rents.”

- Mark D. Bratton (R) CCIM
Vice President

APARTMENT HIGHLIGHTS

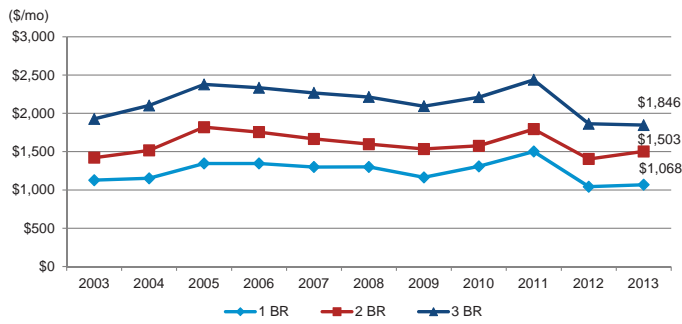
SALES VOLUME IN 2013:	\$260.54 Million
SALES COUNT:	81
ESTIMATED CAP RATE:	4.10%
VACANCY RATE:	4.20%
AVERAGE APARTMENT RENTS:	
1 BEDROOM:	\$1,068/MO
2 BEDROOMS:	\$1,503/MO
3 BEDROOMS:	\$1,846/MO

Oahu Apartment Vacancy Rate



Source: MPF Research, REIS and State Data Book

Oahu Average Apartment Rents (by Number of Bedrooms)



Source: MPF Research

At year-end 2013, MPF Research (an apartment market research firm) estimated that Oahu's apartment vacancy rate was 4.2% and reflected market dynamics that were stronger than the national average. Over the past year, average rents for one-bedroom and two-bedroom units increased by 2% and 7%, respectively. Average rents for three-bedroom units declined slightly by 1%.

A sizeable impact to Oahu's rental demand has been the ebb and flow of military personnel stationed here. Typically, when there is a lengthy military deployment, the rental market suffers. Luckily for the local economy, there are plans for a relocation of troops to Oahu from Okinawa and Washington State. This will likely place added pressure on rental housing prices as demand increases. Additionally, military renters are set to get an increase in housing allowance. The additional funding will filter through the market in upwardly adjusted rental rates.

Colliers anticipates that investor demand for rental housing should strengthen with rents posting a healthy 5% to 7% increase over the near term time horizon. The combination of job growth, rising personal income and limited new housing stock should keep demand for rental housing at healthy levels.

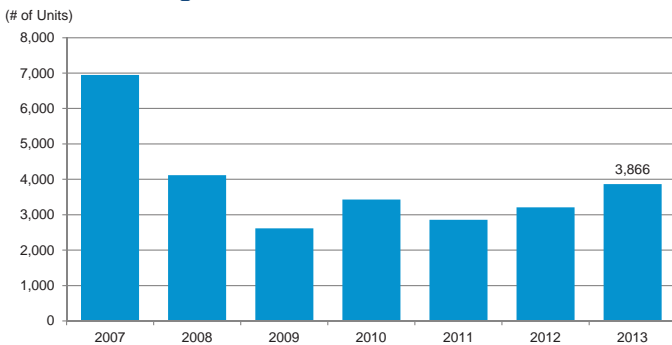
Investor Interest Improves for Rental Housing Market

Nationally, investors are attracted to the favorable market dynamics of apartment properties. Multifamily developers already have begun to capitalize on investor interest property project and are dusting off their plans, seeking entitlements and proceeding with construction.

However, unlike national trends, urban Oahu apartment development activity remains nearly non-existent (except for government sponsored affordable housing). High land and construction costs often make it difficult to make new apartment development financially feasible. For example, a 750 square foot two-bedroom unit would have to generate more than \$3.50 to \$4.00 per square foot in monthly rent (\$2,650 to \$3,000 per month) before a developer would consider moving forward on a market rate rental housing development.

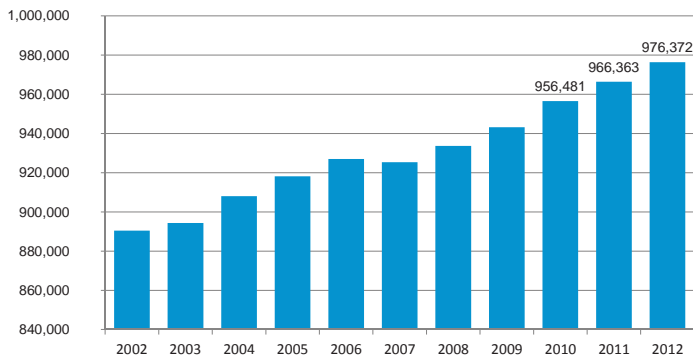
Oahu median home prices for December 2013 tied an all-time record high at \$685,000 and ranks at or near the top of the major metropolitan areas in the country.

Hawaii Housing Starts



Source: National Association of Home Builders

City and County of Honolulu Population Counts



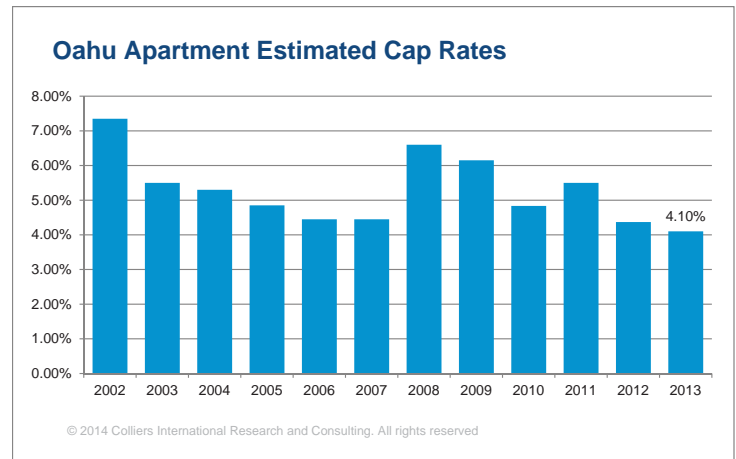
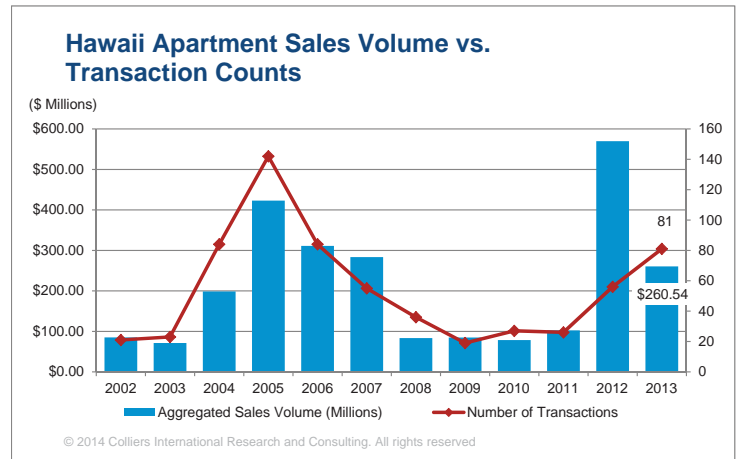
Source: DBEDT

These high prices serve as an impediment to the ability of many island residents to purchase their own homes. For a home at the median price point, with a 20% down payment and a loan with an interest rate of 4.5%, the monthly mortgage payment would be \$2,803. This mortgage payment is comparable to the monthly apartment rental rate required by an apartment developer to make apartment construction financially feasible.

For 2013, 81 apartment buildings traded hands statewide for a total sales volume of \$260.5 million, a decline of 54.2% from the record established in 2012. Conversely, the average price per apartment unit rose to \$200,615 for 2013 from \$178,793 in 2012.

Apartment capitalization rates declined to 4.10% from 4.37% in 2012. Despite these relatively low returns, with interest bearing bank accounts paying sub-0.5% annually and mortgage interest rates remaining relatively low, real estate remains an attractive investment vehicle. Of the 81 transactions noted above, 52 were for properties under \$2.0 million in price. This price range is within striking distance for many small investors. Of the apartment transactions that closed during 2013, the average size was 10.3 units with an average sales price of \$3.2 million. Only three properties that sold during 2013 were 30 units or larger in size. This is reflective of the apartment inventory on Oahu there are only a handful of large complexes in excess of 100 units.

Colliers anticipates that the healthy market dynamics of a strengthening economy, continued population growth and limited new supply will help to keep apartment capitalization rates within a narrow range of 4.0% to 4.25% for 2014. Property sellers will maintain the upper hand in negotiations as demand for small apartment properties remains robust.

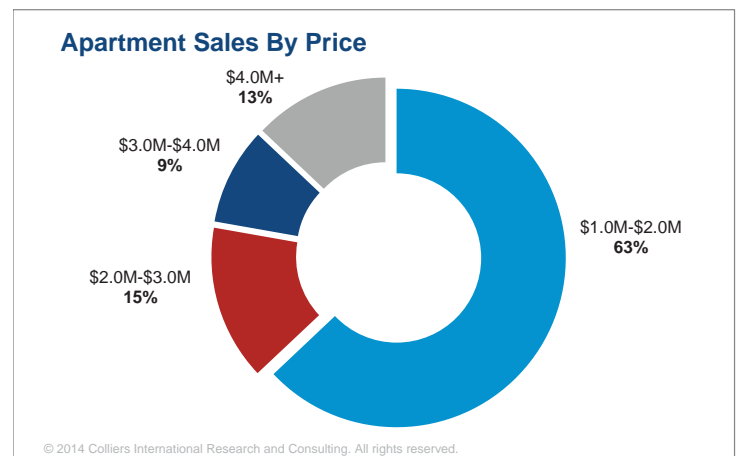


NOTABLE SALE



2021 N. King Street
(8 units)

Sold for \$1.85 million in 2013
By: William Froelich (S) JD, SIOR, CCIM
www.Oahuindustrial.com



FOR SALE



EXECUTIVE CENTRE CONDOMINIUMS BULK SALE

www.HNLCondoSale.com

1088 Bishop Street
Honolulu, Oahu

Asking Price:
Number of Suites:
Tenure:
Contact:

\$10.5 million
66 residential units
Leasehold (expires in 2053)
Mark D. Bratton (R) CCIM*
William Forelich (S) JD, CCIM, SIOR

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