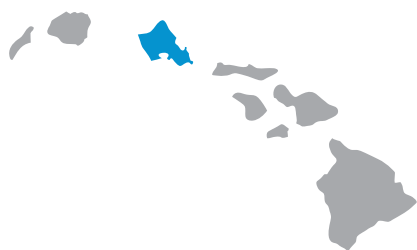




OAHU THIRD QUARTER 2014 INDUSTRIAL MARKET REPORT



Eight-Year Vacancy Low Achieved

MARKET INSIGHT

"Critical lack of supply makes it a challenging time for industrial tenants looking to relocate."

- Ronald C. Ward (S)
Vice President

MARKET INDICATORS

THIRD QUARTER
2013 to 2014

VACANCY ↓

NET ABSORPTION ↑

CONSTRUCTION ↔

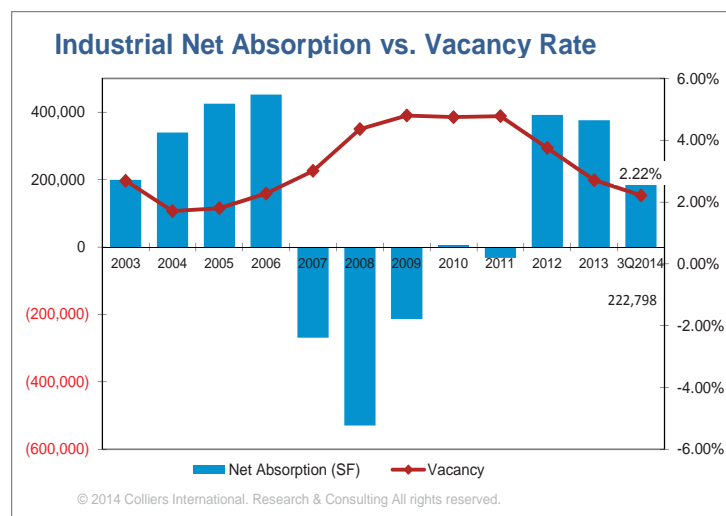
RENTAL RATE ↑

INDUSTRIAL HIGHLIGHTS

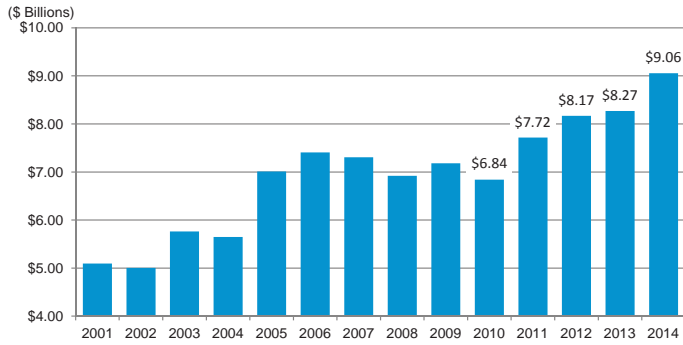
3Q ABSORPTION	59,160 SF
YTD NET ABSORPTION	222,798 SF
VACANCY RATE	2.22%
DIRECT WEIGHTED AVERAGE ASKING RENT (NNN)	\$1.04 PSF/MO
AVERAGE NET OPERATING EXPENSE	\$0.41 PSF/MO

Oahu's industrial marketplace generated 59,160 square feet of positive net absorption for the third quarter of 2014 which further exacerbated already tight market conditions. This increased year-to-date occupancy growth to 222,798 square feet. Industrial vacancy rates fell to 2.22%, the lowest level in eight years, rivaling levels established at the height of the last boom period.

Industrial sector economic indicators remain strong with growth in industrial business sales, wholesale sales, and a continuation of healthy construction permit volume. All indicators point to continued robust business growth which will exacerbate industrial space demand through 2015.

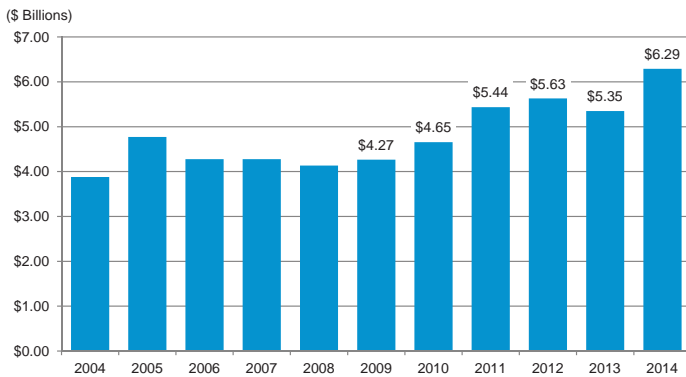


Industrial Business Sales (May YTD)



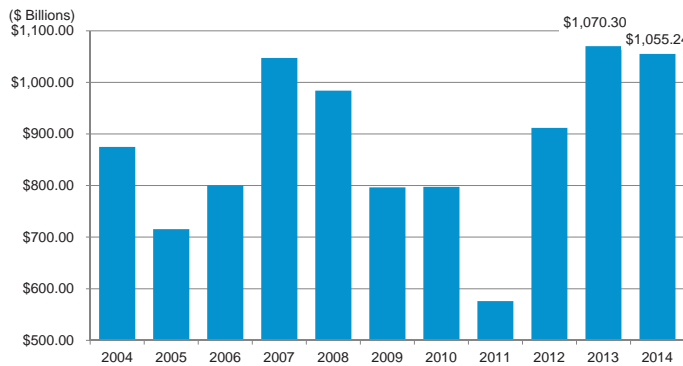
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Wholesale Sales (May YTD)



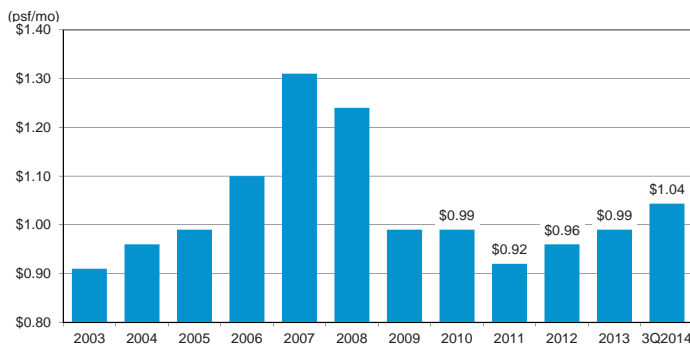
Source: Department of Taxation

Private Building Permits (July YTD)



Source: DBEDT

Oahu Industrial Average Asking Rents



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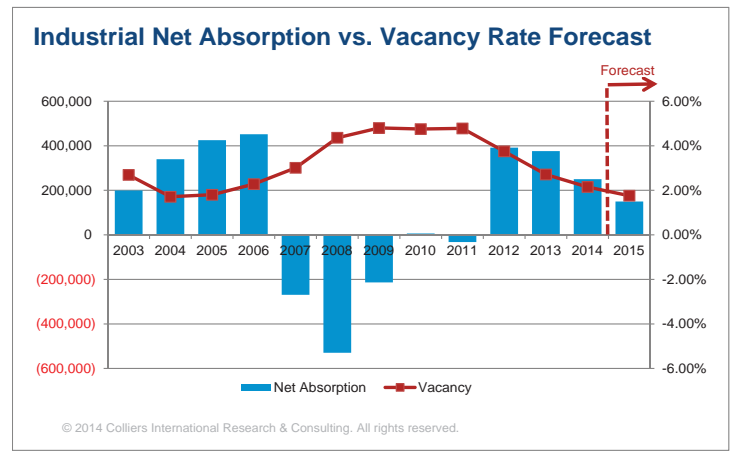
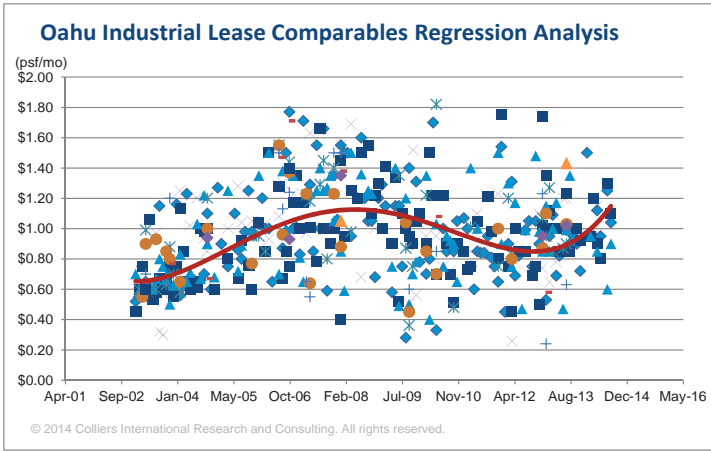
Industrial business revenue rose 9.6% over last year's level to a record high of \$9.06 billion for May year-to-date. Most of these gains were attributed to strong wholesale distribution sales which grew by a hearty 17.6% during this time period. In addition to a strengthening distribution sector, the July year-to-date construction permit volume, which is an indicator of future development activity, exceeded \$1.0 billion for the second year in a row. The boom in private sector development combined with public sector transportation capital projects will fuel continued construction spending for years to come.

Available Listings Fall by more than 65%

The number of available listings reached a nine-year high in 2010 with 450 spaces and a total of 1.9 million square feet. Strong market conditions have led to a significant drop in availabilities with a total of 194 listings and 918,625 square feet for the third quarter of 2014. Brokers are lamenting the limited options that are available for their clients seeking space. In fact, for tenants seeking more than 20,000 square feet of warehouse space, the options have dropped from 13 in 2010 to two currently. For tenants seeking warehouse space under 4,000 square feet, the number of listings has declined by 61.5% over the past four years. Prospective warehouse tenants looking to expand or relocated should start their search early as competition remains fierce for quality urban locations.

Rents Projected to Jump

At the end of the third quarter, the direct weighted average asking base rent increased a solid 5% to \$1.04 per square foot per month ("psf/mo") from \$0.99 psf/mo at year-end 2013. Although a significant drop in available listings typically results in a spike in rents, the slow pace in rent increases being experienced can be partly attributed to the lack of available prime warehouse space. The proverbial "bottom of the barrel" listings are helping to dampen the rise in rents. A better indication of where actual negotiated rents are registering is reflected on the Colliers Industrial Lease Comparables Regression Analysis. Recent industrial leases are being transacted above \$1.15 psf/mo. Colliers still anticipates a jump in rents to occur over the next few quarters.



Current rents are not yet at the level to spur speculative warehouse development. Even for lower priced entitled industrial land in West Oahu, which averages \$30 per square foot, a viable warehouse project would need to exceed a hurdle rental rate of roughly \$1.30 per square foot per month. With urban Honolulu industrial land values exceeding \$100 per square foot, it is virtually impossible to make speculative industrial warehouse development feasible.

At the current pace of occupancy growth, it is highly likely that vacancy rates will fall below 2.0% by 2015. Further aggravating this available warehouse shortage is the lack of any planned warehouse construction. Under the current market conditions, it is only a matter of time before rental rates begin to quickly increase. The lack of new development coupled with the strengthening economy will continue to place upward pressure on warehouse rents. Rents are projected to rise above \$1.15 psf/mo within the next few quarters and could easily exceed \$1.25 psf/mo by year-end 2015.

While there are no immediate changes to the market anticipated anytime soon, recent major land sales will bring much needed inventory to West Oahu. The sale by Kapolei Property Development of the 123-acres of land running along the northern side of Kalaeloa Boulevard to the joint venture of Avalon Development and Walton Street Capital will bring additional industrial lots for sale into the marketplace. In addition, the recent acquisition of the Kapolei Trade Center by AG-Metric KTC Holdings may soon bring 221,000 square feet of industrial condo units to the market.

Featured Properties



99-1036 Iwaena Street, Aiea, HI

Prime industrial property in Halawa Industrial Park. Ideal for an owner-user. Includes a hi-cube warehouse, 20' roll-up door and restrooms on both levels. The site is private and secure with easy freeway access.

TMK: (1) 9-9-72: parcel 23
Zoning: I-2 (Intensive Industrial)
Tenure: Leasehold
Land Size: 20,800 SF
Building Size: 13,573 SF
Contact: Ronald C. Ward (S)



91-462 Komohana Street, Kapolei, HI

Three-story warehouse and office complex in Campbell Industrial Park with Komohana Street frontage. Includes elevator and PV system. Fully occupied.

TMK: (1) 9-1-32-66
Zoning: I-2 (General Industrial District)
Tenure: Fee Simple
Lot Size: 17,300 SF
Building Size: 9,280 SF
Contact: William R. Froelich (S) JD, CCIM, SIOR

THIRD QUARTER 2014 Oahu Industrial Market Statistics

INDUSTRIAL MARKET - BY SUBMARKET AREA

	NO. OF BUILDINGS	BUILDING AREA (SF)	AVAILABLE SPACE (SF)	3Q2014 NET ABSORPTION (SF)	3Q2014 YTD NET ABSORPTION (SF)	VACANCY RATE	DIRECT WTD. AVG. NET ASKING RENT (NNN) (PSF/MO)*	AVG. NET OP. EXP. (PSF/MO)
KALIHI / SAND ISLAND	756	9,687,529	176,262	57,904	73,962	1.82%	\$1.02	\$0.40
IWILEI	96	2,353,679	44,750	(11,721)	2,383	1.90%	\$1.25	\$0.50
AIRPORT / MAPUNAPUNA	236	8,813,893	84,107	(12,149)	31,435	0.95%	\$1.18	\$0.44
BOUGAINVILLE / HALAWA	104	3,446,235	96,607	(4,699)	(5,112)	2.80%	\$1.02	\$0.35
PEARL CITY / PEARL CITY INDUSTRIAL / AIEA	77	2,422,874	123,470	(21,834)	13,519	5.10%	\$1.09	\$0.38
WAIPAHAU / MILLTOWN	156	3,143,343	93,964	63,565	65,123	2.99%	\$0.81	\$0.32
GENTRY BUSINESS PARK	66	1,775,915	46,542	17,384	21,367	2.62%	\$1.21	\$0.47
CAMPBELL INDUSTRIAL PARK / KAPOLEI BUSINESS PARK / KENAI	256	6,483,359	161,069	(24,530)	11,144	2.48%	\$0.97	\$0.37
KAILUA	54	538,129	22,900	2,330	8,030	4.26%	\$1.44	\$0.31
KANEOHE	41	602,851	20,540	(7,090)	947	3.41%	\$0.58	\$0.57
TOTALS	1,842	39,267,807	870,211	59,160	222,798	2.22%	\$1.04	\$0.41

* Weighted average rents are calculated on I-1, I-2 and I-3 zoned properties. IMX zoned properties, which can be used for retail have been excluded from this rent calculation.

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TERMS AND DEFINITIONS

- INVENTORY - Industrial buildings greater than 2,500 square feet located on the island of Oahu, inclusive of owner user and single tenant buildings.
- TOTAL SQUARE FEET - All rentable industrial space exclusive of common areas, yard space and fire escapes.
- VACANT SPACE - Industrial space that is not occupied by a tenant. This includes sublease space that is unoccupied.
- VACANCY RATE - The ratio of vacant industrial space divided by the total industrial inventory square footage.
- NET ABSORPTION - The net change in occupied space over a period of time. Year-to-date net absorption is the difference in occupied space between the end of the previous year and the current quarter.
- DIRECT WEIGHTED AVERAGE ASKING RENT (NNN) - The ratio of aggregate landlord asking rents divided by the total available space within a specific geography.
- AVERAGE OPERATING EXPENSES - The average rate of tenant expenses such as building utilities, management fees, building maintenance, real property taxes and insurance within a specific geography.
- BASE RENTS - Rents exclusive of building operating expenses.

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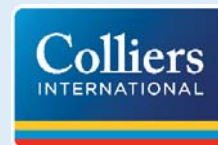
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