



OAHU MID YEAR 2012

INDUSTRIAL MARKET REPORT



Sizeable Jump in Growth Recorded

Following 20,000 square feet of positive occupancy growth for the first quarter of 2012, the second quarter built on this momentum by adding an additional 190,000 square feet of net absorption. As a result, vacancy rates fell to 4.23%, its lowest reading since 2008.

The industrial sector appears to be benefiting from an improvement in the overall economy. Vacancy rates, which have steadfastly moved sideways over the past 3 1/2 years, now post a healthy downward trend.

Colliers' analytics categorizes real estate cycles as having four distinct quadrants: Recovery, Expansion, Hypersupply and Recession. A transition is occurring for Honolulu's industrial market, which was mired in the Recession quadrant for more than four years. The return of positive occupancy gains, rising economic indicators and strengthening rental rates leads us to believe that the market has now entered the Recovery phase.

Over the past three years, construction permit volume has been steadily building, increasing more than 30% since last year for projects that involve additions or alterations to existing properties. This coincides with the tendency for property owners to work to improve the value of their properties during weak economic times.

MARKET INSIGHT

"The recovery is finally manifesting itself."

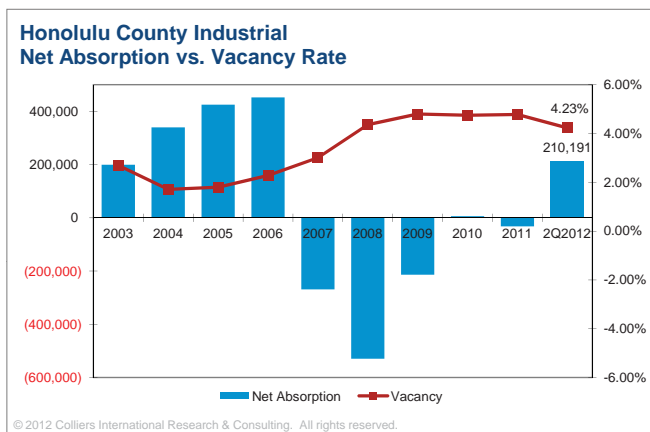
- Scott L. Mitchell (B) SIOR
Executive Vice President

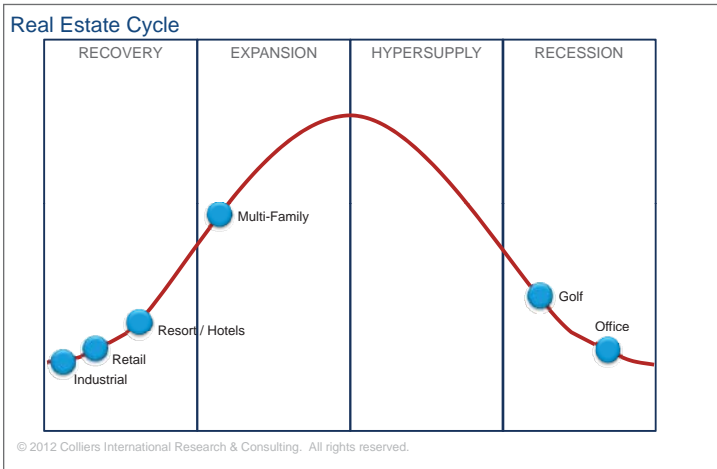
MARKET INDICATORS

	MID YEAR	
	2011	2012
VACANCY	↑	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↓	↑

INDUSTRIAL HIGHLIGHTS

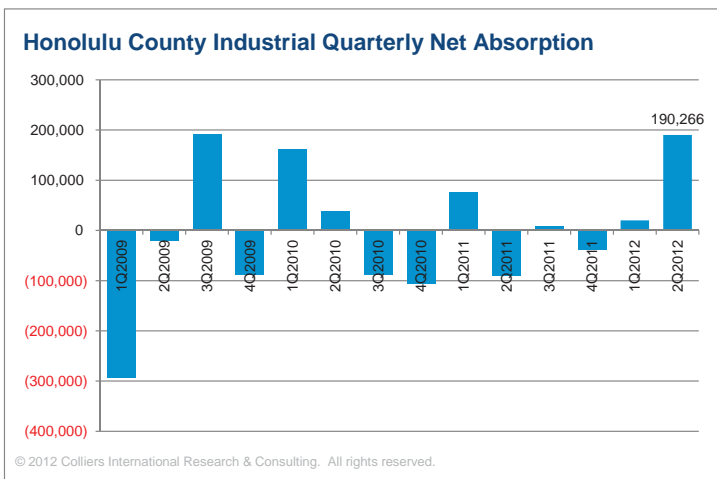
2Q NET ABSORPTION	190,266 SF
YTD NET ABSORPTION	210,191 SF
VACANCY RATE	4.23%
DIRECT WEIGHTED AVERAGE ASKING RENT (NNN)	\$0.96 PSF/MO
AVERAGE OPERATING EXPENSE	\$0.32 PSF/MO





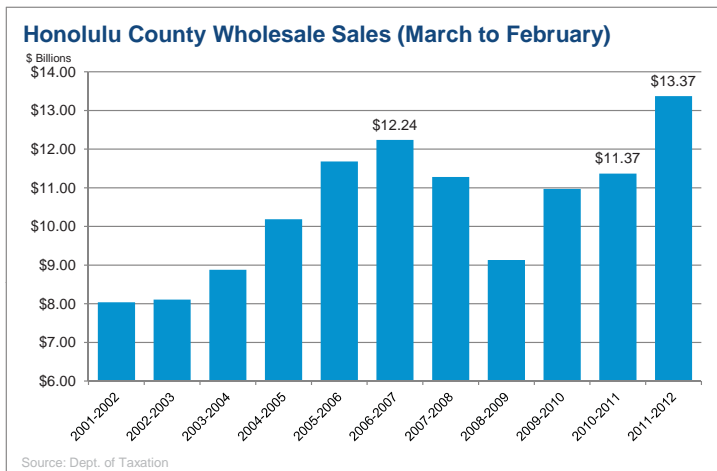
However, before the celebration begins, there still remains skepticism about whether this recovery will be smooth or fraught with road bumps. Volatility is evident in the trajectory of the Honolulu County Industrial Quarterly Net Absorption chart. Our market projections are based on the economic and business indicators that lead us to believe that the market is changing.

A positive indicator of future industrial real estate growth has been the 17.2% jump in wholesale sales over the past year. This sector has benefitted from the rise in retail sales which is partly due to an increase in auto sales and the increase in tourism expenditures. This has spurred a solid 15.2% boost to overall industrial business revenues.



Should air passenger arrival counts continue to rebound and residential markets consistently post rising median home prices, the retail sector will help pull the wholesale industry forward further. The wholesale/distribution business is one of the largest tenant groups for industrial warehouse space and the health of this sector heavily influences the overall direction of industrial real estate.

Another upbeat market variable is the recent uptick in construction contracting sales, which rose by 10.8% over the previous year. Sales activity among the construction sector has a positive multiplier effect on the rest of the economy by generating new higher paying construction jobs and increased tax revenues. The construction industry also is the second largest user of industrial spaces and growth in development is likely to build demand for warehouse use.



Additionally, the outlook for construction is positive as permit volume for the first four months of 2012 shows an 8.5% increase over the same period last year. Generally, permits for planned construction projects on Oahu are filed with the City and County of Honolulu prior to beginning development efforts. Thus, they are a leading indicator of future construction activity.

Developers appear to be preparing for the next “upward” real estate cycle. Over the long term time horizon, the recent Land Use Commission approval of master planned communities Koa Ridge and Ho’opili could result in over 17,000 new homes over the next twenty years. In urban Honolulu, high-rise condominium developments are being planned by the MacNaughton and Kobayashi Groups, A&B Properties and Oliver McMillan. These developments should spur healthy gains in construction activity for the residential market.

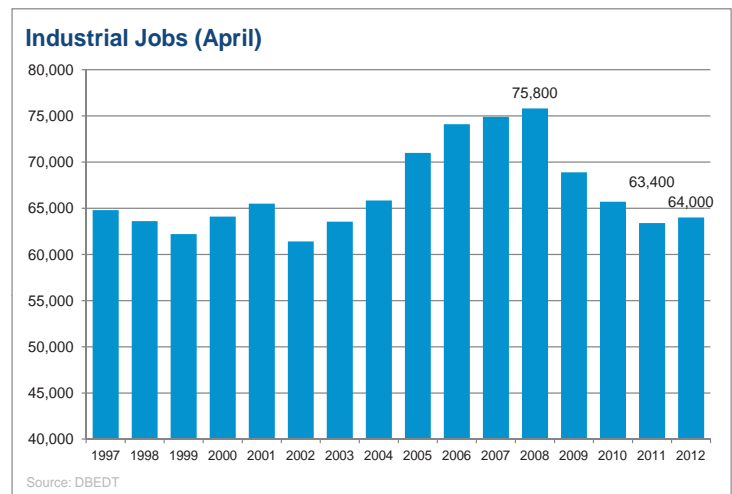
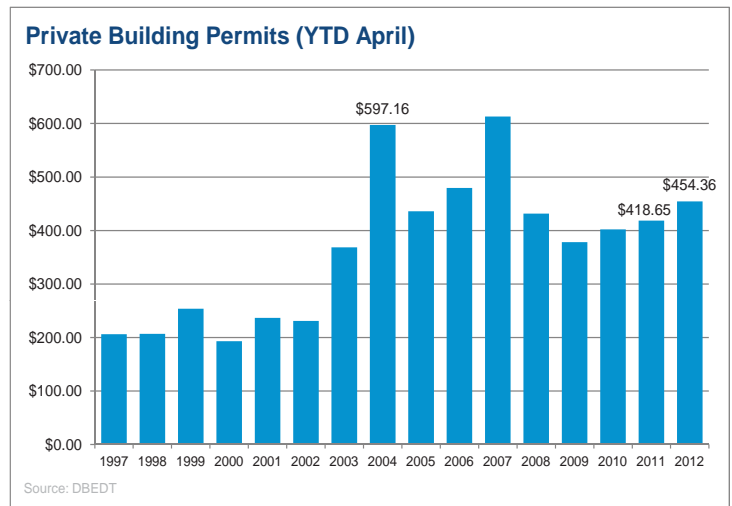
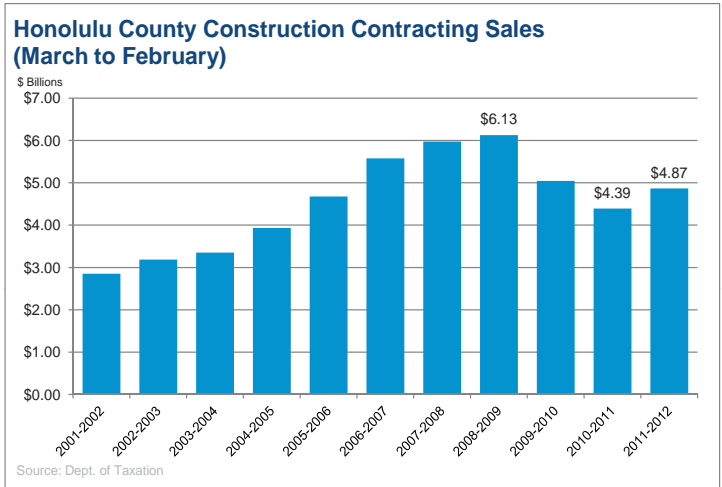
Not to be overlooked, the commercial and public sector have major projects planned as well. The \$5.3 billion rail transit project looms on the horizon as well as Debartolo Development’s Ka Makana Alii regional mall, Safeway Development’s Lualani Village, Kamehameha Schools’ Kakaako redevelopment and the UH West Oahu master plan.

Since both wholesalers and contractors are projecting improving business conditions, job growth has reemerged after falling for three consecutive years. Industrial jobs, inclusive of construction, production, warehousing, transportation and utilities sectors, posted a gain of 600 jobs, or a 0.9% increase over the past year. During an economic recovery, job growth is typically a lagging indicator. Thus, the emergence of job formation is positive confirmation that the industrial market recovery is underway.

The bulk of the job growth over the past year is concentrated in two sectors. The wholesale trade category added 700 jobs and the transportation, warehouse, and utilities sectors added 900 jobs. The construction sector lost 1,100 jobs since last April.



1321 Hart Street



Rental Rates Post Gains

For the first six months of 2012, the direct weighted average asking rent posted a healthy 4.3% increase rising from \$0.92 per square foot per month (“psf/mo”) to \$0.96 psf/mo. This \$0.04 psf/mo rise is the first time rents have improved in over four years.

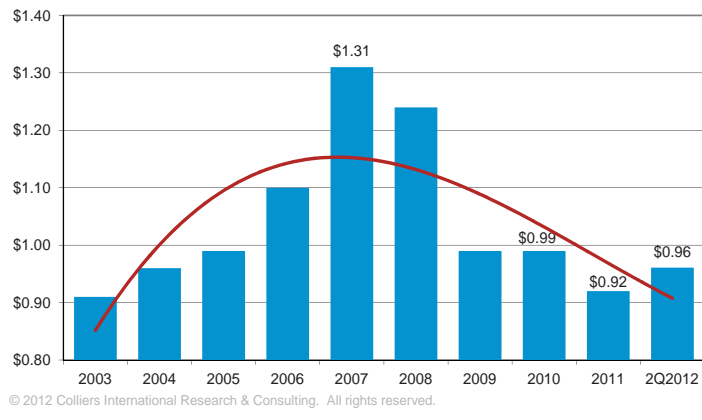
The overall market’s gain in average asking rents is due to six of the eleven submarkets posting rental rate increases. The Kalihi/Sand Island area is the largest submarket, with more than 9.4 million square feet and generated a healthy 9.5% jump in rents, growing from \$0.95 psf/mo to \$1.04 psf/mo. The Pearl City/Aiea submarket produced a \$0.07 psf/mo increase resulting in a robust 7.3% jump in direct weighted average base asking rents.

To better understand where lease transactions are being negotiated, the Colliers Honolulu County Industrial Lease Comparables Regression Analysis plots base rents from actual lease transactions and fits a trend line to determine the direction of rental rates. Based on this model, it appears that rents have stabilized and are hovering in the \$0.90 to \$0.95 psf/mo range.

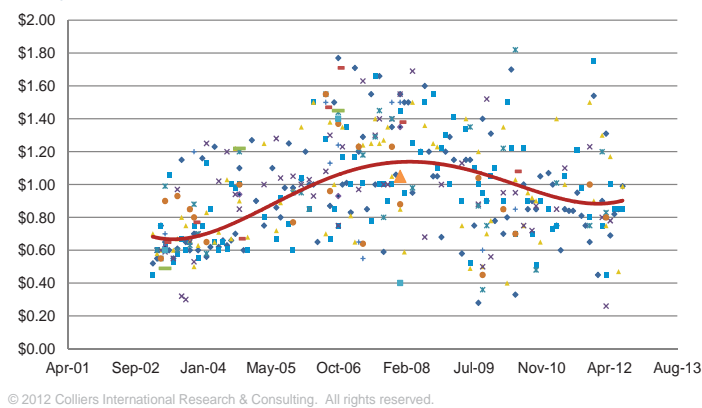
Land Value Dichotomy

Since the recession started in 2007, industrial land values have depreciated and were anticipated to continue to soften with the lack of land transaction activity. Financing for new industrial developments came to a standstill and continues to be tough for investor opportunities. However, corresponding to improved market conditions, land values actually appear to be stabilizing. Urban core industrial areas remain highly desired and have maintained their values better than outlying markets. The Kalihi/Sand Island, Iwilei and Airport/Mapunapuna regions posted land values ranging from \$80 to \$118 per square foot (“psf”) for the second quarter of 2012. This is a \$80 to \$120 psf range for these regions posted as of mid year 2011, but reflects a 10% to 15% decline from a price range of \$90 to \$125 psf reported in 2008.

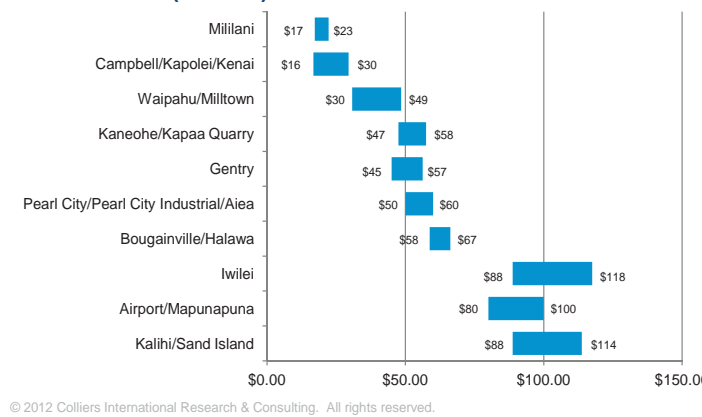
Honolulu County Industrial Direct Weighted Average Asking Rents (NNN)



Honolulu County Industrial Lease Comparables Regression Analysis



Honolulu County Industrial Estimated Land Values Finished Lots (2Q2012)



The West Oahu industrial parks had the greatest price volatility. Land values at Campbell Industrial Park, Kapolei Business Park and Kenai Industrial Park showed sizeable changes. In 2008, land values ranged from \$20 to \$40 per square foot with a transaction at \$42 per square foot at the top of the market boom. Recent activity reveals that pricing has declined to a range of \$16 to \$30 psf, a 20% to 25% decline since the market peak.

Available Listings Analysis

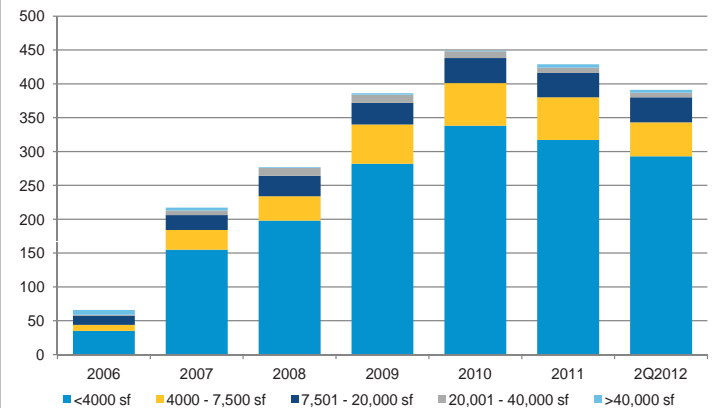
The number of available industrial listings on Oahu peaked in 2010 at 449 and has since declined by 13% to 391. The largest drops in available square footage were witnessed among the 4,000 to 7,500 square foot and the 40,000+ square foot categories, falling by 16% and 17%, respectively.

Optimistic Projections

Should all supporting market conditions continue along their current trajectories, Colliers anticipates that the industrial market will be in a sustainable market recovery with occupancy growth projected for 2013. Vacancy rates are forecasted to fall below 4% and urban industrial parks will continue to post gains in base asking rents.

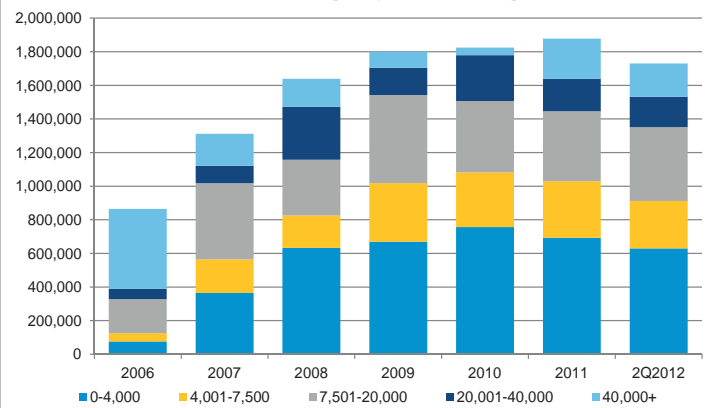
Vacant developable land (fully entitled and with infrastructure) still remains limited throughout the Island. For owner-users seeking a potential site for their facilities, urban core industrial land is very difficult to secure. The majority of the vacant land in West Oahu is still raw and in need of on-site improvements before becoming available for development. Efforts are underway at Malakole Industrial Park and Kapolei Business Park Phase II to address speculative and owner-user development opportunities.

Number of Listings by Size Categories



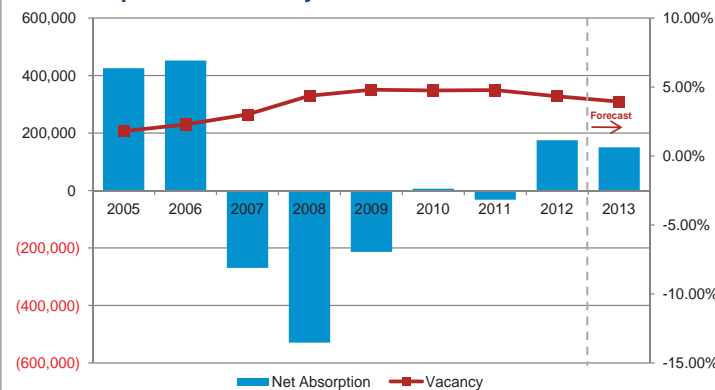
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Total Available Square Footage by Size Categories



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Honolulu County Industrial Net Absorption vs. Vacancy Rate Forecast



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National Projections Remain Positive

U.S. Gross Domestic Product, which is the broadest measurement of domestic economic growth, reported its eleventh consecutive quarter of economic expansion last quarter. Although expectations from economists were hopeful that the first quarter of 2012 would reflect the healthy 3% gains during the fourth quarter 2011, many believe that the U.S. experienced a period of slowdown as businesses recalibrated their 2012 business prospects.

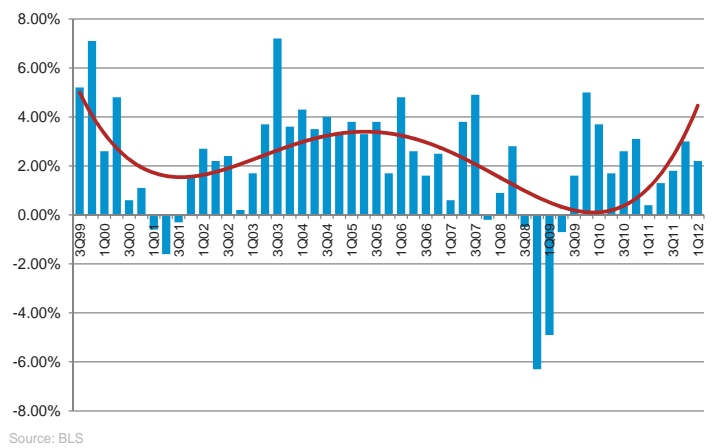
The U.S. manufacturing sector is helping to drive gains in industrial space demand requirements. The Institute of Supply Management PMI Index reported its 36th consecutive month of economic expansion and 34th month of improved manufacturing conditions. Combined growth for new orders, production and employment coupled with net export gains helped to generate manufacturing gains for the past three years.

Favorable currency exchange rates strengthened demand for U.S. exports of agriculture and energy products. A 4.3% improvement in container traffic is helping to fuel interest in industrial properties near major port cities. Both East and West Coast ports have recorded strong shipping activity. With the Panama Canal expansion underway, Colliers US national analysts project that Southeastern U.S. ports that can accommodate larger ships will benefit from healthy shipping demand.

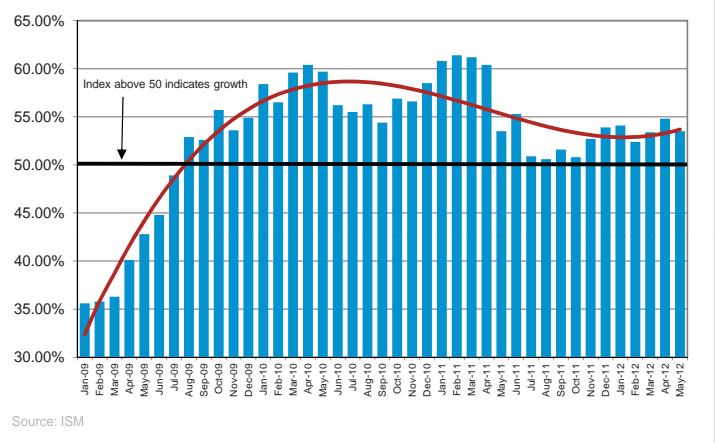
For six consecutive quarters, the national industrial market generated positive net absorption as vacancy rates fell from 11.08% to 9.66% at the end of the first quarter of 2012. Colliers are bullish on the continued prospects for the industrial marketplace for 2012 and project a continued decline in vacancy and a renewed interest in industrial development activity.

Although industrial markets appear to be improving nationally, there are sizeable differences in regional property performance. For instance, Honolulu's industrial vacancy rate of 4.23% is highly enviable especially when compared to high vacancy markets such as Stockton, California, Phoenix, Arizona and Las Vegas, Nevada that recorded a 14.40%, 13.78% and 16.10%, respectively. Many markets still suffer from market saturation and an over-building of warehouses over the past few years.

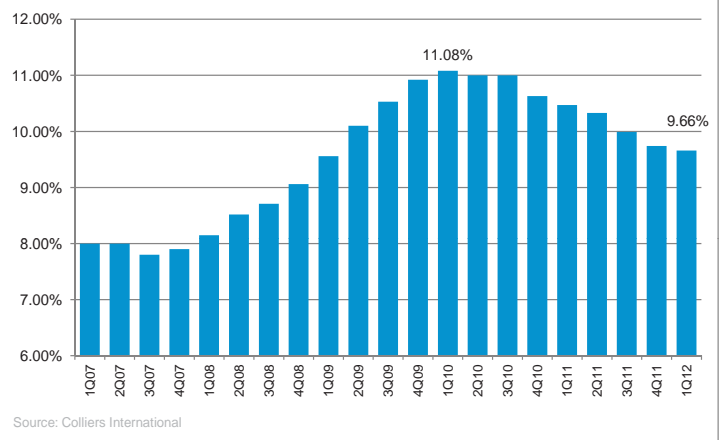
U.S. Gross Domestic Product



Institute of Supply Management PMI Index



National Industrial Historical Vacancy Rates



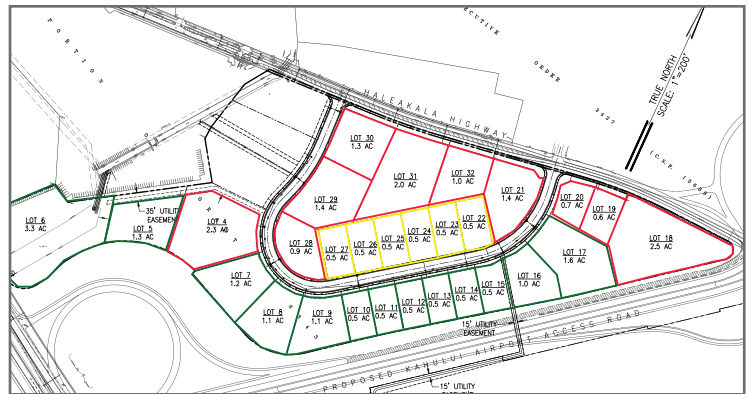
Colliers Highlights

A&B PROPERTIES SELECTS COLLIERS FOR MAUI BUSINESS PARK 2

The combination of experience and youthful energy, propelled the brokerage team of William Froelich, Marty Kenney, and Chris Millen to the forefront of A & B Properties decision making criteria.

Maui Business Park Phase 2 represents a long awaited opportunity for Maui businesses and investors to acquire M-1 zoned (light industrial) fee simple lots in central Maui ranging in size from ½ acre to 5 ½ acres. Maui Business Park's attractive proximity to Kahului Airport and Kahului Harbor and direct access to major traffic arteries throughout the island of Maui make the Park ideally located to serve the Friendly Isle's industrial warehousing and retail demands.

The Park consists of 98 saleable acres, to be sold in two phases with the North Project consisting of 29 lots and the South Project consisting of 36 lots. Construction of the infrastructure has commenced and is projected to be completed by the end of 2012. The liberal M-1 zoning allows for a wide range of industrial and commercial development opportunities.



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 EXPENSE** - 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.

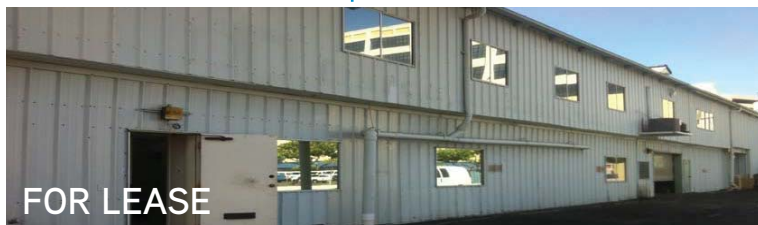
MID YEAR 2012 Oahu Industrial Market Statistics

INDUSTRIAL MARKET - BY SUBMARKET AREA

	NO. OF BUILDINGS	BUILDING AREA	AVAILABLE SPACE	2Q NET ABSORPTION	YTD NET ABSORPTION	VACANCY RATE	DIR. WTD. AVG. ASKING RENT (NNN)	AVG. NET OP. EXP.
KALIHI / SAND ISLAND	717	9,489,036	434,402	73,216	87,551	4.58%	\$1.04	\$0.35
KAPALAMA MILITARY RESERVE	19	1,250,000	0	0	0	0.00%	N/A	N/A
IWILEI	95	2,433,603	97,619	(7,237)	(10,022)	4.01%	\$0.95	\$0.48
AIRPORT / MAPUNAPUNA	227	8,489,740	146,793	85,457	2,164	1.73%	\$0.95	\$0.18
BOUGAINVILLE / HALAWA	104	3,389,717	169,199	(5,341)	30,533	4.99%	\$0.96	\$0.29
PEARL CITY / PEARL CITY INDUSTRIAL / AIEA	76	2,407,716	124,849	56,833	72,533	5.19%	\$1.03	\$0.39
WAIPAHAU / MILLTOWN	153	3,133,070	141,194	(30,576)	(65,710)	4.51%	\$0.92	\$0.32
GENTRY BUSINESS PARK	66	1,775,915	162,830	(33,732)	(14,495)	9.17%	\$1.03	\$0.47
CAMPBELL INDUSTRIAL PARK / KAPOLEI BUSINESS PARK / KENAI	254	5,605,778	343,647	44,602	85,973	6.13%	\$0.81	\$0.22
KAILUA	49	510,189	22,500	(800)	6,200	4.41%	\$1.37	\$0.31
KANEHOE	41	546,601	7,659	7,817	15,464	1.40%	\$0.64	\$0.50
TOTALS*	1,801	39,031,365	1,650,692	190,239	210,191	4.23%	\$0.96	\$0.32

* 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

Iwilei Business Center - 501 Sumner Street
Honolulu, Hawaii

TMK: (1) 1-5-12-1-16 and 17 Zoning: IMX-1 (Industrial Mixed Use)
 Size Available: 7,366 SF (Apts 6E & F) Tenure: Fee Simple
 Base Rent: \$1.10 psf/mo CAM: \$0.24 psf/mo
 Contact: Ronald C. Ward (S)
 Alika Cosner (S)



FOR SALE

889 Ahua Street
Honolulu, Hawaii

TMK: (1) 1-1-5-111 Zoning: I-2
 Lot Size: 1.14 Acres Tenure: Fee Simple
 Sale Price: \$7,000,000
 Contact: William R. Froelich (S) JD CCIM SIOR
 Alika Cosner (S)

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