OAHU YEAR-END 2011

INDUSTRIAL MARKET REPORT

Bottom of the Cycle?

The year ended not with a bang, but a whimper as the performance of Honolulu's industrial market reflected a lack of big movement or activity. Subsequent to the beginning of the recession in late 2007 and the announcement that the recession was over in mid-2009, the industrial market vacancy rate meandered between 4.3% and 4.8%. Any positive net absorption recorded during one quarter was erased by losses from a following quarter. The year finished with a loss of occupancy of 32,267 square feet resulting in a year-end vacancy rate of 4.78%, a small 0.03 percentage point increase from the year-end 2010 level of 4.75%.

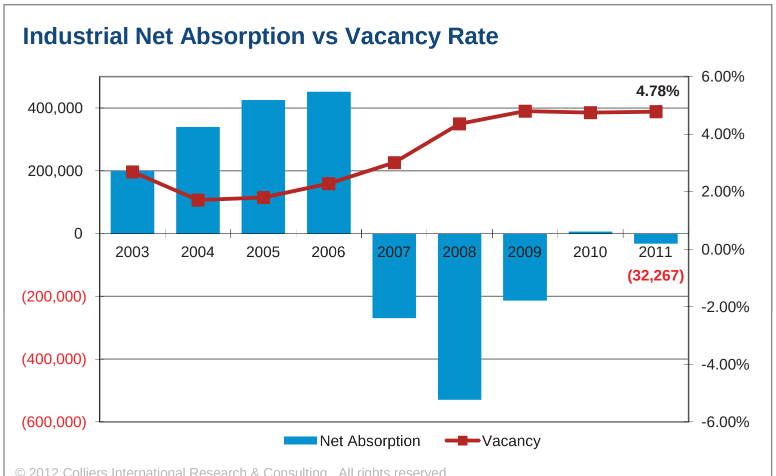
Surprisingly, local market conditions seemed very subdued in comparison to the global unrest and uncertainty that continues to monopolize headline news. Unfortunately Hawaii is not immune to external influences. Despite the European Sovereign Debt Crisis, the Arab Awakening, and the Wall Street Financial Crisis being half-way around the world, these events remain tied to our small corner of the globe. Travel and tourism, transportation and shipping, international finance and currency exchange, all impact our market's performance.

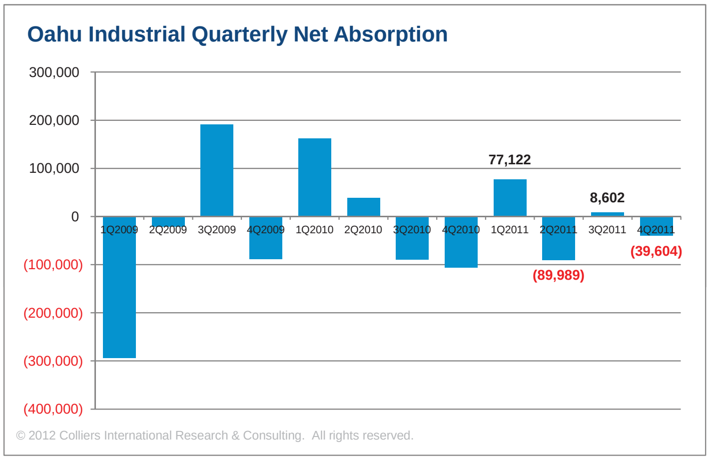
MARKET INDICATORS

	YEAR END 2010	YEAR END 2011
VACANCY	↑	↔
NET ABSORPTION	↓	↔
CONSTRUCTION	↔	↔
RENTAL RATE	↓	↔

INDUSTRIAL HIGHLIGHTS

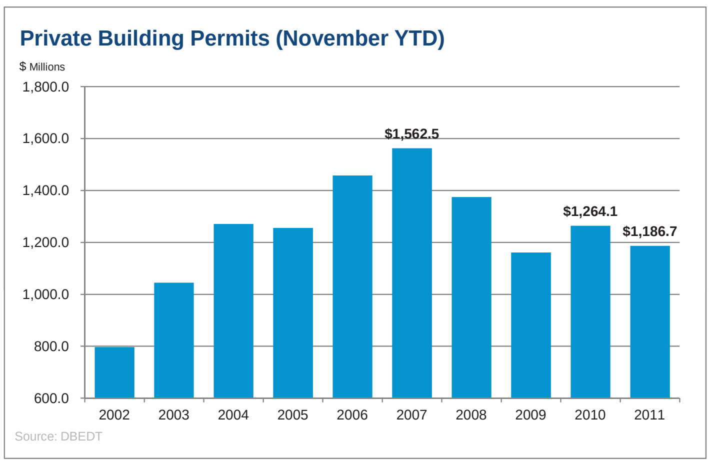
YTD NET ABSORPTION	(32,267) SF
VACANCY RATE	4.78%
DIRECT WEIGHTED AVERAGE ASKING RENT (NNN)	$0.92 PSF/MO
AVERAGE OPERATING EXPENSE	$0.31 PSF/MO





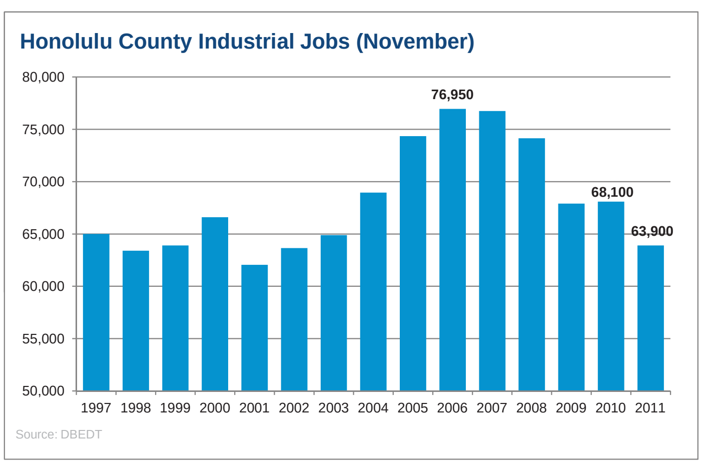
Two major industries help to dictate the health of Honolulu's industrial marketplace. Both construction and wholesale distribution sectors comprise a large percentage of the warehouse users on Oahu. The weak construction market was reflected in the decline in permit volume revenue. The year-to-date November 2011 construction permit volume of $1.186 billion is a 6.1% decrease in projected construction activity compared to the same time period in 2010. The 2011 figures represents the second lowest construction permit volume over the past eight years. Despite this decline year-to-date September contracting revenue posted a solid 3.2% gain over last year's levels which hopefully signals the start of steady improvement to the level of activity.

Job losses continued to plague the industrial marketplace. Every industrial job category from wholesale distribution to contractors to manufacturing to transportation contributed to the 4,200 reduction in positions over the past year. In fact, the number of industrial jobs is at its lowest level since 2003. The Carpenters' Union laments that more than 50% of its membership is "sitting on the bench".



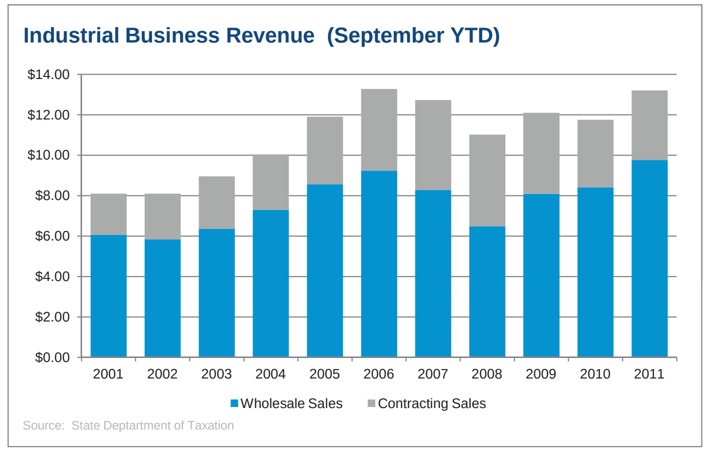
In contrast to the weak construction figures, the wholesale/distribution industry is benefiting from the growth in retail sales. The boost in air passenger arrivals and hotel occupancy rates corresponds to the jump in tourism expenditures. Honolulu County's year-to-date September 2011 retail spending reflected a 14.6% increase over last year's levels and a 16.0% jump in wholesale sales. The strong 2011 holiday shopping season should further boost the gains in retail sales experienced throughout the year and bring solid double-digit improvements in wholesale business revenues. September 2011 year-to-date wholesale revenues are currently at its highest recorded level at $9.76 billion.

Last year's industrial market performance mirrors the catch phrase of "two steps forward, one step back". Losses in construction are being offset by gains in wholesale sales, while business closures are being met with business expansions.



46-178 Kahuhipa Street

Kapolei Trade Center



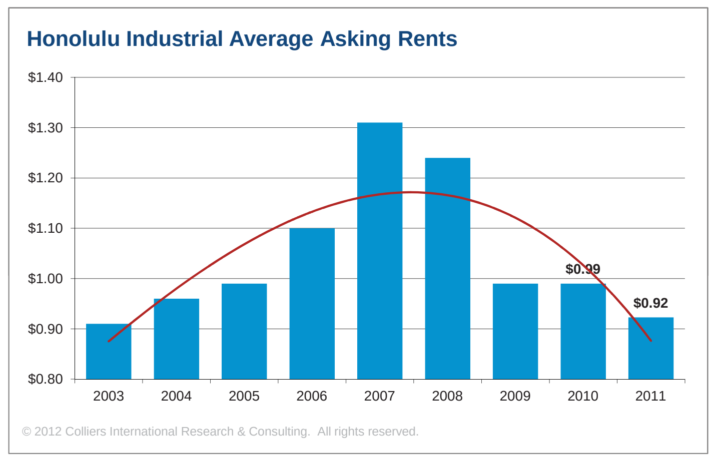
Industrial Rents Drop Again

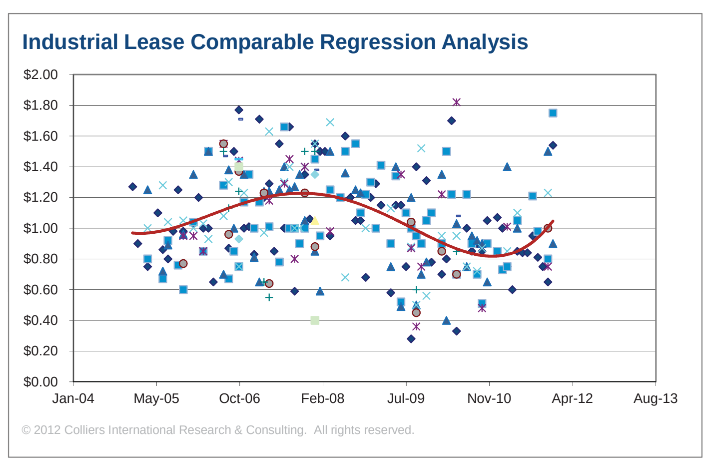
The island-wide average industrial asking rent fell to $0.92 per square foot per month ("psf/mo"), continuing the four year downward trend established in 2008. Over the past year, average asking rents fell by 6.8%, returning to 2003 levels. A combination of the weakened economy and the glut of industrial condominium developments contributed to the rapid rise and fall of industrial rents.

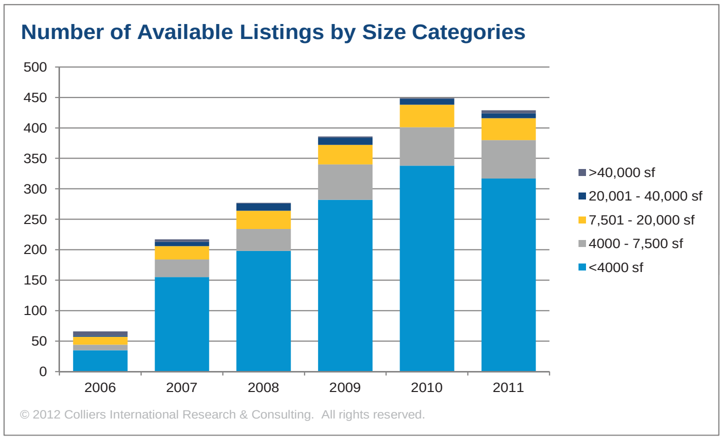
The delivery of more than 500,000 square feet of industrial condominium projects in Kapolei and Waipio between 2007 and 2008 with rents above $1.55 psf/mo boosted the island-wide average asking rent to record levels. Subsequently, the financial crisis, recession and credit crunch helped deflate warehouse rental rates back to levels prior to the 2003-2007 boom period.

For negotiated rents, the Colliers Regression Analysis indicates that average rents have fallen to the $0.80 to $0.85 psf/mo range. Several recent year-end lease transactions above $1.50 psf/mo helped to move the trend line upward. These transactions reflected unique tenant requirements, so it is still too early to tell if rents will begin to rebound anytime soon.

Fortunately, building operating expenses appear to have stabilized. Over the past three years, the average operating expense has ranged between $0.30 and $0.32 psf/mo. This is anticipated to change for 2012 as HECO is projecting a 50% increase in electricity rates. For industrial tenants with heavy power requirements, this will likely result in a jump in occupancy costs.

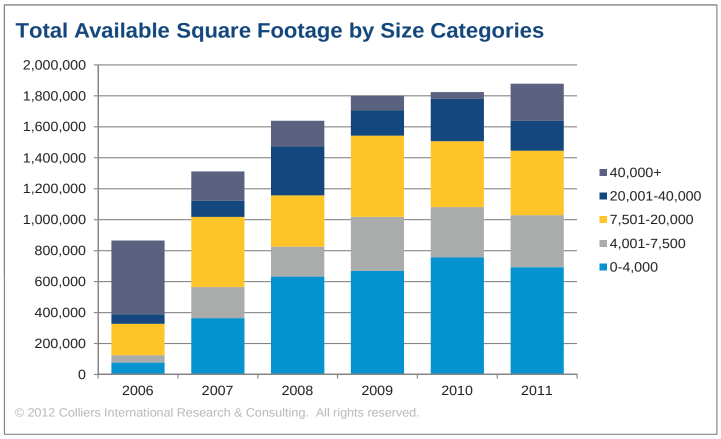






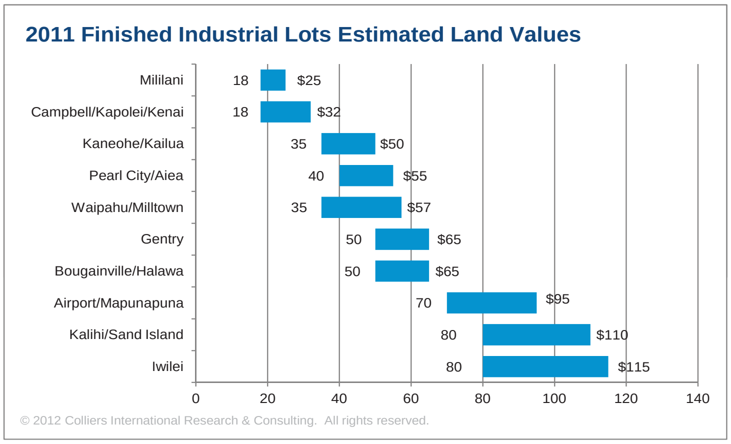
Available Listings Still Abundant

The number of available industrial properties on Oahu continues to be plentiful with nearly 430 listings and close to 1.88 million square feet of inventory on the market for lease at year-end 2011. While the total number of listings has fallen 4.5% from year-end 2010 figures, the number of listings over 40,000 square feet in size increased and added nearly 200,000 square feet of warehouse space. This rise in large listings is due in part to businesses seeking to consolidate and offset occupancy costs by leasing out excess space. Smaller-sized spaces (under 4,000 square feet) again accounted for the majority of available industrial inventory on Oahu with 317 listings and about 692,000 square feet of space. On a positive note, these numbers have declined by 6.2% and 8.5%, respectively, as compared to last year's statistics. However, economic woes are still evident as vacancy rates continue to rise throughout the industrial marketplace.



Land Values Reflect Modest Retreat

From 2002 to 2007, industrial land values appreciated in excess of 100% in several industrial submarkets on Oahu. This phenomenal growth in land values was the direct result of the lack of available supply of industrial space coupled with business growth supported by the economic boom. Fast forward four years, one recession, and one financial crisis, and the tide has turned for some markets, while others have managed to stay afloat. Land values for finished industrial lots (with infrastructure and power) in smaller suburban markets such as Mililani and Kaneohe/Kailua experienced double-digit declines in land value, while urban infill land parcels managed to fare better with single-digit declines or relatively stable prices. West Oahu land values which peaked in 2007/2008 at more than $40 per square foot in Kapolei, have since seen prices drop as the dynamics of the bulk land market have changed with several distressed projects going through ownership changes. However, in comparison to the bargain basement prices of the early 2000's, this market has held values relatively well, thus far, for finished lots.



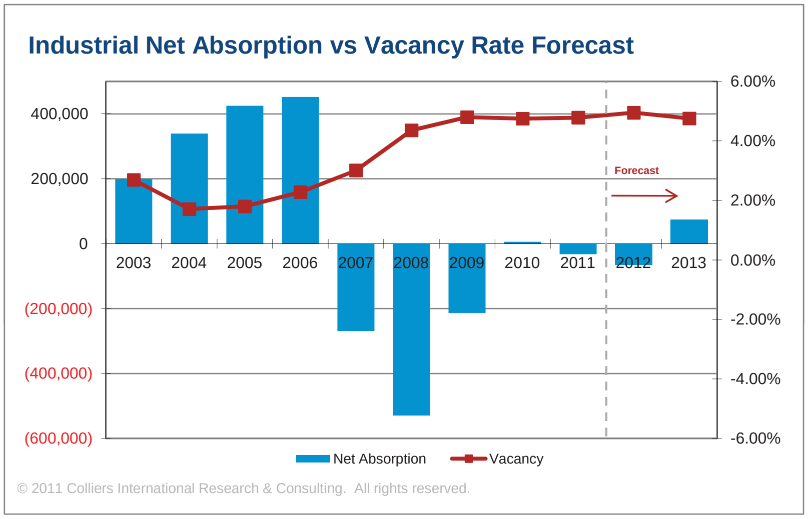
The "Crabby" Economy

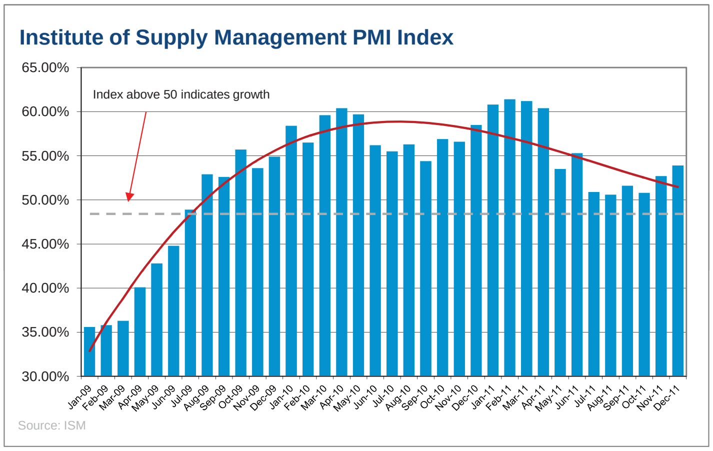
LOCAL MARKET FORECAST

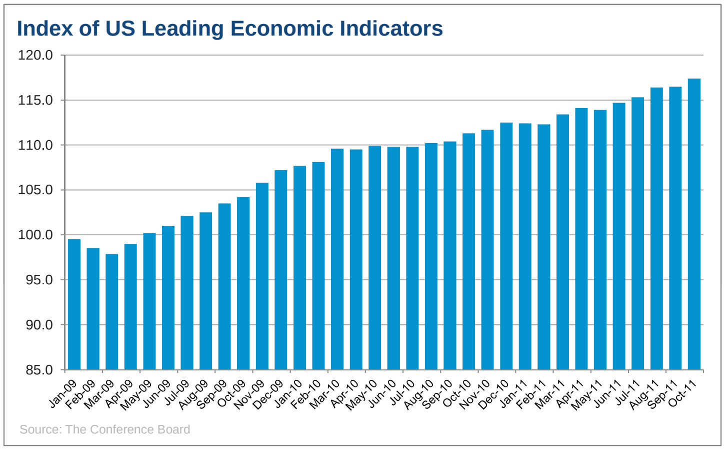
Like the crab that skittles along sideways, Honolulu's industrial market appears to be reticent about its desire to recover from its downturn. By being "crabby," the market is stubborn in changing its outlook. Tenant demand still remains tepid as any gains in occupancy and leasing activity have not been able to gain traction in this lukewarm market.

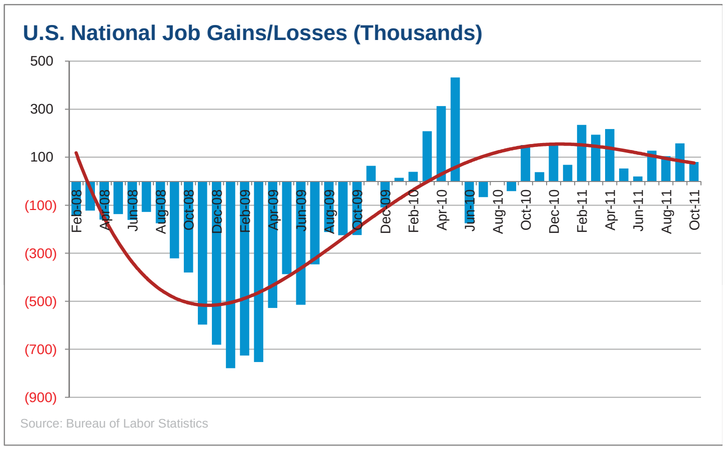
Despite the many downside risks to the economy, there are also signs of improvement. Government spending, which includes the transit project, military infrastructure, and government public works expenditures, will help to keep us from retracing our steps. The rise in residential home sales and the slight increase in median home prices has been a positive development. Several high-rise condominium projects are being discussed and should construction begin, we are optimistic that they will lead to the beginning of the construction industry's recovery.

Vacancy rates are anticipated to rise slightly over the next year with a number of small mom and pop firms succumbing to the pressures of running a business and their inability to maintain their profit margins. Colliers projects that vacancy rates will increase to a range of 5.0% to 5.25% over the next year. Additionally, Colliers anticipates that urban core industrial markets will post rent appreciation, as shortages of prime urban warehouse space occurs. For outlying industrial parks, the outlook isn't as rosy. The steady decline in urban rents has already elicited migration from West Oahu tenants. This trend is likely to continue, especially among wholesale/distribution firms which are susceptible to the recent gas price volatility.









Steady Improvement

NATIONAL MARKET FORECAST

After nine consecutive quarters of positive U.S. GDP growth, the belief that a double-dip recession is impending appears to be waning as the majority of the economists anticipate a slow meandering improvement over the mid-term time horizon. Reflecting this sentiment is the Institute for Supply Management ("ISM") Manufacturing Report on Business that posted its 29th consecutive reading above 50 which indicates that the manufacturing sector is growing. Contributing to the gains in manufacturing are the increase in new orders and a rise in production, as well as improvement in employment, supplier delivery and new export growth.

While manufacturing and export growth is strengthening, the compilation of the US Census data for building permits for single family homes and multifamily complexes by National Association of Home Builders' ("NAHB") reveals a mixed signal. Single family home construction remains in the doldrums reflecting a November YTD 2011 decline of 8% from last year, whereas multifamily construction permit volume reflects a healthy 32% jump. The rise in housing foreclosures and the difficult economy is spurring a growing interest in apartment projects. For Honolulu, the combined permit volume for single family and multifamily construction activity is down 10% from last year.

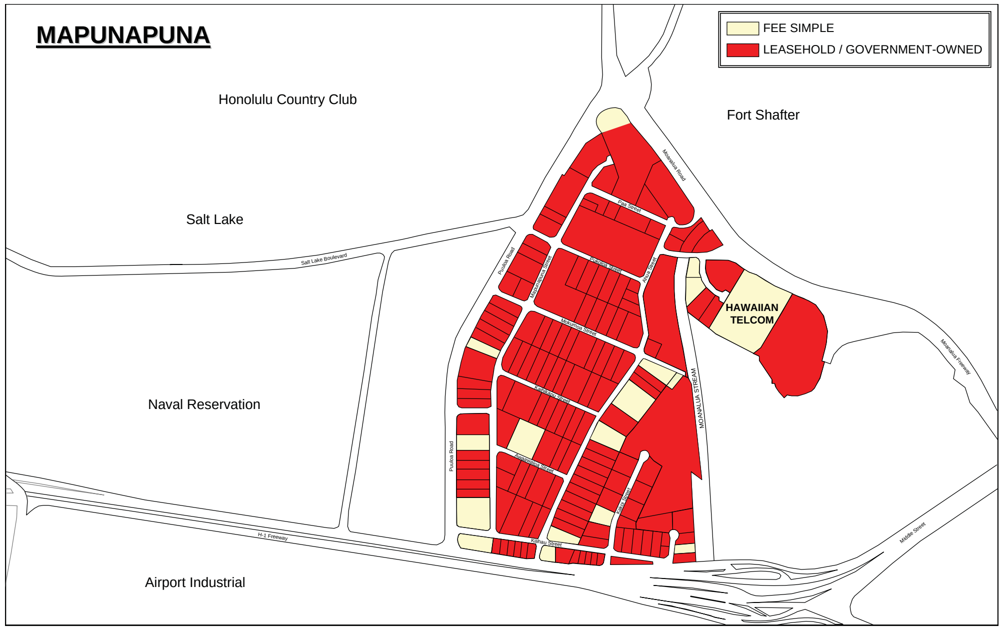
According to Colliers International US statistics, for the first time in eleven quarters, the national industrial vacancy rate fell below 10%. Rents still remain soft, having lost 4.8% in value over the past year and are anticipated to stabilize at its current level. Construction activity, which had primarily been build-to-suit, is beginning to experience an increase in speculation construction activity for 2012. Colliers projects that 2012 will post marginal growth with healthier improvement projected for 2013.

Rare Mapunapuna Fee Simple Land Hits Market for Sale

After a review of its assets, Hawaiian Telcom identified its 10-acre Mapunapuna baseyard as being under-utilized. Subsequently, Hawaiian Telcom proceeded to subdivide its I-2 zoned baseyard and sell a 3.38-acre portion of the property.

"Regularly reviewing assets and converting any unneeded excess are prudent practices," said Scott Simon, Hawaiian Telcom's Executive Director - Corporate Communications. "We have a highly desirable parcel in Mapunapuna. Retaining what we need to continue existing operations there while offering the remaining 3+ acres for sale makes strategic sense."

Colliers International has been chosen to market the property. The site is anticipated to be highly prized with strong interest from buyers, as it is one of only a few fee simple industrial-zoned parcels in an area that is predominantly leasehold in tenure. Ronald Ward and Andrew Friedlander, Colliers' listing agents, believe that the property is ideal for owner-users, as well as investors considering development opportunities. The floor area ratio (FAR) for this site is 2.5 with a height limit of 60 feet. The site also includes a 4,800 square foot maintenance facility warehouse.



YEAR END 2011 Oahu Industrial Market Statistics

INDUSTRIAL MARKET - BY SUBMARKET AREA

	NO. OF BUILDINGS	BUILDING AREA	AVAILABLE SPACE	4Q NET ABSORPTION	YTD ABSORPTION	VACANCY RATE	WTD. AVG. NET ASKING RENT	AVG. NET OP. EXP.
KALIHI / SAND ISLAND	715	9,431,105	521,953	(57,649)	22,364	5.53%	$0.95	$0.27
KAPALAMA MILITARY RESERVE	19	1,250,000	0	0	0	0.00%	N/A	N/A
IWILEI	95	2,433,603	87,597	(36,427)	(42,352)	3.60%	$1.11	$0.45
AIRPORT / MAPUNAPUNA	224	8,439,140	148,957	0	(34,087)	1.77%	$0.91	$0.30
BOUGAINVILLE / HALAWA	104	3,368,883	199,732	(28,887)	(53,484)	5.93%	$0.91	$0.31
PEARL CITY / PEARL CITY INDUSTRIAL / AIEA	76	2,407,716	197,382	14,330	(40,326)	8.20%	$0.96	$0.38
WAIPAHU / MILLTOWN	153	3,127,234	75,484	(7,620)	(4,445)	2.41%	$0.79	$0.32
GENTRY BUSINESS PARK	66	1,775,845	148,335	8,839	28,507	8.35%	$1.03	$0.48
CAMPBELL INDUSTRIAL PARK / KAPOLEI BUSINESS PARK / KENAI	256	5,605,778	429,620	85,304	91,845	7.66%	$0.82	$0.24
KAILUA	49	510,189	28,700	(2,600)	3,291	5.63%	$1.04	$0.31
KANEOHE	41	546,601	23,123	(6,292)	(3,580)	4.23%	$0.77	$0.43
TOTALS*	**1,798**	**38,896,094**	**1,860,883**	**(31,002)**	**(32,267)**	**4.78%**	**$0.92**	**$0.31**

* 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.

Featured Properties

WAREHOUSE FOR SUBLEASE

LOCATION: 2312 Kamehameha Highway
Honolulu, HI 96819
TMK: 1-1-7-17-2 (portion of)
ZONING: IMX-1
BUILDING SIZE: 48,000 SF
BASE RENT: $0.85 PSF/MO
OP. EXPENSE: $0.31 PSF/MO
SUBLEASE TERM: Thru April 30, 2013*
CONTACT: Guy V. Kidder (B) CCIM, SIOR
Ronald C. Ward (S)

*Additional term may be available from Lessor

WAREHOUSE FOR LEASE

LOCATION: 2312 Kamehameha Highway
Honolulu, HI 96819
TMK: 1-1-7-17-2
ZONING: IMX-1
BUILDING SIZE: 40,500 SF
BASE RENT: $1.00 PSF/MO
OP. EXPENSE: $0.31 PSF/MO
CONTACT: William "Bill" Froelich (S) JD CCIM SIOR

EXECUTIVE MANAGEMENT

Sarah Lee Morihara (S)
President
+1 808 523 9706
sarah.morihara@colliers.com

CONSULTING & RESEARCH

Mike Y. Hamasu
Consulting & Research Director
+1 808 523 9792
mike.hamasu@colliers.com

Nanette C. Macapanpan (S)
Research Consultant/Project Manager
+1 808 523 9764
nanette.macapanpan@colliers.com

INDUSTRIAL SERVICES

Andrew D. Friedlander (B) SIOR
Principal Broker
+1 808 523 9797
andrew.friedlander@colliers.com

Scott L. Mitchell (B) SIOR
Executive Vice President
+1 808 523 9702
scott.mitchell@colliers.com

Guy V. Kidder (B) CCIM SIOR
Vice President
+1 808 523 9735
guy.kidder@colliers.com

Ronald C. Ward (S)
Vice President
+1 808 523 9747
ronald.ward@colliers.com

William "Bill" Froelich (S) JD CCIM SIOR
Vice President
+1 808 523 9711
william.froelich@colliers.com

Gail Jennings (S)
Associate
+1 808 523 8332
gail.jennings@colliers.com

PROPERTY MANAGEMENT

Jenifer Bradley (S)
Vice President

Victoria Ferrante (S) CPM, CCIM
Account Manager

Gary Evora (S)
Account Manager

Nikki Nguyen (S)
Account Manager

Shelley Morisaki (B)
Senior Property Manager

Robert Sugiyama (S)
Senior Property Manager

Melissa Ibanez (S)
Property Manager

Vera Wagner (S)
Property Manager

Clarissa Auyong (S)
Property Manager

Diana Dabalos (S)
Property Manager

Debbie Perreira (S)
Property Manager

COLLIERS INTERNATIONAL
220 South King Street, Suite 1800
Honolulu, Hawaii 96813
TEL +1 808 524 2666
FAX +1 808 521 0977

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