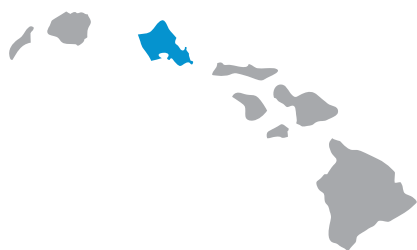


OAHU FIRST QUARTER 2013 INDUSTRIAL MARKET REPORT



MARKET INSIGHT

"Transition to a landlord's market is underway..."

- William Froelich (S)
JD, CCIM, SIOR

MARKET INDICATORS

	FIRST QUARTER	
	2012	2013
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↑

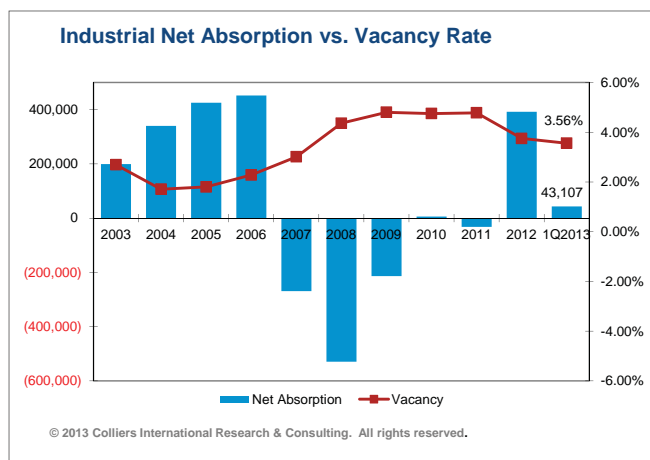
INDUSTRIAL HIGHLIGHTS

1Q ABSORPTION	43,107 SF
YTD NET ABSORPTION	43,107 SF
VACANCY RATE	3.56%
DIRECT WEIGHTED AVERAGE ASKING RENT (NNN)	\$0.99 PSF/MO
AVERAGE NET OPERATING EXPENSE	\$0.36 PSF/MO

Vacancy Rates Continue Downward Trend

Honolulu's industrial market posted a first quarter positive net absorption of 43,107 square feet, resulting in vacancy rates falling to 3.56%, the lowest level in nearly five years. The strengthening economy, coupled with several large public works projects, is fueling a healthy recovery amongst the island's industrial properties.

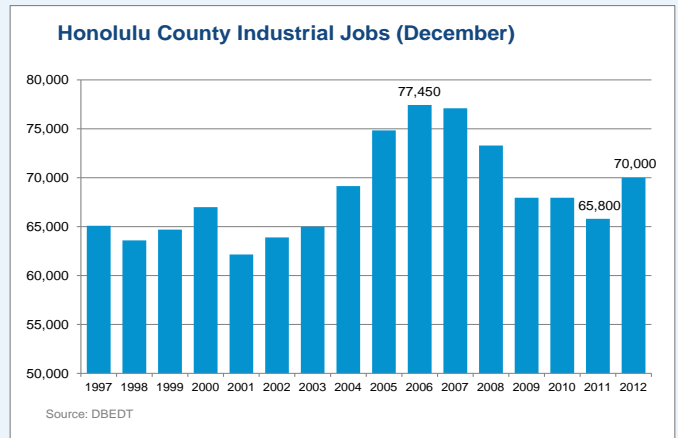
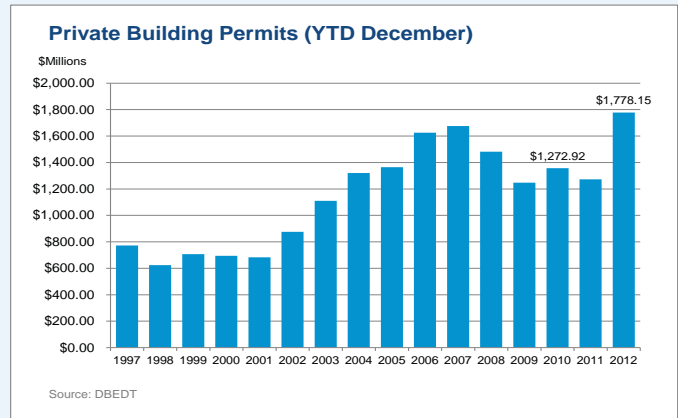
The tourism sector, which reported record highs in air passenger arrivals, is helping to drive demand for retail goods and services. Tourism expenditures surpassed \$26.2 billion for the first time, contributing to record retail sales for 2012. Healthy retail sales stimulated strong growth for wholesale sales which rose 4.1% over the past year to \$13.6 billion and generated demand for additional warehouse/distribution space. Wholesale distribution firms are the largest users of warehouse space on Oahu.



Contractors are another large user of warehouse space. A resurgence in construction activity has resulted in the expansion among contractor businesses. For 2012, construction spending rose 21.8% over 2011 levels to \$5.7 billion, the same level established in 2008. Construction permit sales volume, which is an indication of future construction activity, jumped by a very healthy 38% over 2011 figures to a record high of \$1.8 billion. Economists at the University of Hawaii Research Organization are very bullish in their forecast, predicting a rise in construction spending to nearly \$10.5 billion by 2015.

The increase in construction spending has already resulted in 4,200 additional industrial sector jobs between December 2011 and December 2012. Roughly 2,600 construction jobs and 1,200 transportation/warehouse/utilities positions were added during this time period.

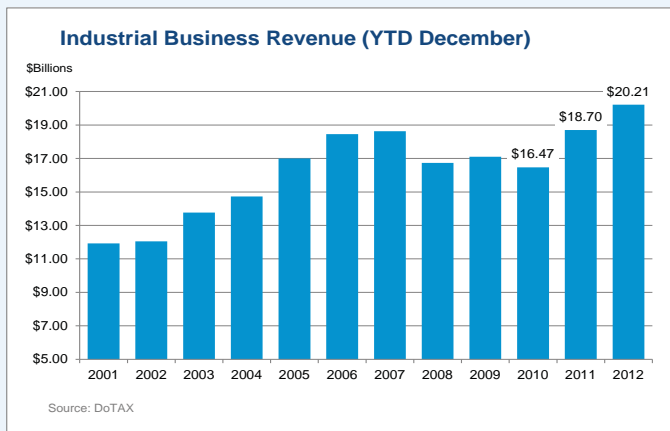
A shift in the outlook for the industrial real estate market is also being influenced by the State of Hawaii’s reclamation of land for Honolulu Harbor and Honolulu International Airport expansion plans. This effort has already resulted in numerous tenants relocating off of state-owned properties and has been a major contributing factor of more than 300,000 square feet in occupancy gains experienced over the past six months.

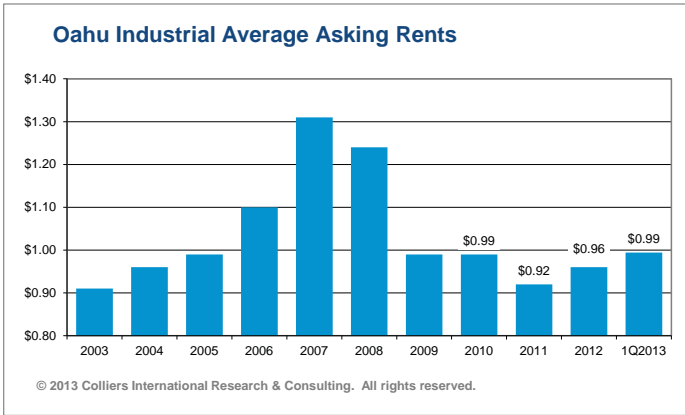


Strong Rental Rate Growth Reported

With help of these positive economic indicators, the outlook for Honolulu’s industrial market appears to be headed towards a landlord’s market. The reduction in vacancy is already creating a shortage situation in available inventory for many tenants seeking industrial space. As a result, rental rates have been driven higher. Over the past five quarters, the direct weighted average asking NNN rental rate rose from \$0.92 per square foot per month (“psf/mo”) to \$0.99 psf/mo, a healthy rate increase of 7.6%.

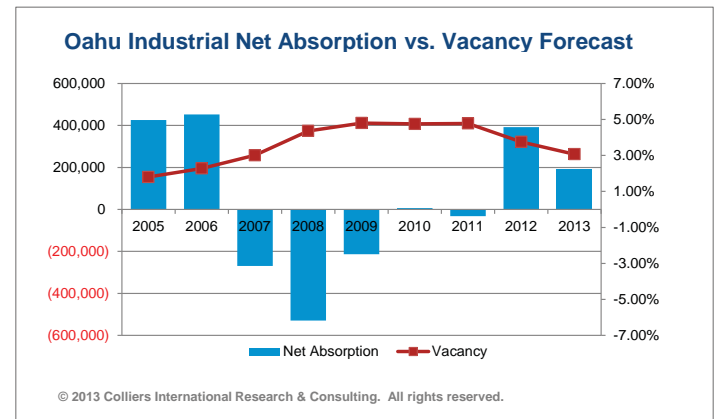
Not surprisingly, during recent lease negotiations, brokers and tenants have witnessed a reduction in landlord concessions offered, such as tenant improvement allowances or rent abatement.





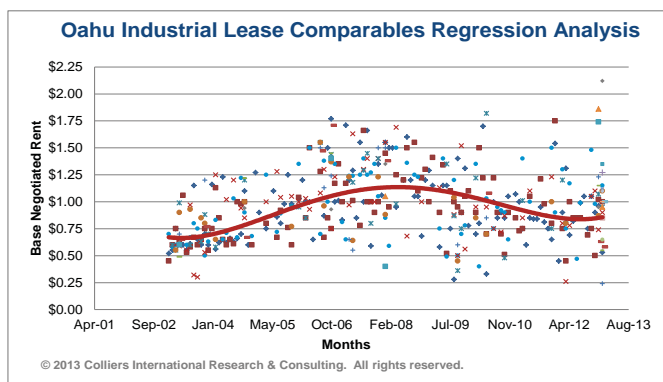
Even in the depths of the recent “Great Recession”, Honolulu’s industrial vacancy rates rose modestly from roughly 2% to 5% between 2006 and 2010. The transition between a tenant’s and landlord’s market was quickened when the State of Hawaii decided to take back many of their fully leased properties. This government action fueled a surge in leasing activity that spurred demand for private sector industrial sites. Even as the impact of these government actions subsides, the industrial market is still poised for strong growth over the mid-term time horizon. It is highly anticipated that by year-end 2013, vacancy rates will fall to 3% and rental rates will rise 5% to 7.6%.

Additionally, the gap between “asking” and “getting” rents is beginning to shrink. The Colliers Lease Comparables Regression Analysis reflects a similar rise in negotiated rental rates. Longer term leases (7 to 10 years) may become increasingly difficult to secure, as landlords begin to sense that rents are appreciating at a faster pace and may not want to be locked into a longer term fixed rent scenario. According to many industrial brokers, an increasing number of leases are currently being created with three-year terms, which is much shorter than leases negotiated just a year ago.



Landlord’s Market to Strengthen

In a typical industrial market, a 6% to 8% vacancy rate would indicate a market that is in equilibrium and a tenant and landlord have equal negotiating leverage. For Honolulu, vacancy rates in this range have not been witnessed in more than fifteen years when they rose to 8.7% in 1997. Many believe that Honolulu’s equilibrium point is closer to 4% as there is a shortage of available space and a small pool of prospective tenants.



FIRST QUARTER 2013

INDUSTRIAL MARKET

SUBMARKET	NUMBER OF BUILDINGS	BUILDING AREA	AVAILABLE SPACE	1Q2013 ABSORPTION	1Q2013 YTD ABSORPTION	VACANCY RATE	WTD. AVG. NET ASKING RENT	AVG. NET OP EXP.
KALIHI / SAND ISLAND	744	9,564,180	371,325	(41,642)	(41,642)	3.88%	\$1.00	\$0.39
KAPALAMA MILITARY RESERVE	19	1,250,000	0	0	0	0.00%	N/A	N/A
IWILEI	96	2,353,679	82,522	49,746	49,746	3.51%	\$0.94	\$0.48
AIRPORT / MAPUNAPUNA	231	8,588,614	132,358	(12,290)	(12,290)	1.54%	\$1.19	\$0.40
BOUGAINVILLE / HALAWA	104	3,428,232	103,590	12,156	12,156	3.02%	\$0.76	\$0.34
PEARL CITY / PEARL CITY INDUSTRIAL/AIEA	76	2,407,716	109,336	(38,845)	(38,805)	4.54%	\$0.81	\$0.39
WAIPAHU / MILLTOWN	155	3,140,570	128,796	66,944	66,944	4.10%	\$1.11	\$0.32
GENTRY BUSINESS PARK	66	1,775,915	137,112	498	498	7.72%	\$1.05	\$0.46
CAMPBELL / KAPOLEI / KENAI	254	6,449,087	289,845	35,240	35,240	4.49%	\$0.96	\$0.20
KAILUA	49	510,189	25,960	(13,200)	(13,200)	5.09%	\$1.33	\$0.31
KANEOHE	41	602,851	44,987	(15,500)	(15,500)	7.46%	\$0.99	\$1.39
TOTALS	1,835	40,071,033	1,425,831	43,107	43,107	3.56%	\$0.99	\$0.36

* 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 Listing

Address:	1629 Kahai St. Honolulu, Hawaii
TMK:	(1) 1-2-006: parcel 15
Land Area:	5,000 SF
Available Size:	3,500 SF (Warehouse) 900 SF (Mezzanine Office)
Base Rent:	\$1.40 psf per month
Contact:	Scott L. Mitchell (B) SIOR

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Debbie Perreira (S)
Property Manager

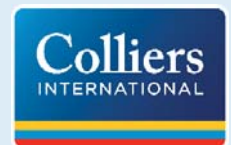
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