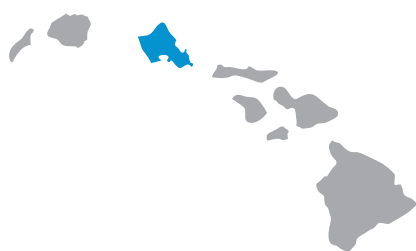




OAHU MID YEAR 2013

INDUSTRIAL MARKET REPORT

Industrial Market Continues to Strengthen



MARKET INSIGHT

"The industrial market continues positive momentum for the fourth consecutive quarter. Definitely a landlord's market, inventory is becoming scarce."

- Ronald C. Ward (S)
Vice President

MARKET INDICATORS

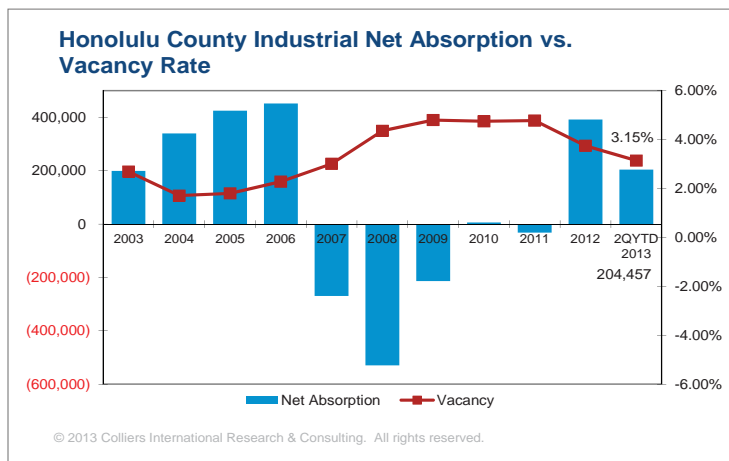
	MID YEAR	
	2012	2013
VACANCY	↓	↓
NET ABSORPTION	↑	↑
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↑

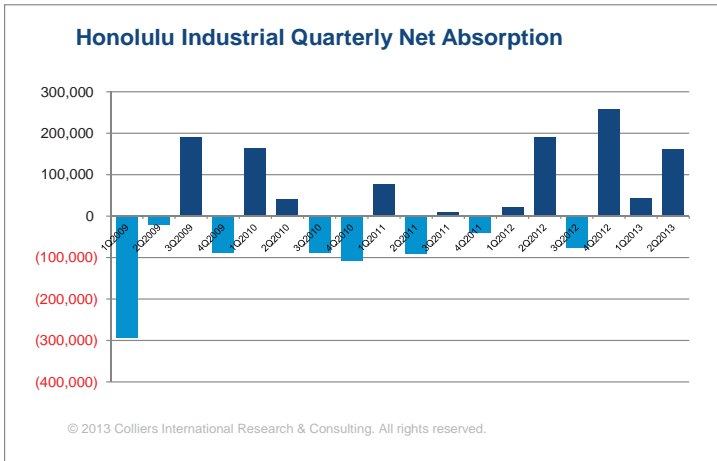
Strengthening economic conditions fueled by strong tourism and increased construction activity is pushing the Honolulu industrial sector into another severe shortage situation. Further exacerbating the tightening market conditions has been the relocation of tenants from state-owned industrial properties near the airport and harbors to private sector warehouses. Vacancy rates fell to 3.15% after 204,457 square feet of new occupancy growth transpired in the first half of 2013. Vacancy rates have not been this low since 2007. Tenants are already finding it increasingly difficult to secure available warehouse/distribution space in urban industrial parks such as Airport/Mapunapuna and Halawa/Bougainville. Both of these submarkets reported vacancy rates near 2% at mid-year 2013.

Tight market conditions are encouraging landlords to raise rents and reduce concessions. Out of the eleven industrial parks surveyed, nine posted increases in rent over the past six months. The most sizeable increase occurred in the Airport/Mapunapuna submarket, where weighted average asking rents rose a dramatic 22.4% since December 2012. Feedback from brokers indicates that Landlord offerings of free rent and tenant improvement allowances are on the decline. When market conditions slowed several years ago, a new five-year lease would typically come with a month of free rent for each year of the lease term. For a new lease today, the standard amount of free rent is now three months for the same lease term. Recently, a new fifteen-year lease in the Airport/Mapunapuna market was negotiated with only three months of free rent.

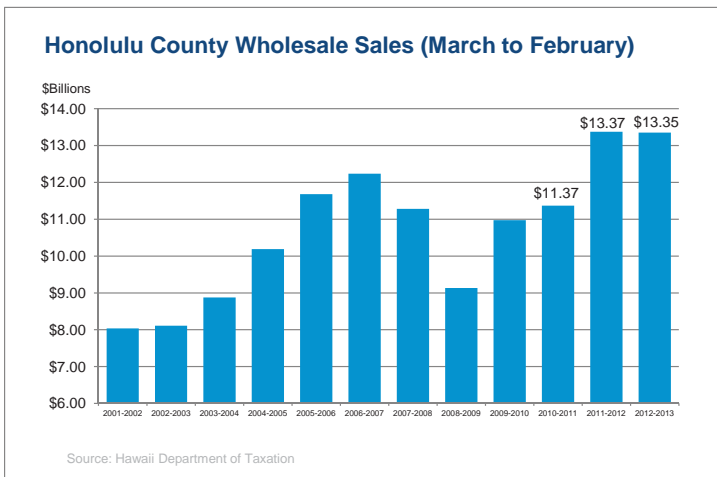
INDUSTRIAL HIGHLIGHTS

2Q NET ABSORPTION	161,320 SF
YTD NET ABSORPTION	204,457 SF
VACANCY RATE	3.15%
DIRECT WEIGHTED AVERAGE ASKING RENT (NNN)	\$1.00 PSF/MO
AVERAGE OPERATING EXPENSE	\$0.36 PSF/MO

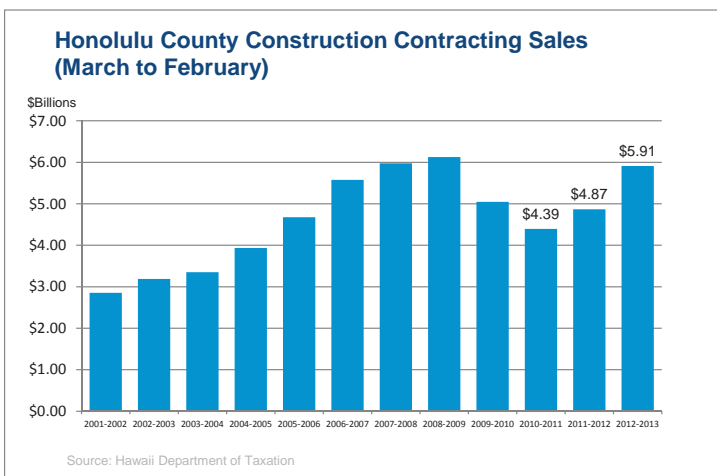




Honolulu’s industrial market posted its third consecutive quarter of positive net absorption. The “sawtooth” pattern that began in the first quarter of 2009, appears to be smoothing out and firmly establishing a foundation for consistent growth. Since the third quarter of 2012, more than 460,000 square feet of occupancy gains have transpired. Optimism is returning to the industrial sector as investor confidence is on the rise. The American Savings Bank Investor Confidence Index rose 5% to its highest level in three years. This positive outlook is influencing businesses that are seeking to expand as the economy improves.



The industrial sectors that boost warehouse demand are posting record increases. Wholesale distributors are the largest users of the island’s industrial inventory and posted another year of healthy sales revenue. From March 2012 to February 2013, wholesale sales growth fueled by strong resident and visitor spending exceeded \$13 billion for the second year in a row.



For the flourishing construction sector, the growing number of high-rise condominium and retail developments, as well as a jump in public works projects, is generating strong contracting sales activity and record building permit volume. Between March 2012 and February 2013, contracting sales volume rose to \$5.91 billion, a 21.4% jump over the previous year’s levels, resulting in the second consecutive year of improvement.



1021 Kikowaena Place

Private construction (non-public works) permit volume, which provides insights into future development activity, jumped 41.9% over year-to-date April 2012 levels. For the first four months of 2013, permit volume rose for the fourth consecutive year to a record \$644 million. The largest growth occurred among residential permits which grew by nearly \$115 million above last year's figures.

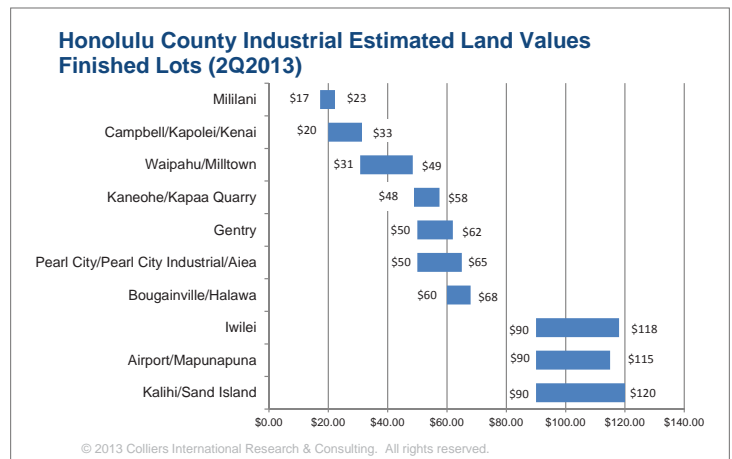
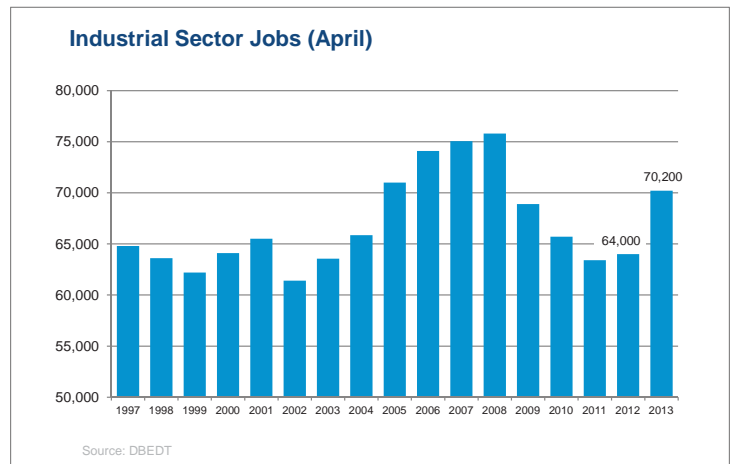
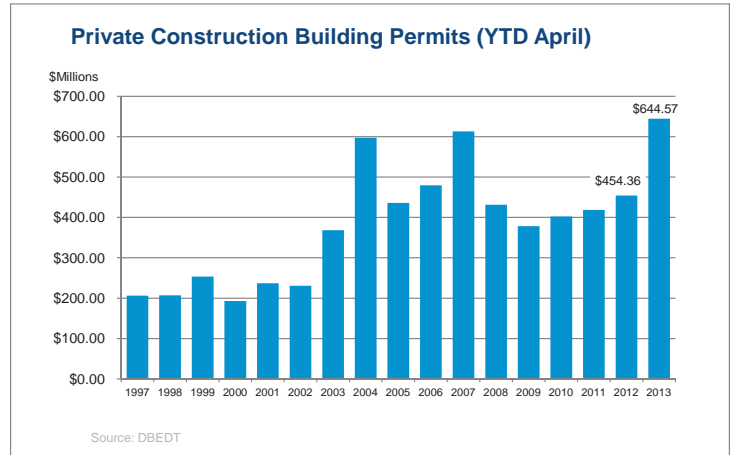
This boost in construction permits corresponds to the tremendous gains in construction projects being planned. In turn, this positive trend has translated to increased employment. Between April 2012 and April 2013, Honolulu County payrolls increased by 1.2% or roughly 5,400 jobs. Of this amount, the construction sector posted an 11.6% increase in positions, or 2500 jobs.

Industrial Investment Activity Improves

As market conditions continue to tighten, more and more business owners are considering purchasing their own property. As a result, the industrial condominium market is enjoying a resurgence of interest. Condo units that had remained empty for years are now selling with the help of low interest rates and attractive loans from the Small Business Administration. At the height of the last real estate boom from 2005 to 2007, units were selling in excess of \$300 per square foot. Today, these same units are being sold at a more affordable rate of \$225 per square foot.



1629 Kahai Street



Throughout the recession, developers and lenders stayed away from raw land deals. There was a huge surplus of industrial-zoned land in West Oahu, but little motivation to develop. Financing was extremely difficult to obtain as lenders remained skittish about any type of speculative development. However, as vacancy rates continue to drop from increased tenant demand, rental rates are likely to increase further in the mid-term time horizon. As rents continue to rise, more businesses that have been leasing their facilities will consider buying land and developing their own properties.

Despite the past recession, industrial land values in urban Honolulu have maintained their value due to the severe shortage of available inventory. Parcels in the Kalihi, Sand Island, Airport and Kakaako submarkets continue to garner prices above \$100 per square foot. The consensus among the Colliers industrial brokers is that urban Honolulu land values have stabilized and are poised for a solid increase over the next few years.

For West Oahu, land values have fluctuated over the past six years from \$20 to \$42 per square foot and currently range from \$20 to \$33 per square foot. Although it is still too early for speculative development to occur, it is not inconceivable that investors would consider acquiring land for development next year.

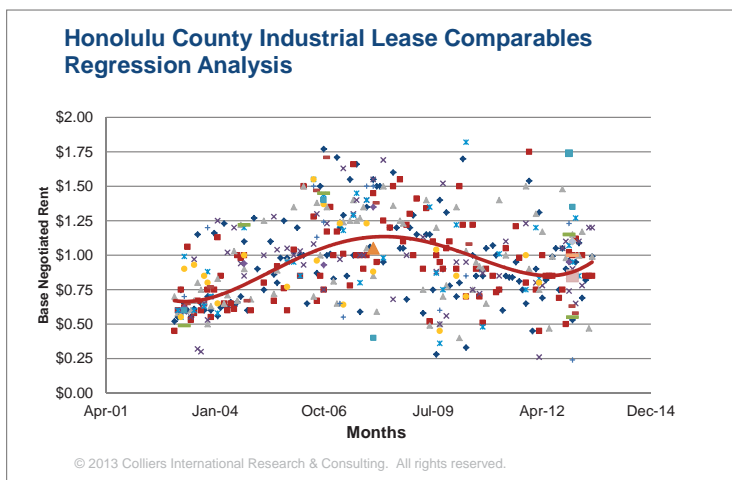
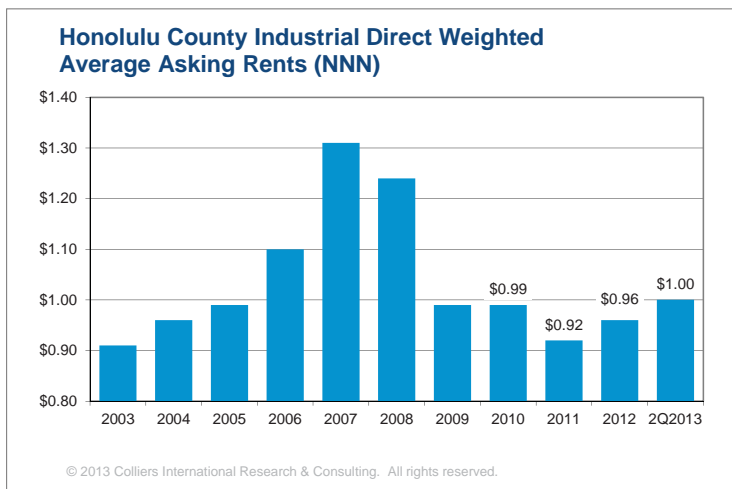
Rental Rates Rise To Five Year High

The direct weighted net average asking rent for Honolulu's industrial market rose 8.7% over the past 18 months to \$1.00 per square foot per month ("psf/mo"), its highest level in five years. Rents are projected to continue to increase in conjunction with the boom in both tourism and construction sectors.

To better understand where rents are being negotiated, Colliers plots base rents from actual lease transactions in a regression analysis. Currently, the Honolulu County Industrial Lease Comparables Analysis graph shows a sizeable increase in negotiated rents. When compared against asking rents, the gap between the two metrics is shrinking.

Available Listings Continue To Shrink

The number of available listings fell to its lowest level in 4.5 years to 319 listings in the second quarter of 2013. This represents a 29% decline off the peak experienced in 2010 of 449 space listings. Over the past six months, the total available square footage of spaces under 4,000 square feet in size dropped by 10%. For large listings over 20,000 square feet in size, the total square footage declined by 40%. As a result, large tenants seeking space in excess of 20,000 square feet are finding fewer relocation options available.



Severe Shortage Situation to Drive Rents Upward

Colliers anticipates that strong demand will continue for industrial space throughout Oahu. Vacancy rates are forecasted to fall below the 3% level by year-end 2013. Many urban industrial parks will continue to report vacancy rates near 2% as competition for a limited number of warehouse spaces will drive rental rates higher.

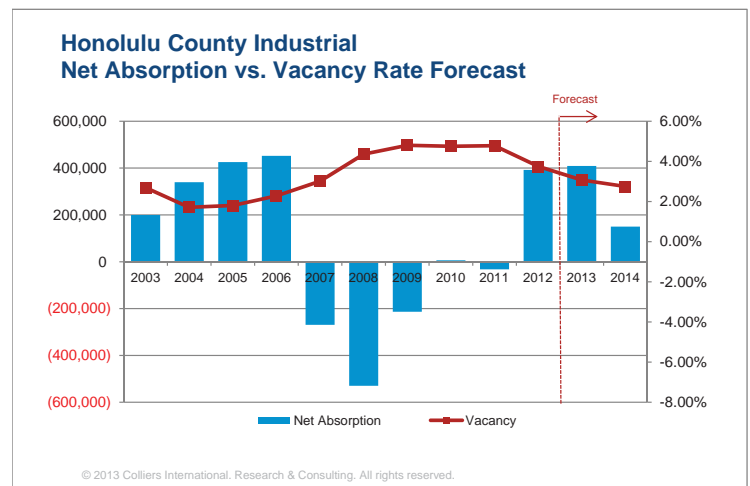
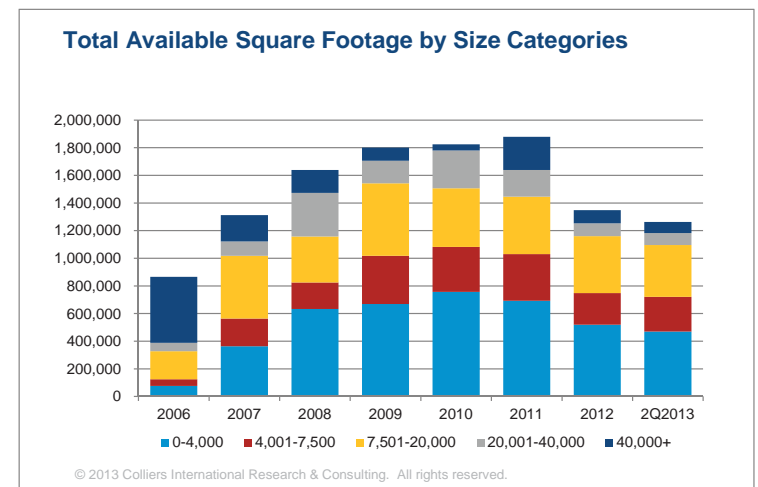
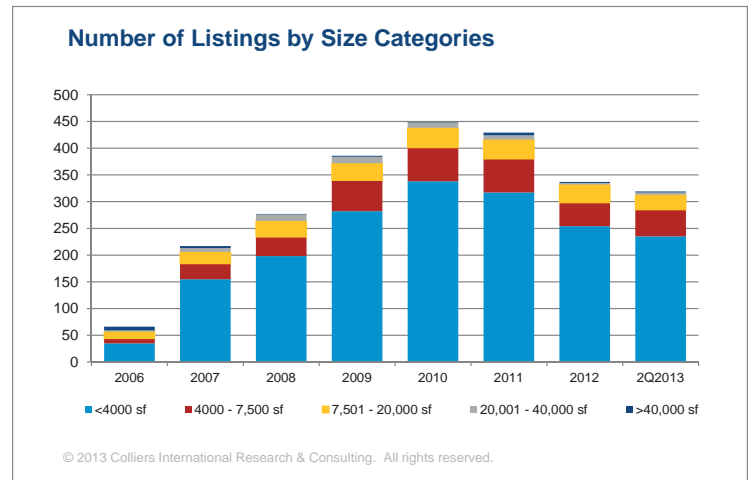
For those industrial tenants in search of alternative space options, industrial condominiums will remain a solid investment opportunity as long as interest rates remain near current levels. Development will likely be restricted to a few owner-user buildings as speculative development remains unlikely until warehouse rents grow 30% to 40% over current levels.

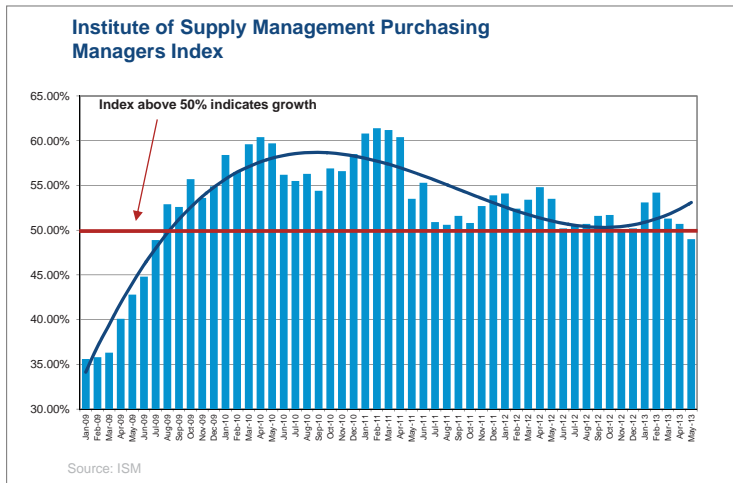
Time is of the essence for tenants with upcoming lease expirations as rents are projected to jump 10% to 15% over the next year. This next phase of the industrial market cycle will be marked with a shortage of available space for prospective tenants. Functionally obsolete, Class C warehouse space that had been difficult to lease will now enjoy prospective tenants as tenants adjust their quality expectations downward.

Steady Improvement Anticipated For National Industrial Sector

The U.S. posted a downward revision to its first quarter Gross Domestic Product ("GDP") rate from 2.4% to 1.8%. A weaker than expected reading for consumer spending, coupled with slower business investment and export activity contributed to this decline. GDP is the broadest measure of economic activity, and a slowdown generally corresponds to a weakening in industrial performance.

The Institute of Supply Management Purchasing Managers Index's reading of 49.0% for May 2013 reflects a weaker industrial performance. Any figure below 50.0% signifies a contraction in the manufacturing sector. This is the lowest reading

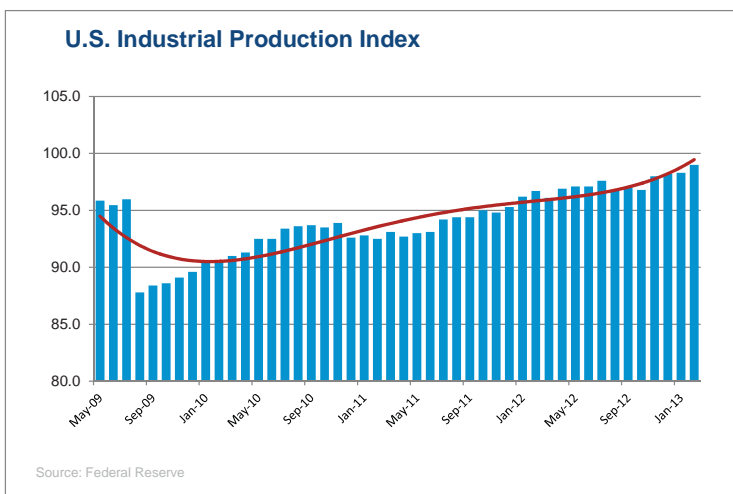




since June 2009 and the first time since November 2012 that the index has dropped below the 50.0% level. Sluggish conditions for new orders, production, pricing factors and order backlog contributed to the decline.

Despite the lower readings for the manufacturing sector, the U.S. production index posted a steady improvement over the past four months. Any rise in production helps to keep costs steady and maintain U.S. competitiveness in a global marketplace.

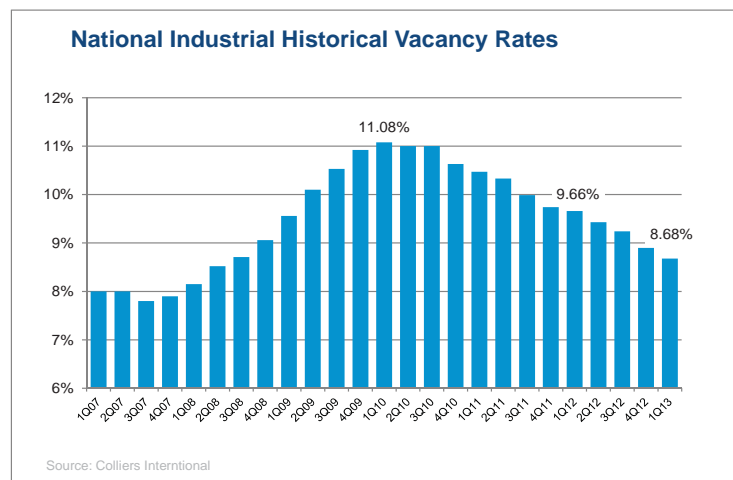
The U.S. industrial vacancy rate declined for the tenth consecutive quarter to 8.68% for the first quarter of 2013. Colliers estimates that more than 47 million square feet of industrial space was absorbed in the first three months of the year with markets in the Midwest and the South posting the strongest occupancy gains. Several markets are anticipated to generate strong absorption with gains in air cargo activity (Memphis), housing recovery (Charlotte) and intermodal activity (Kansas City). Colliers forecasts that the U.S. industrial vacancy rate will fall below 8% by the third quarter of 2013.



Submarket Analysis – Kalihi/Sand Island Bellwether Market

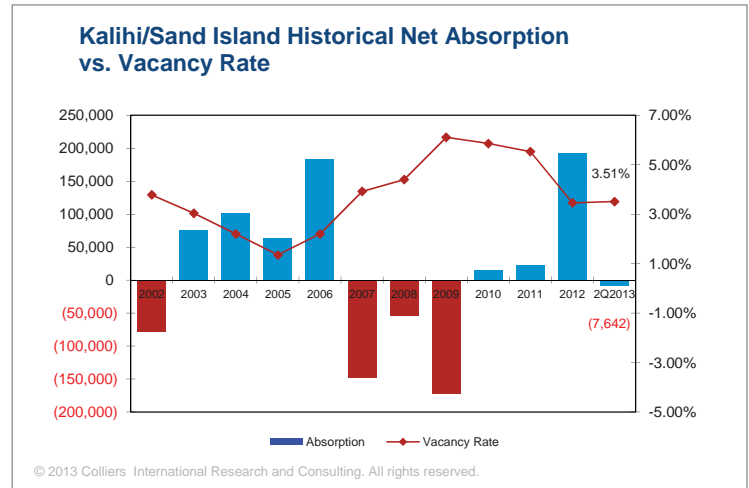
At more than 9.8 million square feet in inventory, the Kalihi/Sand Island industrial submarket is the largest on Oahu. Benefiting from its central location near Honolulu Harbor, the Honolulu International Airport and all major roadways through Honolulu, this market remains a highly sought after location for industrial businesses. Industrial brokers typically gauge the health and well-being of the island’s industrial sector by looking at the performance of the Kalihi/Sand Island submarket. The diverse mix of businesses in this area generally reflects the ebb and flow of warehouse demand for the island.

With a conglomeration of industrial, commercial, and residential zoning, the Kalihi/Sand Island submarket is a mishmash of businesses, apartment buildings and residential homes. It is not uncommon for old residential homes on 5,000 square foot industrial or commercial zoned lots to be sold and converted into warehouse buildings.

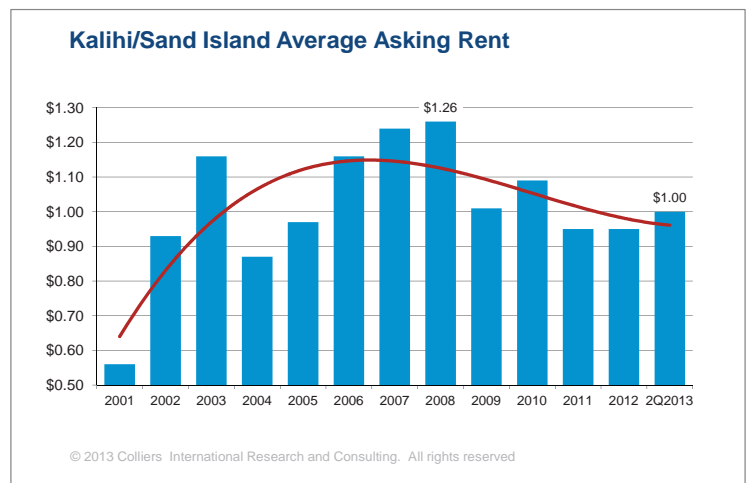


This unique market attribute has kept industrial land values in the area among the highest on the island ranging from \$90 to \$120 per square foot.

Representing the steady gains in tenant occupancy over the past four years, the Kalihi/Sand Island submarket’s vacancy rate has fallen from 6.11% at year-end 2009 to 3.51% at mid-year 2013. This market is anticipated to continue to show healthy gains in absorption as the State of Hawaii forces industrial tenants at the Kapalama Military Reserve to relocate into the private sector while it prepares to expand Honolulu Harbor’s facilities. Average asking rents have increased further after having jumped 5% over the past six months from \$0.95 psf/mo to \$1.00 psf/mo and are projected to continue to rise as vacancy rates fall by year-end 2013.



Bamboo Commerce Center



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.

MID YEAR 2013 OAHU INDUSTRIAL MARKET STATISTICS

INDUSTRIAL - BY SUBMARKET

	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	749	9,606,804	337,325	34,000	(7,642)	3.51%	\$0.99	\$0.38
Kapalama Military Reserve	19	1,250,000	0	0	0	0.00%	N/A	N/A
Iwilei	96	2,353,679	87,451	(4,929)	44,817	3.72%	\$0.97	\$0.47
Airport/Mapunapuna	233	8,674,116	177,794	(45,436)	(57,726)	2.05%	\$1.20	\$0.40
Bougainville / Halawa	104	3,428,232	68,904	34,686	46,842	2.01%	\$0.92	\$0.32
Pearl City/Pearl City Industrial / Aiea	76	2,407,716	93,258	16,078	(22,767)	3.87%	\$0.81	\$0.40
Waipahu/Milltown	155	3,140,570	104,041	24,755	91,699	3.31%	\$1.07	\$0.32
Gentry Business Park	66	1,775,915	122,284	14,828	15,356	6.89%	\$1.04	\$0.47
Campbell Industrial Park/ Kapolei Business Park/Kenai	254	6,449,087	219,887	69,958	105,198	3.41%	\$0.91	\$0.22
Kailua	49	510,189	8,580	17,380	4,180	1.68%	\$1.40	\$0.31
Kaneohe	41	602,851	44,987	0	(15,500)	7.46%	\$0.99	\$0.30
Totals	1,842	40,199,159	1,264,511	161,320	204,457	3.15%	\$1.00	\$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 Properties



94-1108 Ka Uka Boulevard
Waipahu, Hawaii

TMK: 9-4-99-31
Land Area: 40,312 SF
Sale Price: \$3,023,400.00
Contact: Ronald C. Ward (S)
Zoning: I-2 (Intensive Industrial)
Tenure: Fee Simple



91-254 Olai Street
Kapolei, Hawaii

TMK: (1) 9-1-31-29
Land Area: 98,010 SF
Sale Price: \$3,950,000.00
Contact: William R. Froelich (S) JD CCIM SIOR
Zoning: I-2 (Intensive Industrial)
Tenure: Fee Simple

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