



Colliers

Oahu | Hawaii

Industrial

21Q1

“Industrial real estate in many industrial subsectors remained resilient in 2020 and is poised to strengthen in 2021.”

William Froelich (B) | Senior Vice President

Accelerating success.

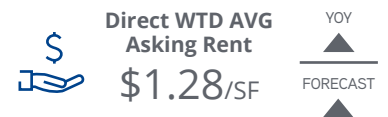
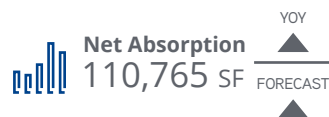


Oahu | Hawaii

Industrial 21Q1

Key Takeaways

- Industrial market proves to be resilient
- More than 110,000 square feet of occupancy growth for 1Q2021
- New developments push rents higher
- Land sales projected to pick up steam
- Industrial forecast turns optimistic



Despite COVID-19, Industrial Market Posts Positive Occupancy Gains in 1Q2021

Since March 2020, the impact of the COVID-19 pandemic forced Oahu's economy into a steep recession. Much of Oahu's industrial sectors were required to adopt conservative business strategies that included trimming payroll, reducing inventory and cutting overhead costs in order to survive. At year-end 2020, industrial vacancy rates rose to 3.05%, its highest level in nine years.

However, the industrial market is beginning to show initial signs of improvement. In 1Q2021, Oahu's industrial market recorded an increase of 110,765 square feet of occupancy as the island-wide vacancy rate declined to 2.78%. While it is still premature to forecast an economic recovery, Oahu's industrial market performance has served as a good coincident indicator of the economy. Typically, as businesses regain confidence in their future, job counts increase and business expansion plans re-emerge fueling demand for warehouse space.

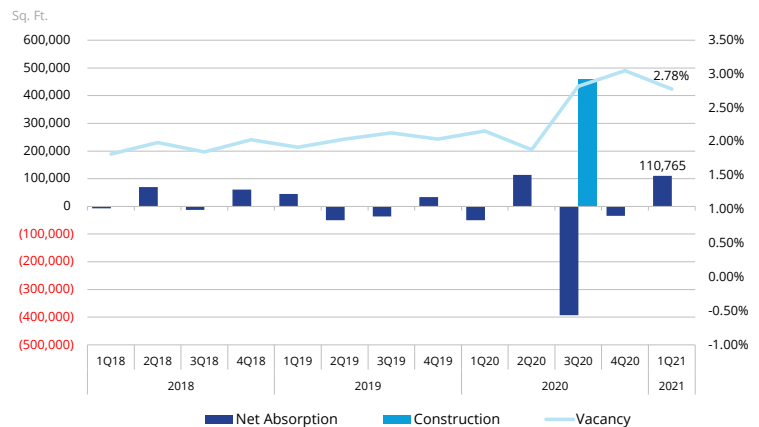
Market Indicators



Historic Comparison

	20Q1	20Q4	21Q1
Total Inventory (in Millions of SF)	40.57	41.08	41.17
New Supply (in Thousands of SF)	0	0	0
Quarterly Net Absorption (SF)	-50,412	-97,332	110,765
Overall Vacancy	2.16%	3.05%	2.78%
Overall Asking Lease Rates (PSF/Month)	\$1.23	\$1.24	\$1.28

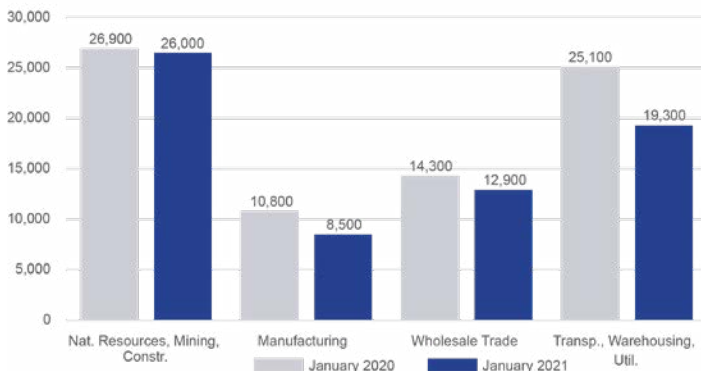
Oahu Industrial Net Absorption vs Vacancy Rate



© 2021 Colliers Research and Consulting. All rights reserved.

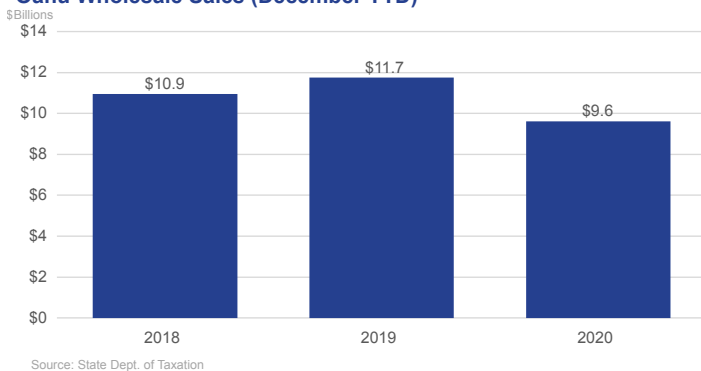
Mixed Industrial Sector Economic Performance

Oahu Industrial Job Counts (January 2020 vs. 2021)



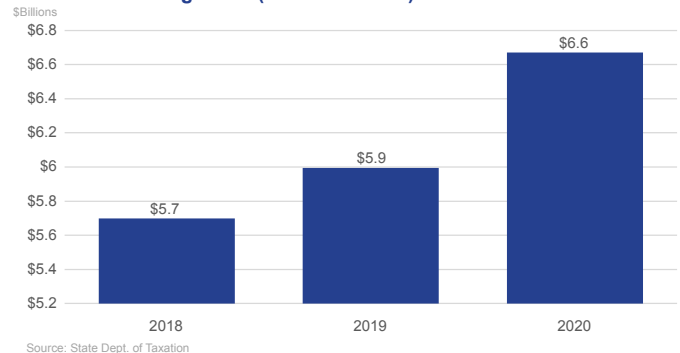
While it appears that market conditions are poised to improve for 2021, year-end 2020 Oahu economic data provided ample evidence of the different challenges faced by the various industrial sectors. From January 2020 through January 2021, the industrial market recorded a loss of 9,700 jobs, of which 5,800 were attributed to the transportation sector. Government enforced travel restrictions negatively affected tourist-based businesses, such as airlines, rental car and bus tour companies. Layoffs also impacted manufacturing (-2,300), wholesale trade (-1,400) and natural resources, mining and construction (-400), as each sector was forced to reduce staff to remain in business.

Oahu Wholesale Sales (December YTD)



The island's distributors, which comprise the largest component of users of Oahu's warehouse space, were also vulnerable to the pandemic's wrath. Reduced hotel bookings, restaurant reservations and consumer shopping negatively affected wholesale sales during the past year with sales volume dropping by a dramatic \$2.146 billion, an 18.25% decline from year-end 2019 levels. This reduction in sales activity is reflected in the loss of 1,400 wholesale sector jobs since January 2020.

Oahu Contracting Sales (December YTD)



While the wholesale industry suffered a sizeable downturn during the past year, Oahu's construction sector remained steadfast, generating 11.3% growth in contracting sales over 2019 levels. Surprisingly, even with the pandemic's impact on Hawaii's economy, construction spending rose to \$6.67 billion, marking the second consecutive year of gains. Identified as an essential business by the government, the construction sector did not suffer the setbacks that many other businesses faced when COVID-19 proclamations mandated a shut-down of non-essential business. Construction projects continued and major developers such as Howard Hughes, Castle & Cooke, D.R. Horton, Gentry Homes and Jupiter Holdings pushed forward on their projects.

Honolulu Total Construction Forecast

For Oahu’s industrial marketplace to remain optimistic, it is vital that the construction sector remain a bright spot in an otherwise challenging economic environment. The IHS-Markit Construction Volume forecast for Honolulu projected that 2021 construction spending will increase by a healthy 13.6% over 2020 levels and exceed \$4.0 billion through 2023. The low interest rate environment is forecasted to continue, keeping development financing costs low and stimulating additional development projects.

New Warehouse Development Spurs Rental Rate Increase

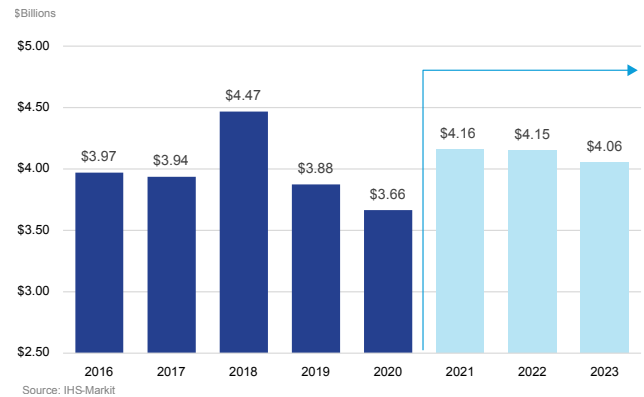
Between 2012 and 2017, Oahu’s industrial market experienced rapid rental rate growth attributed to both healthy demand and the lack of warehouse development. Subsequently, between 2018 and 2019, tight market conditions left all but the lowest quality spaces on the market as rents stagnated.

At the end of 3Q2020, two large warehouse projects were delivered to the market with average asking base rents ranging from \$1.35 to \$1.65 per square foot per month (“psf/mo”), boosting the island-wide average asking base rent. These projects, Nan Inc.’s Malakole Industrial Park, and Thomas Sorensen’s 91-150 Hanua, also generated positive leasing activity during the past quarter. At the end of 1Q2021, the direct weighted average asking base rent increased from \$1.24 psf/mo to \$1.28 psf/mo for a healthy 3.2% increase in rents.

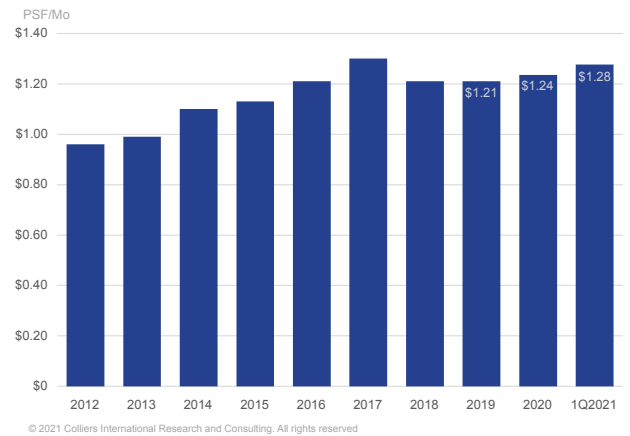
As rents increase, developers continue to explore speculative warehouse projects.

Currently, there are two projects under construction, 2090 Lauwiliwili Street and 91-150 Malakole Street. These projects could add an additional 87,000 square feet of new warehouse inventory to the market and continue driving rents upward as both have asking rents above \$1.35 psf/mo.

Honolulu Total Construction Market Volume Forecast



Oahu Industrial Direct Wtd. Avg. Asking Base Rents



Ho'opili Business Park Begins Construction

In addition to new warehouse construction, Jupiter Holdings, LLC announced plans to develop a new industrial park at its 57-acre site in Kapolei. Located along Farrington Highway and adjacent to the Ho'opili master planned community, the IMX-1 zoned Ho'opili Business Park will allow for a wide range of industrial and commercial uses. The delivery of the finished lots are scheduled for the end of 2021.



Ho'opili Business Park Site Plan

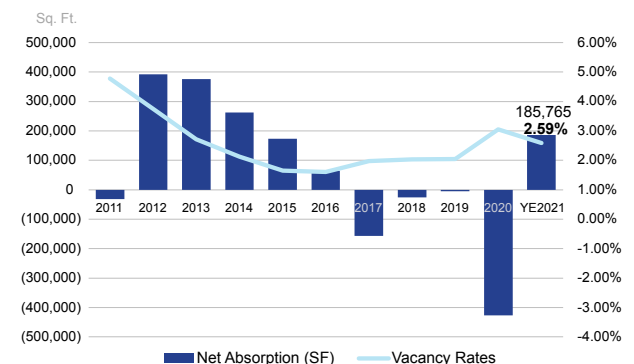
Land Sales Projected to Improve

Due to the pandemic, land sales suffered during 2020, but tour activity and buyer interest are beginning to return. Most notably, Kapolei land sales have seen a flurry of activity. The last available lot at Kapolei Business Park II was sold in November 2020, and at Kapolei Business Park West, only 11 of the 27 lots available for sale remain, and of them, more than half are currently in escrow.

Optimistic Market Outlook

Both the University of Hawaii Economic Research Organization and the State's Department of Business Economic Development and Tourism's forecasts took a decidedly more optimistic tone during 1Q2021. Both forecasts anticipated that the economic recovery would begin before the end of the 2021, citing Hawaii's success in its inoculation efforts, as well as the distribution of federal aid, as a sign of hope for many businesses.

Oahu Industrial Net Absorption vs. Vacancy Rate Forecast



© 2021 Colliers Research and Consulting. All rights reserved.

While there are still hurdles to overcome, Colliers forecasts that Oahu's industrial market will continue to generate positive gains in occupancy for 2021. Vacancy rates will trend downward as pent-up demand for both available warehouse space and industrial zoned land regains strength.

Submarket	No. of Bldgs	Building Area (SF)	Tenure*	Direct Space Available (SF)	Sublease Space Available (SF)	1Q2021 Net Absorption (SF)	YTD Net Absorption (SF)	Vacancy Rate	Direct Wtd. Avg. Net Asking Rent (NNN) (PSF/Mo)**	Avg. Net Op. Exp. (PSF/Mo)
Honolulu										
Iwilei	99	2,381,935	Fee Simple	102,187	0	53,454	53,454	4.29%	\$1.67	\$0.50
Kalihi	712	9,776,865	Fee Simple	276,780	0	43,503	43,503	2.83%	\$1.27	\$0.47
Sand Island	74	663,005	Leasehold	0	0	0	0	0.00%	\$1.45	\$0.33
Mapunapuna	107	4,214,301	Leasehold	55,253	0	(612)	(612)	1.31%	\$1.26	\$0.54
Airport	125	4,641,933	Fee Simple	15,786	0	0	0	0.34%	\$1.44	\$0.68
Total Honolulu	1,117	21,678,039		450,006	0	96,345	96,345	2.08%	\$1.36	\$0.49
Central Oahu										
Bougainville	20	806,460	Leasehold	0	0	0	0	0.00%	\$1.05	\$0.25
Halawa	84	2,719,361	Leasehold	52,270	0	(8,548)	(8,548)	1.92%	\$1.33	\$0.45
Pearl City/Aiea	45	1,660,582	Fee Simple	4,100	0	22,611	22,611	0.25%	\$1.80	\$0.54
Pearl City Industrial Park***	32	762,292	Fee Simple	9,013	0	(4,953)	(4,953)	1.18%	\$1.33	\$0.37
Gentry Business Park	68	1,801,766	Fee Simple	49,865	0	(27,998)	(27,998)	2.77%	\$1.32	\$0.52
Milltown	37	443,120	Fee Simple	1,680	0	0	0	0.38%	\$1.35	\$0.58
Waipahu	129	2,731,322	Fee Simple	46,678	0	(7,405)	(7,405)	1.71%	\$1.15	\$0.35
Total Central Oahu	383	10,924,903		163,606	0	(26,293)	(26,293)	1.50%	\$1.29	\$0.42
West Oahu										
Campbell Industrial Park	122	5,185,560	Fee Simple	227,020	0	314	314	4.38%	\$1.37	\$0.29
Kapolei Business Park	53	1,574,865	Fee Simple	44,730	0	41,806	41,806	2.84%	\$1.25	\$0.49
Malakole Industrial Park	20	428,836	Fee Simple	179,780	0	1,200	1,200	41.92%	\$0.90	\$0.29
Kenai Industrial Park	12	119,346	Fee Simple	28,666	0	0	0	24.02%	\$1.35	\$0.27
Kalaeloa Industrial	7	50,297	Fee Simple	760	0	1,640	1,640	1.51%	\$1.00	\$0.12
Total Kapolei	214	7,358,904		480,956	0	44,960	44,960	6.54%	\$1.18	\$0.34
Windward Oahu										
Kapaa Industrial ****	62	593,128	Fee Simple	41,420	0	(4,247)	(4,247)	6.98%	\$1.40 G to \$2.25 G *	\$0.00
Kaneohe	42	611,076	Fee Simple	6,750	0	0	0	1.10%	\$1.20	\$0.28
Total Windward	104	1,204,204		48,170	0	(4,247)	(4,247)	4.00%	\$1.37	\$0.30
Oahu Total	1,818	41,166,050		1,142,738	0	110,765	110,765	2.78%	\$1.28	\$0.40

*Leasehold tenure associated with industrial parks with 75% or more of land under ground lease.

** 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.

*** Pearl City Industrial Park is a submarket associated with Pearl City/Aiea trade area.

**** Only gross rents are quoted.

© 2021 Colliers Research & Consulting. All rights reserved.

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 NET Expense** - The average rate of tenant expenses such as building utilities, management fees, building maintenance, real property taxes and insurance within a specific geography.
- **NNN Rents** - Rents exclusive of building operating expenses.

Market Contacts:

Mike Hamasu
 Director of Research
 mike.hamasu@colliers.com

Nanette Vinton (S)
 Research Consultant
 nanette.vinton@colliers.com

Market Leaders:

Sarah Morihara (B)
 President / Managing Director
 sarah.morihara@colliers.com

Andrew D. Friedlander (B) SIOR
 Principal Broker
 andrew.friedlander@colliers.com

Industrial Contributors:

Alika Cosner (S)
 Vice President

William "Bill" Froelich (B) JD CCIM SIOR
 Senior Vice President

Michael Gomes (S)
 Associate

Guy V Kidder (B) SIOR
 Senior Vice President

Patrick McGranahan (S)
 Associate

Scott L. Mitchell (B) SIOR
 Executive Vice President

Ronald C. Ward (S)
 Vice President

About Colliers

Colliers (NASDAQ, TSX: CIG) is a leading diversified professional services and investment management company. With operations in 67 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice to real estate occupiers, owners and investors. For more than 25 years, our experienced leadership with significant insider ownership has delivered compound annual investment returns of almost 20% for shareholders. With annualized revenues of \$3.0 billion (\$3.3 billion including affiliates) and \$40 billion of assets under management, we maximize the potential of property and accelerate the success of our clients and our people. Learn more at corporate.colliers.com, Twitter @Colliers or LinkedIn.