

# Hawaii Industrial MarketView

Q3 2012

CBRE Global Research and Consulting

U.S. UNEMPLOYMENT  
8.1%

HAWAII UNEMPLOYMENT  
6.1%

HI MANUFACTURING EMPLOYMENT  
2.3%

VISITOR SPENDING  
20%

## CONTINUED RISE IN TOURISM DOLLARS PUSHES HAWAII'S INDUSTRIAL REAL ESTATE MARKET FORWARD

### Quick Stats

Q3 2012		QoQ	YoY
Vacancy	3.9%	↑	↓
Base Lease Rates	\$0.94	↑	↓
Absorption (SF)	135 K	↓	↑

\*The arrows are trend indicators over the specified time period and do not represent a positive or negative value (e.g. vacancy could be negative, but still represent a positive trend over a specified period).

\*Ticker: All employment statistics are from most recent BLS data for Honolulu. Arrows are year-over-year trends.

### Hot Topics

- Vacancy up slightly
- Absorption positive
- Tourism spending up

Hawaii's industrial market remained stable overall during the third quarter of 2012. Lease rates remained virtually flat and vacancy ticked up only slightly as the rate of absorption slowed. In addition, a trend to more desirable locations was observed as tenants continue to take advantage of affordable lease rates and availability in downtown submarkets.

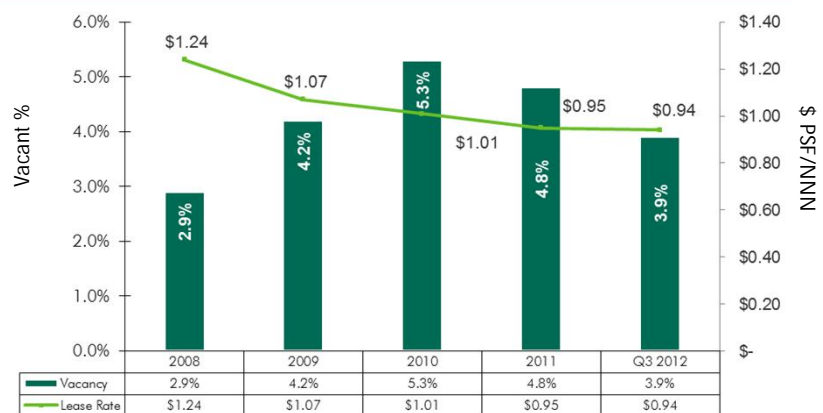
While the national economy remains sluggish, Hawaii's economy continued to hold steady during the third quarter of 2012. According to the Bureau of Labor Statistics, overall employment in the state is up 2.4% for the 12 month period ending in August 2012. At 5.2% growth, leisure and hospitality employment outperformed all sectors with the exception of information, which was also at 5.2%. Unemployment in the state is 6.1% and 5.7% in Honolulu, both well below the national rate of 8.1%.

Improving tourism and the subsequent visitor spending is an important driver of

warehouse activity. The most recent report by the Hawaii Tourism Authority indicates total visitor spending is up 20% to \$9.59 billion year-to-date; this positive trend is expected to continue and will increase demand for consumer goods, bolstering the need for warehouse and distribution facilities.

In its third quarter report, the Department of Business, Economic Development & Tourism (DBEDT) is projecting continued positive economic growth for the state, particularly in areas related to tourism. However, uncertainty both nationally and around the world could deter progress as businesses refrain from spending due to uncertainty. The global economy continues to face challenges that could impact Hawaii. Domestically, the outcome of national and local elections will affect federal spending, including military and infrastructure projects in Hawaii, which have provided a significant amount of support to the local economy.

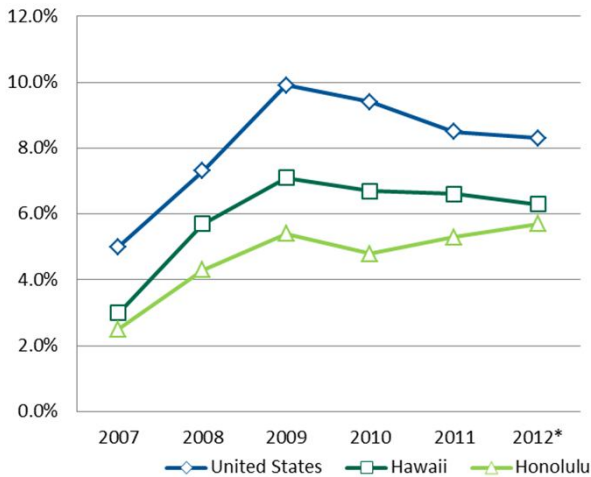
Chart 1: Vacancy vs. Lease Rates



**Table 1: Hawaii Industrial Market**

Market	NRA	Vacant	Vacancy	Absorption		Weighted Average Asking		
				3rd Qtr	YTD	OP EXP	NET	GROSS
Kakaako	1,700,412	137,949	8.1%	(50,891)	51,172	\$ 0.51	\$ 1.12	\$ 1.63
Iwilei	3,483,658	149,358	4.3%	38,793	20,214	\$ 0.40	\$ 1.16	\$ 1.56
Kalihi	7,029,067	294,299	4.2%	129,431	270,839	\$ 0.39	\$ 0.94	\$ 1.33
Mapunapuna	1,641,874	144,298	8.8%	(97,487)	(73,526)	\$ 0.35	\$ 0.83	\$ 1.18
Airport	4,828,645	86,476	1.8%	(48,618)	38,331	\$ 0.35	\$ 1.15	\$ 1.50
Bougainville	621,337	-	0.0%	-	-	\$ 0.29	\$ -	\$ 0.29
Halawa	2,386,852	52,159	2.2%	12,367	15,145	\$ 0.30	\$ 0.91	\$ 1.21
Pearl City	973,166	117,807	12.1%	9,078	65,789	\$ 0.41	\$ 0.95	\$ 1.36
Waipio / Milliani	2,632,341	149,755	5.7%	32,889	12,631	\$ 0.49	\$ 1.03	\$ 1.52
Waipahu	1,781,677	195,580	11.0%	(54,523)	(39,290)	\$ 0.27	\$ 0.76	\$ 1.03
Kapolei	1,080,720	175,120	16.2%	44,923	63,716	\$ 0.26	\$ 0.85	\$ 1.11
Campbell/Kenai	4,964,132	155,810	3.1%	(2,321)	32,860	\$ 0.25	\$ 0.80	\$ 1.05
Windward	973,837	48,822	5.0%	(9,317)	9,606	\$ 0.32	\$ 0.92	\$ 1.24
Oahu	34,327,569	1,707,433	5.0%	4,324	467,487	\$ 0.35	\$ 0.94	\$ 1.29
Maui	10,723,580	268,994	2.5%	(120,295)	(56,468)	\$ 0.33	\$ 1.01	\$ 1.34
Big Island	9,079,769	201,405	2.2%	12,098	(54,050)	\$ 0.32	\$ 0.84	\$ 1.17
Kauai	1,852,587	20,710	1.1%	9,198	37,211	\$ 0.33	\$ 0.87	\$ 1.20
<b>State</b>	<b>55,983,505</b>	<b>2,198,542</b>	<b>3.9%</b>	<b>135,176</b>	<b>624,031</b>	<b>\$ 0.34</b>	<b>\$ 0.94</b>	<b>\$ 1.28</b>

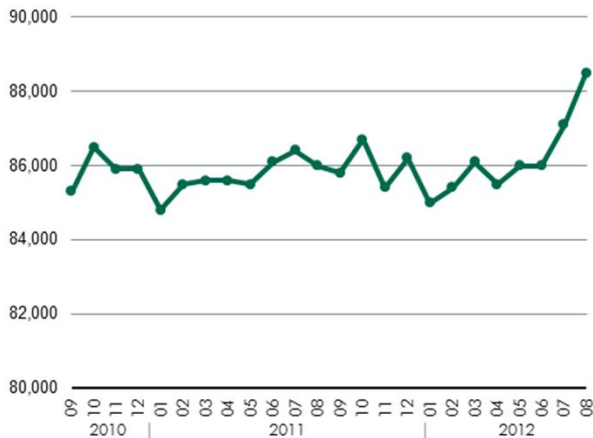
**Chart 2: Unemployment Rate**



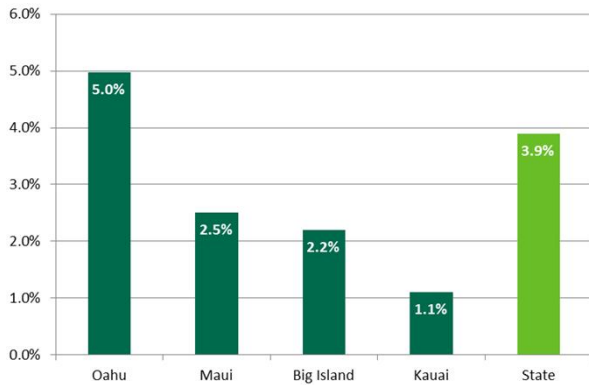
The state-wide unemployment rate was last reported at 6.1% for the month of August 2012, significantly lower than the national average of 8.1%. Weak job growth across most job sectors is keeping the unemployment rate from experiencing any meaningful improvement. However, according to the BLS, for the 12 months ending in August of 2012, employment in manufacturing increased 2.3% and trade increased 2.8%. At 5.2% growth, leisure and hospitality employment outperformed all sectors with the exception of information, which was also at 5.2%.

Source: SOH, DLIR, Research and Statistics Office & U.S. DOL, Bureau of Labor Statistics

**Chart 3: Industrial Sector Employment**

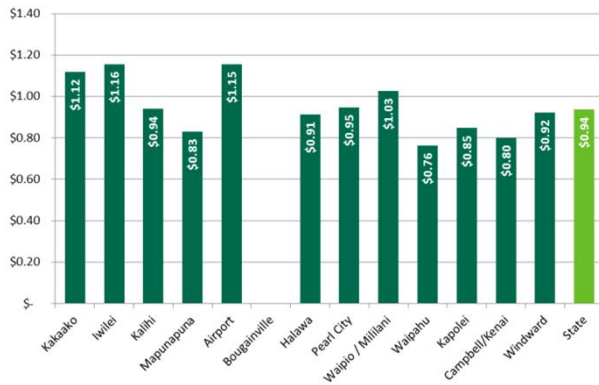


**Chart 4: Vacancy**



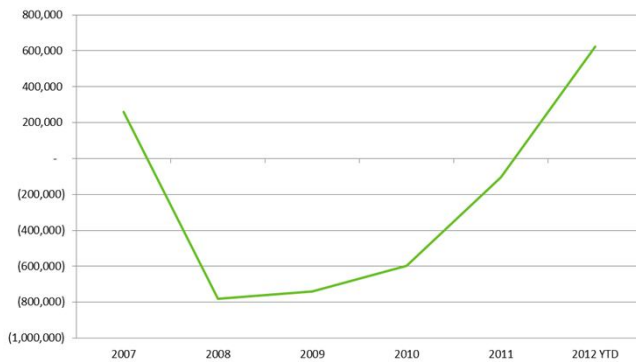
Vacancy increased slightly during the third quarter to 3.9%, mostly due to new space becoming available on Maui. Industrial vacancy in the 4% range has been indicative of a healthy local economy. Both the Kalihi and Kapolei submarkets experienced a significant decrease in vacancy this quarter as a result of several small deals and aggressive pricing. Continued steady transaction activity and a lack of new building supply should keep vacancy low in the near to medium-term;

**Chart 5: Average Asking Base Lease Rents**

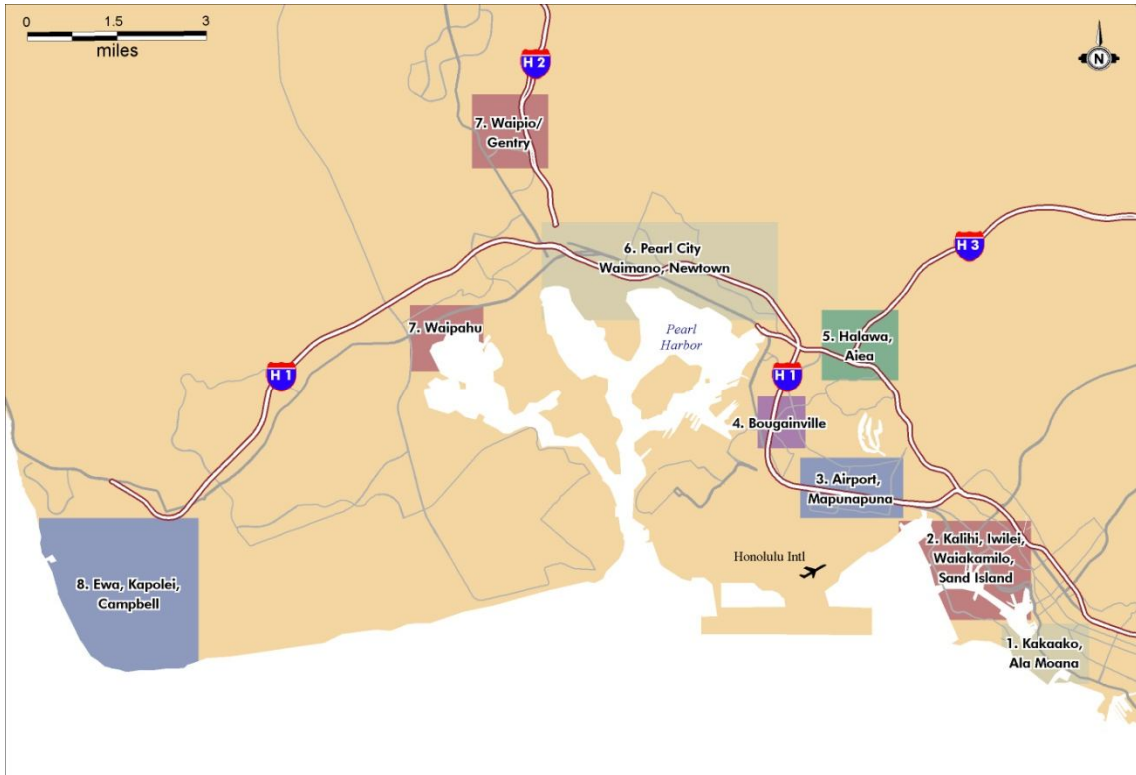


State-wide, lease rates have remained flat since second quarter of 2011. Barring a significant decline in vacancy, lease rates will not increase significantly and landlords should remain aggressive in order to fill available space. In the current market environment, many occupiers are taking advantage of historically low rents and the opportunity to purchase.

**Chart 6: Net Absorption**



Although the rate of absorption slowed during the third quarter, total net absorption year-to-date is at 624,031 SF. Healthy tourism spending and continued expansion of retailers should continue to drive the need for warehousing and distribution facilities. With a lack of new supply and continued pent up demand in the market, this positive trend is expected to continue throughout the remainder of 2012.



## CONTACTS

For more information about this Local MarketView, please contact:

### Hawaii Research

**Timothy J. Deegan**  
 Senior Marketing Specialist Hawaii  
 CBRE  
 Pauahi Tower 18<sup>th</sup> Floor  
 1003 Bishop St  
 t: +1 808 541 5173  
 e: Tim.Deegan@cbre.com

**Megan Chinn**  
 Researcher Hawaii  
 CBRE  
 Pauahi Tower 18<sup>th</sup> Floor  
 1003 Bishop St  
 t: +1 808 541 5180  
 e: Megan.Chinn@cbre.com

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