



Campbell/Kapolei Industrial Market Transient Demand Study

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Project Objectives

The following are the objectives for this study:

- Identify “Transient Demand” for transitioning markets of Kapalama, Kakaako and Airport/Mapunapuna
- Determine Lease Turnover Rate for Industrial Tenants
- Identify Potential Additional Industrial Inventory that may Impact Campbell/Kapolei Absorption



Project Methodology

The primary objective for this study is the quantification the amount of “transient” industrial demand for the West Oahu industrial marketplace. For purposes of this study, “transient” demand is identified as the demand that would contribute to increased industrial space requirements beyond the “typical” growth based on job and economic census variables.

This study will quantify the amount of transient demand that would be generated from the following factors:

- Relocation of Kapalama Military Reserve Tenants**
- Relocation of Kakaako Waterfront Industrial Tenants**
- Relocation of Airport/Mapunapuna Short Term Ground Lease Tenants**

Additionally, we will review market statistics that will assist in the determination of the level of annual level of industrial land absorption. Vacancy rates, annual net absorption, lease turnover rate and tenant relocation estimates will be used to identify the level of absorption for West Oahu industrial land.

Based on a prior draft study, it was estimated that the demand for industrial acreage for “new” growth based on industrial job growth was estimated from 16.6 to 18.616 acres per year. The level of transient demand would be added to this figure to determine the total demand for industrial acreage for West Oahu.



Market Overview

Oahu Industrial Market Overview

Oahu's industrial market continues to face tight conditions with a severe shortage of available space for lease. Vacancy rates remained below 2% for the second consecutive year resulting in the tightest industrial market in the country.

Since 2003, the industrial market grew dramatically by nearly 1 million square feet of net absorption. For a 35 million square foot market, this is significant growth. A large percentage of this growth is the result of new construction and relocation of industrial tenants from the urban core to outlying industrial parks in West and Central Oahu. Two factors contributed to the increase in industrial construction activity in West Oahu; First, the limited amount of industrial zoned developable land on Oahu, and second is the majority of this land is concentrated in Kapolei and Campbell Industrial Park. Third, land pricing is lower in Kapolei and Campbell Industrial Park than in all other industrial zoned areas on Oahu.

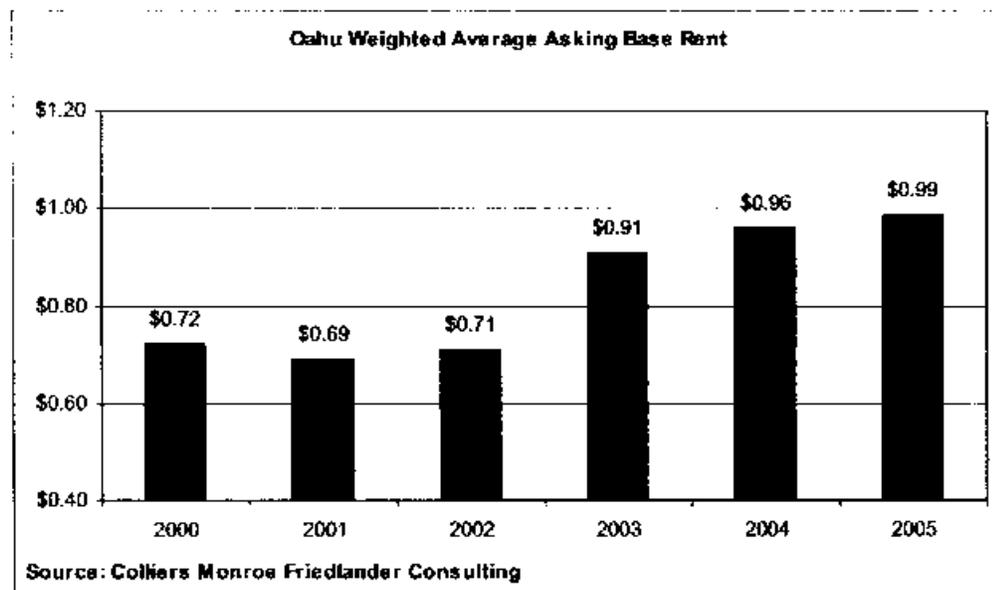
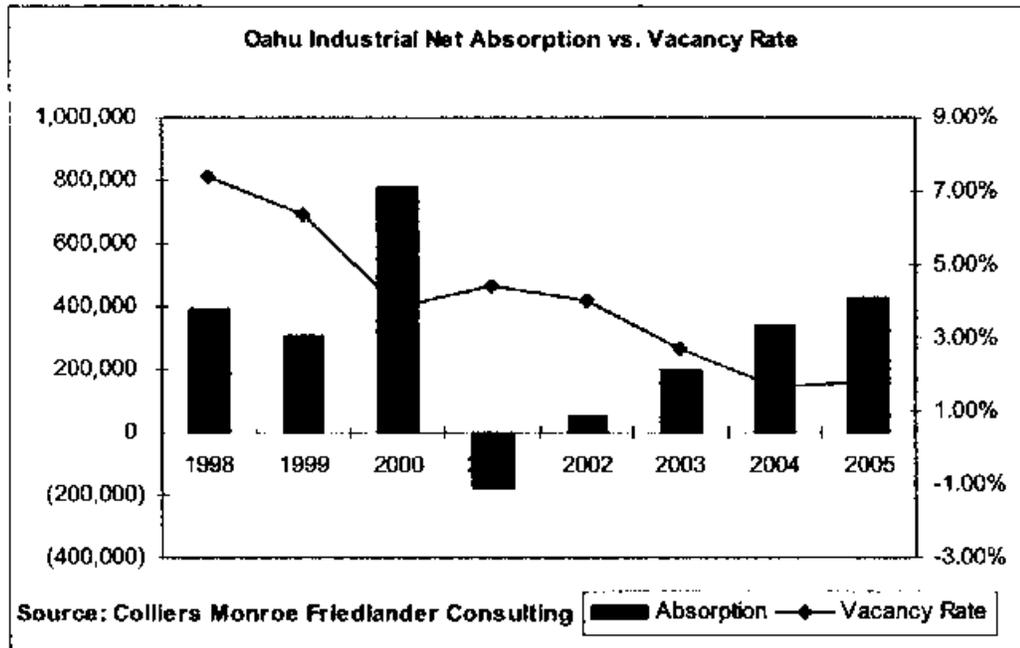
In fact, industrial land prices shot up over the past two years. As an example, Kapolei Business Park listed lots for sale in 2003 at roughly \$12 per square foot. Two years later, lots have been sold for \$31 psf, a 258% increase in price. Similarly, pricing for Kenai Industrial Park and Campbell Industrial Park have more than doubled in the past eighteen months.

The low interest rate environment as well as the jump in lease rents principally fueled this land purchase boom. Over the past two years, the Oahu weighted average industrial asking rental rate jumped by nearly 40% from \$0.71 per square foot per month (psf/mo) recorded at year-end 2003 to \$0.99 psf/mo posted at year-end 2005.



Market Overview

Oahu Industrial Market Overview

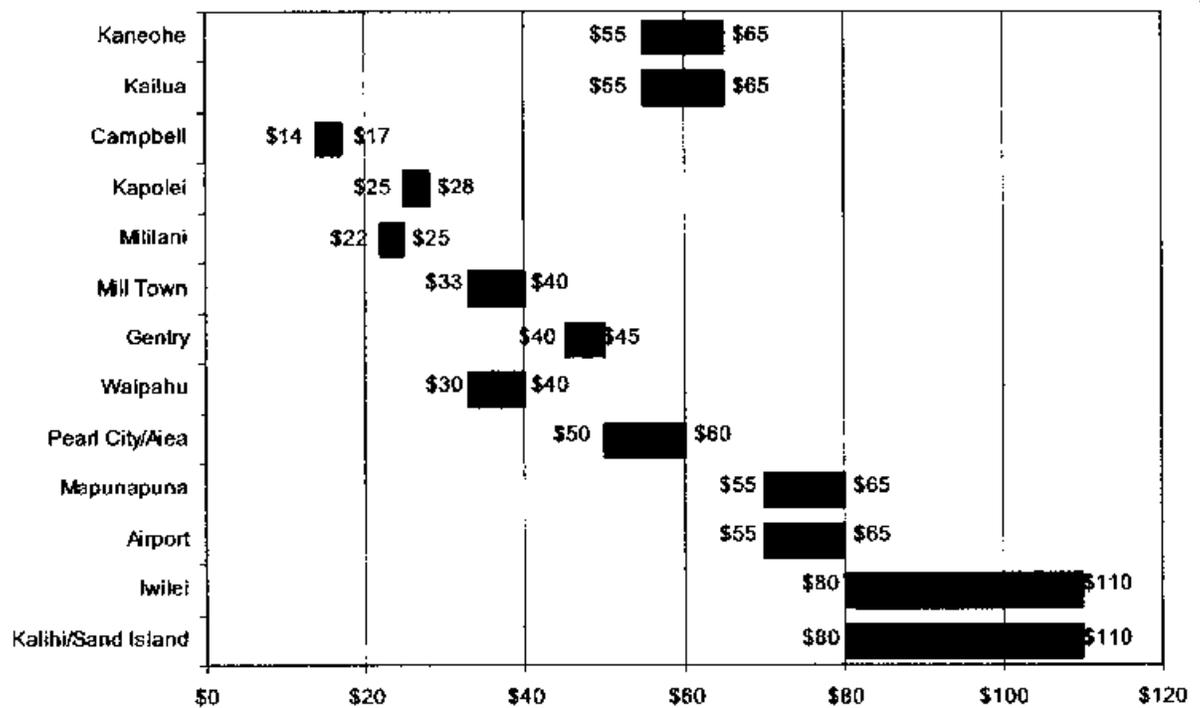




Market Overview

Oahu Industrial Market Overview

Estimated Mid-Year 2005 Industrial Land Values



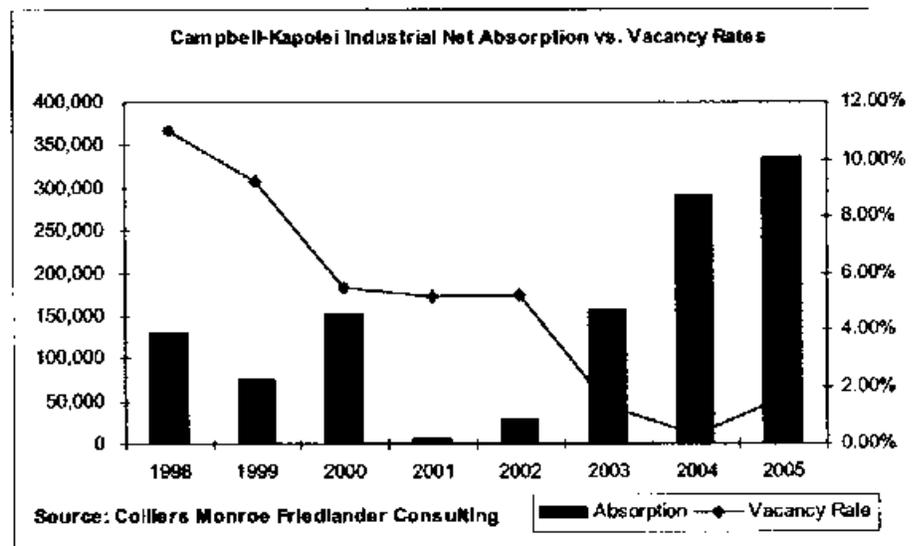
Source: Colliers Hawaii Consulting



Campbell/Kapolei Market Overview

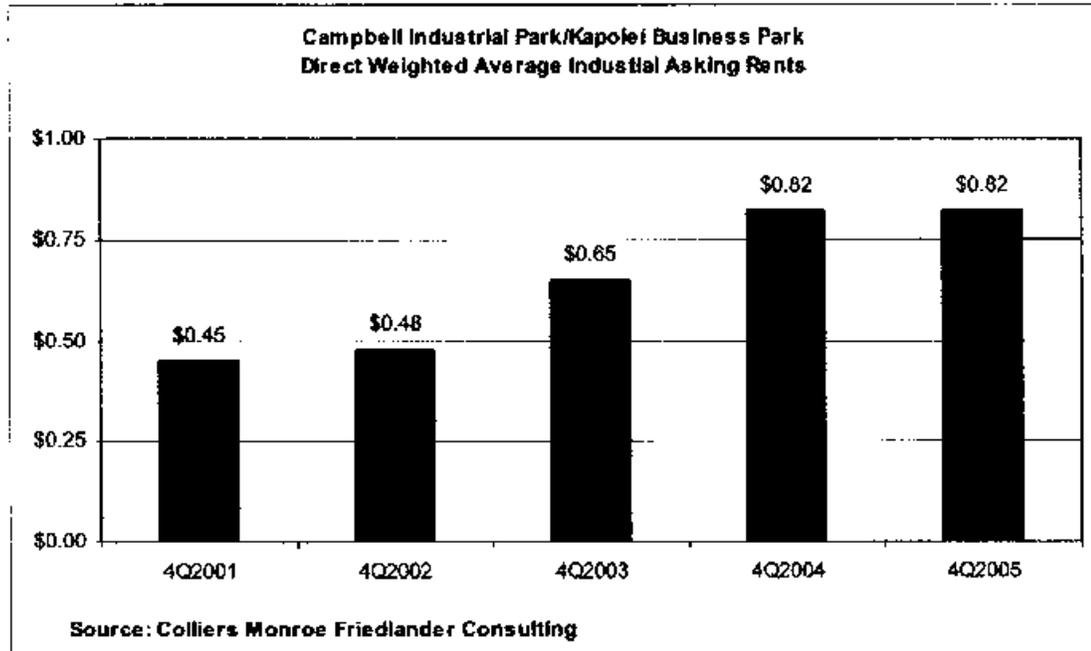
Campbell Industrial Park and Kapolei Business Park are located on the southwestern portion of the island of Oahu. Currently, there is roughly 5 million square feet of existing industrial properties in these two industrial parks. The current vacancy rate for this submarket is 1.62%, up slightly from the 1.27% recorded a year ago. Occupancy growth fueled by new construction boosted net absorption for this submarket by more than 350,000 square feet over the past two years.

As previously mentioned, rental rates among available industrial properties rose dramatically since 2003. For this submarket, rents rose from \$0.65 psf/mo to \$0.82 psf/mo over the past two years, an increase of 26%. This jump in rental rates boosted interest in owner-user development and investor speculative development for warehouse properties. Over the past two years, land prices are estimated to have increased from a range of \$10-\$16 psf in 2003 to a range of \$16-\$31 psf in 2005. In this submarket, more than 700,000 square feet of new construction will be built in the next year and nearly 400,000 square feet will be for speculative industrial condominiums.





Campbell/Kapolei Market Overview





Review of Transient Demand Elements

Kapalama Relocation

The State Department of Transportation, Harbors Division is looking into implementing a plan to redevelop the former Kapalama Military Reserve for a harbor expansion. It is anticipated that construction will begin in 2010 after the site has been remediated of environmental hazards and prepared for construction.

This site constitutes 55 acres with roughly 1.2 million square feet of industrial properties. Nearly 100 tenants and their businesses reside in the location. There is no vacancy at the Kapalama Military Reserve. Rents have been below market at \$0.45 psf/mo versus the average market rent of \$0.99 psf/mo.

Kakaako Redevelopment and Relocation

The State of Hawaii instituted their Waterfront Redevelopment Plan, which directs the Hawaii Community Development Authority ("HCDA") with enacting long-term plans to eventually redevelop and transform this submarket from its current quasi-industrial/retail uses into higher and better use. This area already is experiencing significant changes as there are five high-rise residential condominium projects that are currently being constructed.

Currently, there is an estimated 2.9 million square feet of industrial users in this submarket. There is 103,000 square feet of available industrial space in Kakaako, resulting in a vacancy rate of 3.59%. This equates to roughly 3.78 million square feet of current occupancy.



Airport/Mapunapuna Short-Term Leasehold Tenants

The Airport/Mapunapuna submarket is located adjacent to the Honolulu Airport and is centrally located to Honolulu and Leeward Oahu. This market is comprised of more than 8.1 million square feet of industrial properties that reside principally on leasehold land owned by HRPT, a Boston REIT.

The year-end 2005 vacancy rate for the Airport/Mapunapuna submarket is 0.96%. This resulted in occupancy of 8.07 million square feet. Reflecting a lack available space, this submarket is comprised of a large number of functionally obsolete properties that are on short-term ground lease terms. Of the 8.07 million square feet of tenants, we estimate that 435,000 square feet will expire between 2008 and 2015.

Between 2015 and 2025, we believe that the majority of the ground lessees will be expiring. As a result, absorption counts for industrial acreage should increase during this time period.

Transient Demand Calculations

TRANSIENT DEMAND ELEMENTS	Inventory (SF)	Vacancy Rate	Occupancy (SF)	Relocation Timeframe	Annual Absorption (SF)	West Oahu Capture Percentage	Sq. Ft
Transitional Markets							
Kapalama Military Reserve	1,200,000	0.00%	1,200,000	5 years	240,000	20.00%	48,000
Kakaako	2,884,079	3.59%	2,780,541	15 years	185,359	10.00%	18,537
				Sq. Ft. Ground Lease Expiring 2008-2018	Average Annual Lease Expirations		
Airport/Mepunapuna	9,147,004	0.96%	8,068,793	435,003	54,375	35.00%	19,031
Total Transitional Markets	12,231,083		12,049,333		478,745	17.84%	85,568
Annual Leases Turnover							
Oahu Industrial Market (less above markets)	22,676,878	1.80%	22,267,712	Relocation Timeframe	Annual Lease Turnover (SF)		
Renewal Percentage		95.00%		5 years	4,453,542		
New Lease Transactions from Turnover					4,230,865	45.00%	100,205
West Oahu Industrial Building to Land Ratio					222,677		100,205
Total Potential West Oahu Annual Industrial Average Absorption						Average	10.66

Based on the above chart, we estimate that the annual transient demand for West Kalaheo/Kapolei area is approximately 10.7 acres.



Industrial Supply Analysis

There is a projected 874 acres of industrial acreage available for sale and or development over the next ten years. Of this amount, 340 acres are slated for the West Kalaeloa industrial park. We believe a predominant portion (more than 90%) of the absorption will occur among the industrial sites in Kapolei, West Kalaeloa, Kalaeloa (HCDA), and Hawaii Raceway Park. The reason for this high level of absorption is due to the lower cost associated with this land.

The following are potential development sites for industrial parks. Many of these sites do not have zoning and entitlements yet, resulting in a low probability of immediate development.

	Total Acres	Estimated FAR	Square Footage	Probability %	Estimated SF
Mill Town	15	0.40	261,360	100.00%	261,360
Miliani Tech Park	30	0.40	522,720	25.00%	130,680
Kalaeloa - HCDA (Phase 1)	16	0.40	278,784	10.00%	27,878
I-3 Waterfront Industrial Land	71	0.40	1,237,104	50.00%	618,552
I-2 Zoned Land	123	0.40	2,143,152	50.00%	1,071,576
Hawaii Raceway Park	54	0.40	940,896	40.00%	376,358
Hawaiian Cement	29	0.40	505,296	100.00%	505,296
Tesoro	200	0.40	3,484,800	25.00%	871,200
Honouliuli	43	0.40	754,285	10.00%	75,428
KBP Phase 2	53	0.40	923,472	100.00%	923,472
West Kalaeloa	240	0.40	4,181,760	100.00%	4,181,760
Total Potential New Supply	874		15,233,628		9,043,581



Recommendations

CMFC reviewed the potential transient demand for West Kalaeloa by examining demand elements from transitioning markets, lease turnover, and new supply inventory.

• **Transient demand from transitioning markets:** Based on the study results, CMFC estimated approximately 479,745 square feet of tenant space would be relocated from the transitioning industrial markets of Kapalama, Kakaako, and the Airport/Mapunapuna areas over the next thirteen years. Of this amount, the West Oahu market is estimated to capture about 17.8% or 85,568 square feet of tenant space. This equates to 213,920 square feet or 4.91 acres of land (using a FAR of 0.40).

• **Transient demand from lease turnover:** CMFC estimated approximately 222,677 square feet of new tenant leases from lease turnover for the island of Oahu. Of this amount, the West Oahu market is estimated to capture about 45.0% or 100,205 square feet of tenant space. This equates to 250,512 square feet or 5.75 acres of land (using a FAR of 0.40).

Total transient demand from transitioning markets and lease turnover is estimated at **10.7 acres per year.**

• **Industrial supply analysis:** CMFC estimated approximately 874 acres of new industrial supply coming on-line within the next 10 years. The majority of the competitive supply is located within the West Oahu region.

CONCLUSION: Based on the study results, CMFC estimates that total transient industrial market demand for West Kalaeloa of **9 to 11 acres per year.**