REAL ESTATE

Rents could rise for Oahu industrial space, report says

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Oahu's industrial market posted a year-end loss of 157,222 square feet of occupancy for 2017, but 2018 is already looking to be a positive year for the sector, with more occupancy and higher rents, according to the year-end industrial market report by Colliers International Hawaii.

By the end of 2017, the vacancy rate for Oahu's industrial real estate rose to 1.97 percent from 1.6 percent last year, and Colliers attributed much of that rise to several new Kailua warehouses that will be ready soon.

"Realistically, this rise in vacancy will likely be a temporary upward blip and only a short-term phenomenon," the report said, noting, for example, that it would only take two medium-sized industrial tenants to account for the 38,942 square feet of negative net absorption in the fourth quarter.

Direct weighted average asking rents for industrial property on Oahu rose to $1.30 per square foot per month by the end of 2017, an increase of 7.4 percent from the end of 2016 and a 41 percent increase over the past six years. The average operating expense was 37 cents per square foot per month at the end of the year.

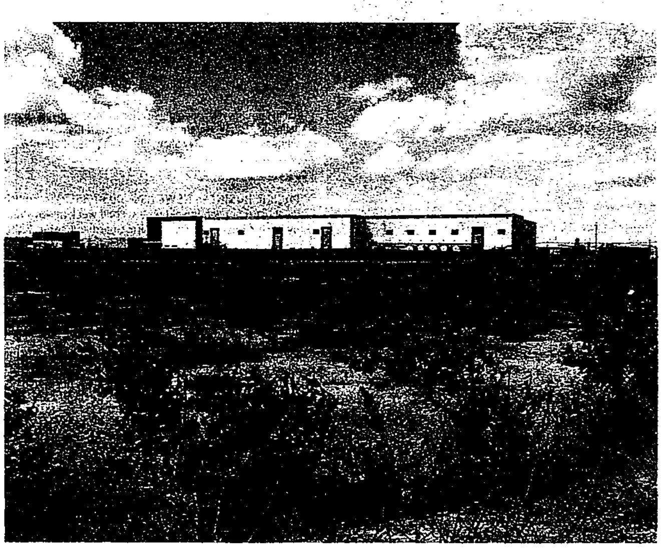
The recent increase in rents can be attributed to pricing of several large blocks of space on the market for lease, including new warehouse space in Kapaa Industrial Park in Kailua that's priced at $1.60 per square foot per month. Colliers predicts rents will continue to rise another 6 percent in 2018 to more than $1.37 per square foot per month.

The high price of land close to Downtown Honolulu, coupled with construction costs, means its unlikely there will be any new warehouses built near the city, since rents would have to more than double to make it pencil out, and Colliers forecasts the warehouse shortage in Honolulu will likely continue "with little relief in sight."

With that, vacancy rates among the submarkets are forecast to remain near 2 percent in 2018, with positive absorption created by the pre-leasing of Avalon Development's new warehouse being built in Kapolei. Although three of the five industrial parks in the West Oahu are 100 percent occupied, a vacancy rate of 9.73 percent at Kapolei Business Park and the 1.43 percent rate at Campbell Industrial Park gave the submarket a vacancy rate of 3.27 percent by the end of the year.

Large spaces are at a premium on Oahu, the report said. William Froelich, senior vice president of Colliers' industrial services division, noted in the report that there are only five available spaces larger than 30,000 square feet on Oahu.

Raw land has been seen as a "potential release valve" to the pressure of the low vacancy rate, he said. Kapolei Business Park Phase 2 has less than 10 of 54 acres remaining, and while Colliers is preparing to list Kapolei Business Park West, when the 100-acre industrial park is sold and built out, it will only add about 5 percent to the 40 million-square-foot inventory on Oahu, Froelich said.



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Avalon's warehouse is being built next to Medline's Kapolei warehouse.