



2009 BROKER OUTLOOK

Real estate experts focus on the year to come.

compiled by Brian A. Lee

Realizing knowledge is power, commercial real estate players have been doing their homework on a challenging year ahead. *Western Real Estate Business* contacted broker experts to help give them foresight on the obstacles and opportunities that 2009 will bring.

Hawaii

The dynamics among Hawaii's hotel, commercial and industrial real estate sectors reveal a decline in market conditions with vacancy rates rising and negative absorption being registered. Rental rates, which have risen dramatically in the past 5 years, recently have reached a plateau and are susceptible to softening.

Inflationary pressures fueled by rising oil prices have preyed upon the vulnerability of Hawaii's isolated location. Tourism, which drives the economy, is contingent upon airlines fueled by jet fuel. Ticket prices have doubled in many cases due to fuel surcharges, resulting in a dampening effect on air passenger arrival counts, hotel occupancy rates and retail expenditures. Hotel transactions reached a feverish level in 2006 and 2007, only to have become the most vulnerable of the property types to volatile oil prices and a slowing U.S. national economy. After posting nearly \$1 billion in hotel transactions for the past 3 years, there were three hotel transactions for a total of \$75 million in 2008.

Occupancy rates and air passenger arrival counts are anticipated to fall by double digits for 2009. Hotel RevPar and ADRs will likely experience their first drop in rates in the past 4 years. Despite these concerns over hotel occupancy and room rates, Disney Resorts recently announced plans for a brand new resort in Ko Olina. This combined 350-unit timeshare and 480-unit vacation villa resort is anticipated to open in 2011.

Vacancy rates among Honolulu's office buildings fell to 6.5 percent at mid-2007, only to reverse course and rise to a 4-year high of 8.5 percent at year-end 2008. Little or no job growth is anticipated for 2009, and softening has already been experienced among the central business district's (CBD) mortgage, banking and investment firms. Rental rates continued to increase, albeit at a slower pace, but landlord concessions are forecast to rise as a declining economy is likely to impact future tenant expansion and growth.

Developers had planned more than 900,000 square feet of new office projects, principally in Kapolei, located in West Oahu. Several of these projects were planned for construction in 2008, but current market conditions have resulted in many of these projects having to be postponed or shelved.

The retail market generated more than 400,000 square feet of positive absorption for 2008 as several new developments came to fruition. Principally, Ala Moana Center added a new Nordstrom wing and Pearlridge Uptown II added 100,000 square feet of redeveloped retail space out of a former vacant JC Penney's site. Vacancy rates are anticipated to remain near historic lows of roughly 3 percent in the near term. The Hawaii retail market is segmented into resort-oriented and resident-oriented sectors. A dichotomy exists as the resort-

oriented markets appear increasingly vulnerable to the visitor sector downturn. The resident-oriented retail market appears more resilient.

A number of new retail developments are projected for delivery for 2009, most located in Leeward and West Oahu including Kapolei Commons, Pearl City Gateway, Kapolei Crossroads, Costco Kapolei and Target Bougainville. Despite more than 700,000 square feet of new retail developments, vacancy rates are not anticipated to increase dramatically due to healthy pre-leasing efforts. By year-end 2009, anticipate vacancy rates to rise to 4.25 percent, and rents to stabilize at or near current levels.

Heading into 2009, Honolulu's industrial sector is still supply-constrained for tenants and businesses seeking a location close to the urban core, harbor and airport. Industrial parks in urban Honolulu posted vacancy rates ranging from 0 to 2.7 percent, reflecting difficulties for expanding or relocating warehouse tenants. Tight conditions have already translated into rising rents, which had peaked at a record \$1.31 per square foot per month. Although softening is anticipated, rents should remain high as new development is hampered by costly land and construction costs.

Industrially zoned land is limited in Honolulu, resulting in per-square-foot prices skyrocketing to \$100 to \$120 in the Sand Island, Kalihi, airport and Mapunapuna submarkets. At these land prices, multi-tenant for-lease-speculative projects are not financially viable at current market rents. Development is underway in areas west of Pearl Harbor where land is less expensive. Developers have focused on capitalizing on small tenant demand — 2,500- to 7,500-square-foot bays — by building industrial condominiums priced at \$300 per square foot.

Despite the slowing local economy and our vulnerability to global commodity and fuel prices, Hawaii still remains relatively unscathed by the events surrounding the downturn in the financial markets. Although transaction sales volume is down and developers are shelving their projects for more favorable conditions, there have been few commercial foreclosures or problematic loans identified. For 2009, local investors will again dominate transaction counts while institutional investors will be attracted away by rising cap rates in top-tier metropolitan markets on the mainland.

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