

# RETAIL MARKET

## First Quarter 2018

Accelerating success.

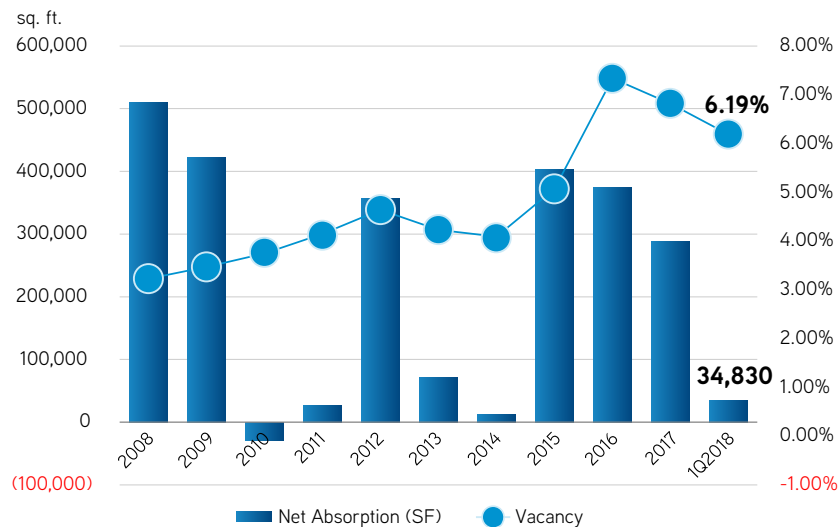
# Leasing Activity Fuels Occupancy Growth

Mike Hamasu Director of Research | Hawaii

*“As long as the economy continues to grow, retail development should be on pace to capitalize on positive market conditions.”*

Emalia Pietsch (S), Vice President

### Oahu Retail Net Absorption vs. Vacancy Rate



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#### Market Indicators

Relative to previous quarter 1Q2018 vs. 4Q2017

VACANCY	↓
YTD NET ABSORPTION	↓
CONSTRUCTION	↑
RENTAL RATE	↑

#### Summary Statistics

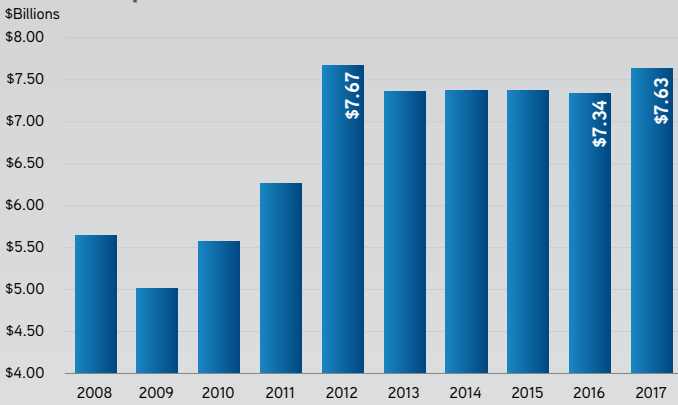
1Q2018 Retail Market

YTD Net Absorption	34,830 SF
Vacancy Rate	6.19%
Average Asking Rent Range	\$3.63 to \$4.57 psf/mo
Average Asking Rent NNN	\$4.10 psf/mo
Average Operating Exp.	\$1.34 psf/mo

The Oahu retail market generated 34,830 square feet of new occupancy in the first quarter of 2018. With seven of the nine Oahu retail trade areas posting positive net absorption, Oahu’s vacancy rate fell from 6.82% to 6.19% since the end of 2017. The majority of the market’s occupancy gains occurred among the island’s recently built or redeveloped centers. Additionally, a sizeable retail vacancy was removed from the market when the owners of King Kalakaua Plaza announced plans to redevelop its retail center into a hotel. The property conversion removed 78,113 square feet of available retail space and reduced Waikiki’s vacancy rate from 12.69% to 8.46%.

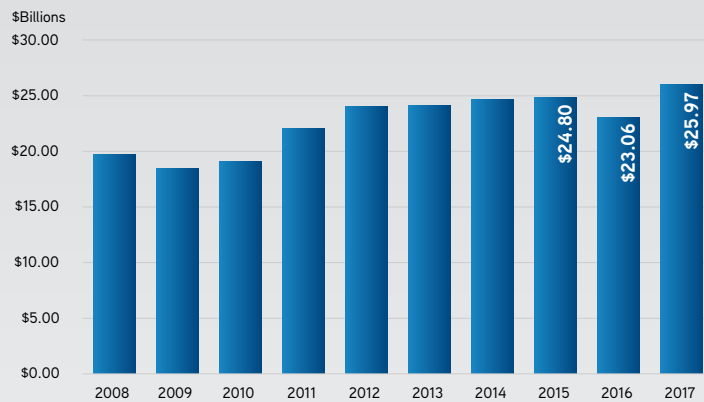
Ala Moana Center, International Marketplace, and Ka Makana Ali’i generated nearly 30,000 square feet of growth for the quarter. New openings at the Ala Moana center include Planet Fitness, Brilliant Ox, Junkies Virtual Reality, and Kuone. Adding new life to the center, International Marketplace procured Robin Jeans, Phillip Lim, Surfline Hawaii, and National Geographic Fine Art Gallery. Lastly, Ka Makana Ali’i made the addition of Koko & Palenki, an upcoming women’s clothing boutique, to its retail repertoire.

## Visitor Expenditures (December YTD)



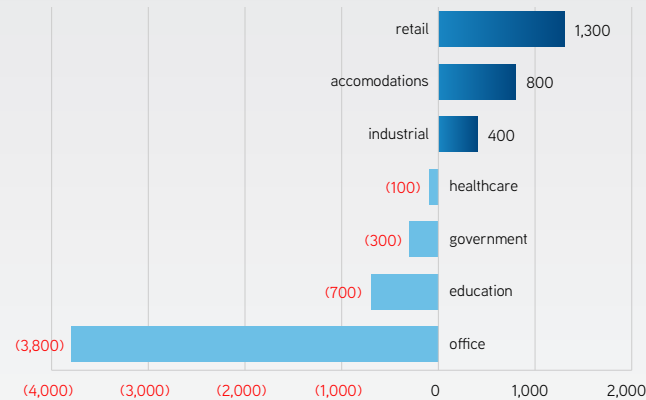
Source: DBEDT

## Oahu Retail Tax Base (November YTD)



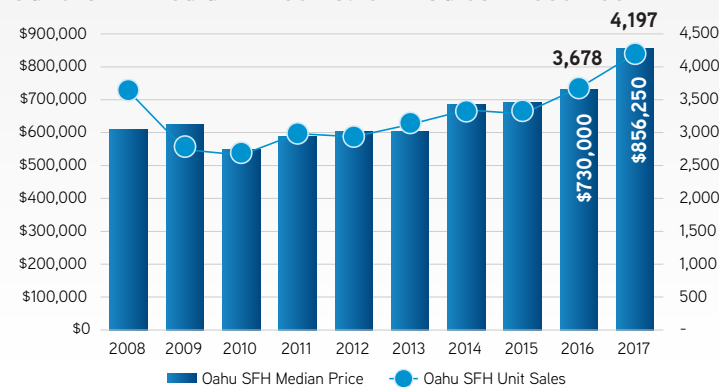
Source: DoTax

## YOY Job Created/Loss (December)



Source: DBEDT

## Oahu SFH Median Price vs. Unit Sales (December YTD)



Source: DBEDT, HBR

## Economy Continues to Grow

As visitor numbers continue to rise, the retail and hotel industries reap the benefits of vacation spending. Tourism expenditures surged forward in 2017, hitting \$7.63 billion by year's end, for a 3.95% boost in visitor spending over the previous year. Air passenger arrival counts for year-end 2017 hit another record when 5.67 million visited Oahu, surpassing last year's level by a healthy 3.84%. Hotels flourishing from the healthy tourism industry had a 2.5% jump in average daily room rates and a 1.7% increase in revenue per available room.

Thriving on the growth in the number of visitors and their spending, retail sales hit a new record high in 2017. The November year-to-date retail tax base totaled \$25.97 billion, a robust 12.62% jump in retail sales and a successful rebound from the 7.0% drop that occurred in 2016.

December's Oahu unemployment rate fell to 1.7%, its lowest level in recorded history. Yet, despite the low numbers of unemployed, the retail job category generated the greatest number of new hires for the year with 1,300 new employees. Hiring activity affirms that retailers remain optimistic about boosting payrolls as new stores continue to enter the market.

## Wealth Effect Boosts Consumer Confidence

Home appreciation often helps to boost consumer confidence and spur consumer retail spending. The December year-to-date median single family home price skyrocketed to \$856,250 for an eye-popping 17.3% jump in price. The number of sales also rose, reaching 4,197 and exceeding last year's levels by a robust 14.1%. Increased sales were likely the result of home buyers trying to act before mortgage interest rates rose any higher. The purchase of a new home often corresponds to increased spending on household durable goods such as appliances and furniture, predicting favorable activity for retailers of these products.

Since year-end 2017, the Oahu retail average asking base rent rose from \$4.00 per square foot per month (“psf/mo”) to \$4.10 psf/mo. The 2.5% jump in rents for first quarter 2018 is the strongest increase in rents since the last economic boom period in 2005, when rents jumped 21% in a single year. Narrowing in on the trade areas, Honolulu, West Oahu, Waikiki, and North Shore all posted higher average asking rents for the quarter. In addition, Community/Power Centers and Resort/Specialty retail classes also generated higher asking rents for the first quarter of 2018.

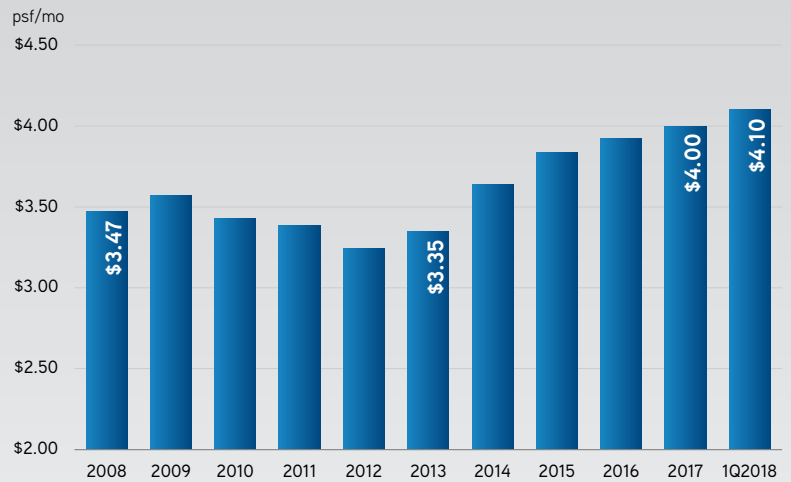
## Healthy Leasing Pushes Developments Forward

Oahu’s ever changing retail landscape has ambitious new leasing and development planned for 2018. Retailers moving into new spaces include Uniqlo at Ala Moana Center, Ross Dress for Less at Windward Mall, HMart at 458 Keawe Street in Kakaako, and UFC Gym at A&B’s Lauhala Shops in Kailua. This widespread leasing activity should help to boost absorption for the rest of the year.

New retail developments also continue to enliven Oahu’s dynamic retail marketplace. At Ka Makana Ali’i, Kapolei’s new regional mall is breaking ground on its 109,000 square foot second phase. With a construction delivery date set for 2019, this site will include Foodland Farms, PetSmart, and a new Hawaii Pacific Health clinic. Ohana Hale Marketplace, which leased the former 60,000 square foot Sports Authority space at Ward Centers, has begun pre-leasing efforts to fill this large big box vacancy. This retail redevelopment plans to house an estimated 250 assorted local retail vendors by year-end 2018. Preleasing efforts have been active for Kahala Marketplace in Kahala, Lau Hala Shops in Kailua and Ka Makana Ali’i Phase II, and each project has secured new tenants for sizeable portions of their spaces, hopefully ensuring their success.

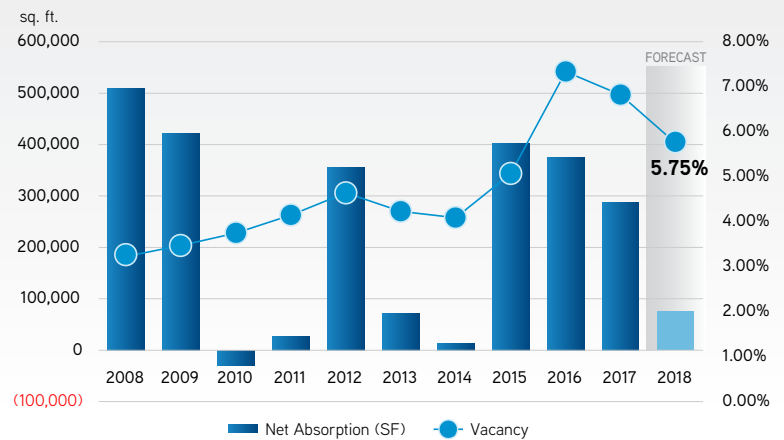
Colliers is tracking 1.2 million square feet of additional retail developments planned through 2021. Should all these projects come to fruition, it will test the mettle of the retail marketplace, which has already boosted inventory by 1.4 million square feet in the past three years and seen a rapid rise in vacancy rates.

## Oahu Retail Average Asking Base Rent



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## Oahu Retail Net Absorption vs. Vacancy Rate Forecast



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Based on planned retail developments, Oahu’s retail inventory is projected to increase by 15% between 2016 and 2021. This rapid inventory growth may create problems for developers who are late to the game and who are still seeking to pre-lease their developments. With increased competition among the various new retail projects for the limited number of expanding tenants, trade areas that had experienced a surge in development activity will be the first to notice if leasing activity slows.

Colliers projects that 2018 will generate solid occupancy for the year as many new tenants move into their retail spaces. The vacancy rate is expected to decline below 6% by year-end and rents will continue to rise for the rest of the year.

# FIRST QUARTER 2018 - Oahu Retail Market Statistics

## RETAIL MARKET INVENTORY - BY SUBMARKET AREA

	TOTAL INVENTORY (SF)	VACANT SPACE (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	AVG. LOW NNN ASKING RENTS (PSF/MO)	AVG. HIGH NNN ASKING RENTS (PSF/MO)	AVG. CAM EXPENSES (PSF/MO)
CENTRAL OAHU	889,235	20,544	2.31%	3,171	\$3.75	\$4.42	\$1.07
EAST OAHU	1,511,774	29,670	1.96%	(2,655)	\$5.00	\$6.28	\$1.68
HONOLULU*	4,741,464	328,180	6.92%	372	\$3.32	\$4.86	\$1.46
LEEWARD OAHU	4,407,948	279,748	6.35%	14,976	\$3.49	\$3.87	\$1.17
NORTH SHORE	198,125	3,041	1.53%	6,723	\$3.63	\$3.75	\$1.39
WAIANA E	342,060	60,171	17.59%	6,611	\$1.67	\$2.67	\$1.00
WAIKIKI	1,658,067	140,329	8.46%	1,811	\$10.55	\$19.25	\$2.41
WEST OAHU	1,721,637	138,823	8.06%	7,763	\$4.34	\$4.77	\$1.29
WINDWARD OAHU	1,621,750	57,450	3.54%	(3,942)	\$3.13	\$4.56	\$1.37
<b>TOTALS*</b>	<b>17,092,060</b>	<b>1,057,956</b>	<b>6.19%</b>	<b>34,830</b>	<b>\$3.63</b>	<b>\$4.57</b>	<b>\$1.34</b>

\*Islandwide total for average rents and CAM calculations exclude Waikiki and Ala Moana Center

## RETAIL MARKET INVENTORY - BY BUILDING CLASS

	TOTAL INVENTORY (SF)	VACANT SPACE (SF)	VACANCY RATE	YTD NET ABSORPTION (SF)	AVG. LOW NNN ASKING RENTS (PSF/MO)	AVG. HIGH NNN ASKING RENTS (PSF/MO)	AVG. CAM EXPENSES (PSF/MO)
COMMUNITY/POWER CENTER	3,189,760	328,545	10.30%	5,953	\$4.31	\$5.04	\$1.57
NEIGHBORHOOD	4,805,672	183,035	3.81%	6,752	\$3.66	\$4.32	\$1.25
REGIONAL*	5,682,175	318,110	5.60%	17,691	\$4.51	\$10.15	\$2.55
RESORT/SPECIALTY	1,829,264	148,847	8.14%	6,941	\$9.73	\$17.54	\$2.31
STRIP	1,585,189	79,419	5.01%	(2,507)	\$3.43	\$4.64	\$1.34
<b>TOTALS**</b>	<b>17,092,060</b>	<b>1,057,956</b>	<b>6.19%</b>	<b>34,830</b>	<b>\$3.63</b>	<b>\$4.57</b>	<b>\$1.34</b>

\* Includes Ala Moana Center in calculations

\*\*Islandwide total for average rents and CAM calculations exclude Waikiki and Ala Moana Center

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### TERMS AND DEFINITIONS

- › TOTAL INVENTORY - Total rentable square footage in shopping centers greater than 20,000 square feet.
- › 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.
- › AVERAGE ASKING RENT - The ratio of aggregate landlord asking rents divided by the total available space within a specific geography or building class.
- › VACANT SPACE - Space that is not occupied by a tenant. This includes sublease space that is unoccupied.
- › VACANCY RATE - The ratio of vacant space divided by the total inventory square footage.
- › AVERAGE OPERATING EXPENSE - The ratio of tenant expenses, such as building utilities, management fees, building maintenance, real property taxes and insurance, divided by the total available space within a specific geography or building class.
- › NNN "TRIPLE-NET" RENT - Rents paid to the landlord that do not include building operating expenses and additional taxes and fees.

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