

RETAIL MARKET

Second Quarter 2018

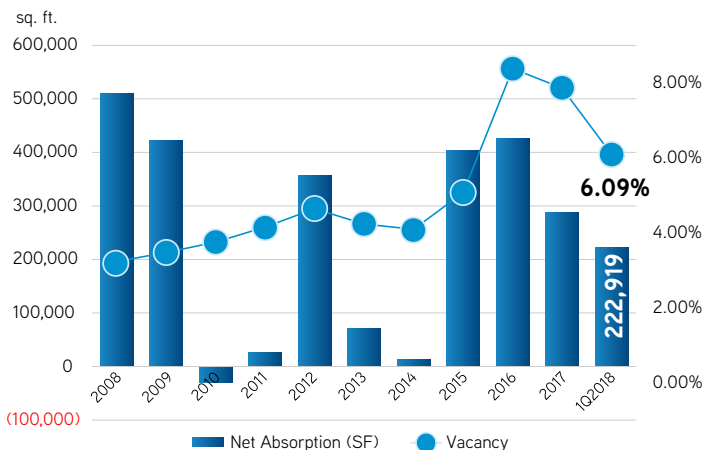
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Regional Malls Continue to Fuel Occupancy Growth

Mike Hamasu Director of Research | Hawaii

At mid-year 2018, the Oahu retail market posted a healthy gain of 222,919 square feet of occupancy. Vacancy rates dropped this quarter to 6.09% from the peak in 2016 of 8.36%. The majority of these tenancy gains occurred at regional malls. Ala Moana Center and Ka Makana Ali'i generated a combined 172,180 square feet of net absorption during the first six months of this year. The regional mall vacancy rate declined from 5.91% recorded at year-end 2017 to 2.78% at the end of 2Q2018. Fueled by new retail development and mall expansion, regional centers garnered more than 1.3 million square feet of net absorption during the past three and a half years.

Oahu Retail Net Absorption vs. Vacancy Rate



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“Oahu’s retail market continues to show strength. The outlook remains positive, albeit with some warning signs starting to emerge.”

Nathan A. Fong (B), Senior Vice President

Market Indicators

Relative to previous quarter

2Q2018 vs. 1Q2018

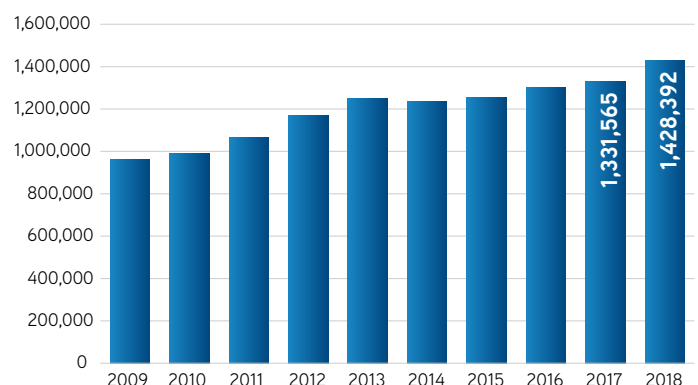
VACANCY	↓
YTD NET ABSORPTION	↑
CONSTRUCTION	↑
RENTAL RATE	↑

Summary Statistics

2Q2018 Retail Market

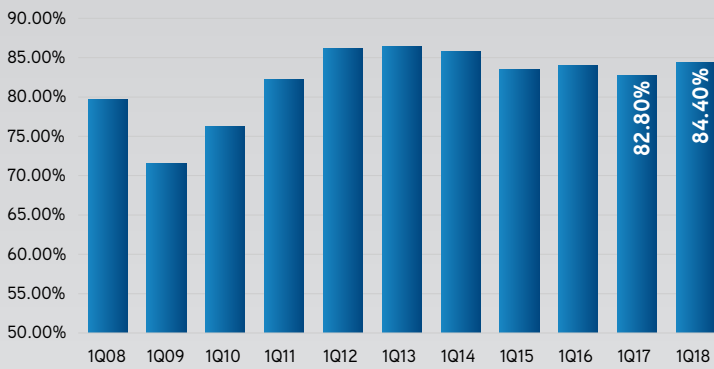
YTD Net Absorption	222,919 SF
Vacancy Rate	6.09%
Average Asking Rent Range	\$3.60 to \$4.61 psf/mo
Average Asking Rent NNN	\$4.16 psf/mo
Average Operating Exp.	\$1.34 psf/mo

Total Air Passenger Arrivals (March YTD)



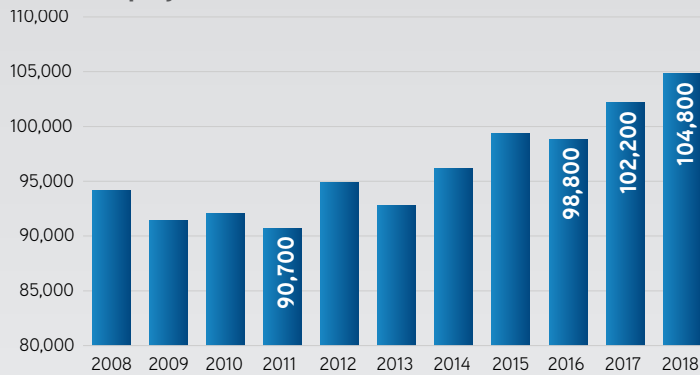
Source: DBEDT

Oahu Hotel Occupancy Rate (March YTD)



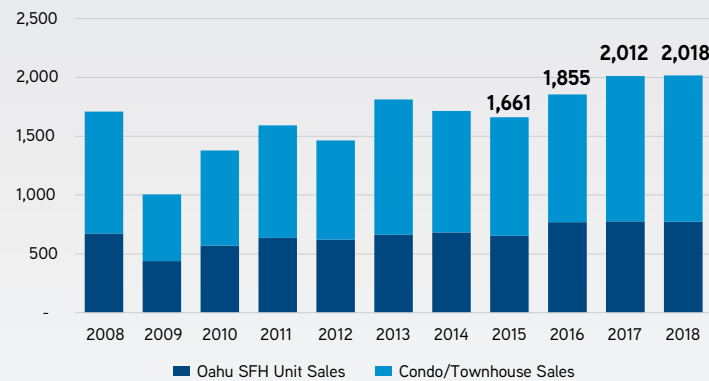
Source: Hawaii Tourism Authority

Retail Employment (March)



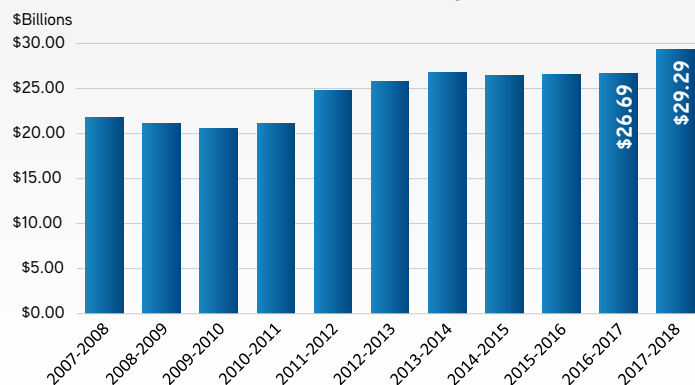
Source: DBEDT

Oahu Residential Home Sales (March YTD)



Source: DBEDT, HBR

Oahu Retail Sales (March - February)



Source: DoTax

Healthy Economy Spurs Retail Sales

Two of the primary economic engines on Oahu are the hospitality and retail sectors located in Waikiki. The healthy gains in air passenger arrival counts exceeded 1.4 million for the first three months of 2018. Fueled by the thriving tourism, hotel occupancy rates topped 84.4% and the average daily room rate hit a new record of \$234.61 for the first quarter of 2018. Strong growth in visitor counts help to boost pedestrian traffic for Waikiki's many resort retailers. Tourism expenditures for the first quarter of 2018 increased to \$2.013 billion, a robust gain of 8.1% over 1Q2017 spending levels.

In addition to a booming tourism sector, Oahu posted a 1.9% unemployment rate for March 2018. During the past year, roughly 5,800 people were newly employed and 2,650 fewer people claimed unemployment insurance. The retail sector is a primary contributor to this surge in employment growth. Retailers have added 14,100 new employees for a 15.5% gain in positions during the past seven years. Strong hiring activity reflects the confidence retailers have in the Oahu marketplace.

Rising employment levels often correlates to expanding demand for housing. Total residential home sales increased to a record high of 2,018 units for the first three months of 2018. Increased competition for housing contributed to the rising residential prices for the first three months of 2018. The median single family home price rose to its highest level of \$760,000 for a 1.1% over the March 2017 median price and the median condo/townhome price rose to \$416,000 for a gain of 4%.

Oahu's economy appears to be firing on all cylinders as tourism, job growth, and home price appreciation helped to boost consumer confidence. Retail sales were quick to pick up the momentum, resulting in a record \$29.29 billion in sales for the past year (March 2017 to February 2018). This is a healthy 9.7% jump in spending over last year's levels of \$26.69 billion. 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.

Rental Rates Rise Again

The Oahu retail average asking base rent rose to a record high of \$4.16 per square foot per month (“psf/mo”) for a healthy gain of 4.0% for the first half of the year. This is the fastest pace of rental rate growth experienced in the past four years. Among the different center types, the neighborhood center and resort/specialty centers posted the strongest gains in asking rents for 2Q2018.

Waikiki Transitions

Waikiki’s retail sector is running to snap up desirable tenants as retailers continue to move. Luxury retail center, 2100 Kalakaua, is losing its anchor tenant, Tiffany’s, and will soon find itself with two large vacant storefronts at the end of June 2018. The Royal Hawaiian Center successfully acquired Tiffany’s for its location, which is projected to open in July. Additionally, luxury boutique retailer, Hermes is under construction with its 12,300 square foot space at the Royal Hawaiian Center with plans on opening in March 2019.

The newly redeveloped International Market Place (“IMP”) is experiencing some growing pains as it attempts to identify the optimal tenant mix. The closure of MAC, Herve Leger, BCBG, Penhaligon’s and Baku at IMP will present additional options for retailers looking for a Waikiki presence.

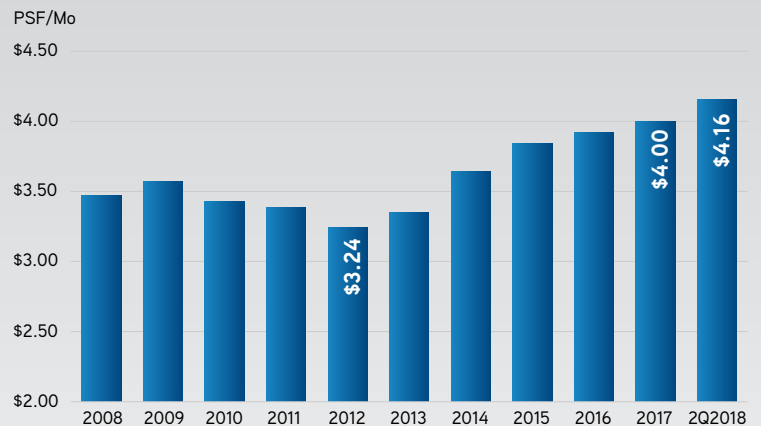
Anchor Tenant Boosts Waianae Outlook

The Waianae trade area which posted a vacancy rate of 19.52% at the end of 2017, benefited from the recent lease at Makaha Gateway to Longs/CVS. This transaction contributed to a gain of 28,000 square feet of year-to-date net absorption and dropped this trade area’s vacancy rate to 11.22%.

Short-Term Outlook Remains Positive as Warning Signs Begin to Emerge

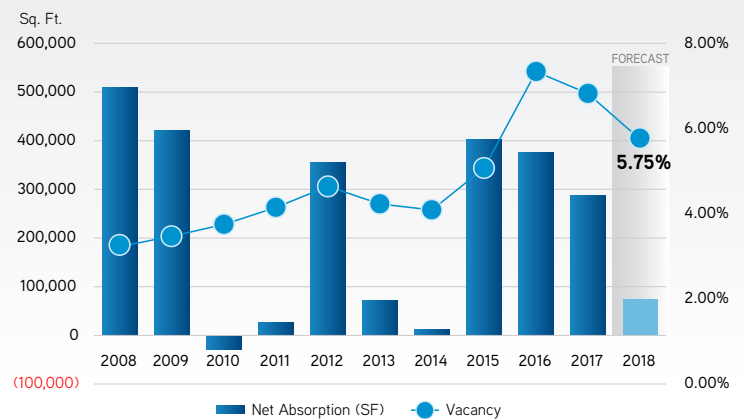
Oahu’s economy is projected to continue to generate healthy gains for 2018. The State of Hawaii Department of Economic Business Development and Tourism forecasted that arrival counts and tourism expenditures will grow by a

Oahu Retail Average Asking Base Rent



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Oahu Retail Net Absorption vs. Vacancy Rate Forecast



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healthy 6% and 8.6%, respectively. Additionally, job growth is projected to increase by 1.2% over 2017 levels with real personal incomes increasing by 1.7% for the year. These positive factors should lead to continued health in the retail marketplace. Colliers anticipates that by year-end 2018, vacancy rates will drop below 6%.

Oahu’s retail market may begin to see a change in direction in 2019, however, as the island’s economy is showing signs that it has begun to suffer from its success. As the unemployment rate hovers near record lows, Oahu’s retailers have found it increasingly challenging to secure adequate store staffing. Additionally, retailers will find increased competition for the limited pool of prospective employees is resulting in upward pressure on wages. Should these trends emerge, future retail developments may have to be shelved until market conditions become more favorable.

Second 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	26,746	3.01%	(3,031)	\$3.79	\$4.42	\$1.07
EAST OAHU	1,511,774	29,422	1.95%	(2,407)	\$5.00	\$6.28	\$1.51
HONOLULU*	4,741,464	183,268	3.87%	143,218	\$3.32	\$4.91	\$1.50
LEEWARD OAHU	4,407,948	465,566	10.56%	1,645	\$3.49	\$3.89	\$1.19
NORTH SHORE	198,125	3,041	1.53%	6,723	\$3.56	\$3.75	\$1.39
WAIANA E	342,060	38,367	11.22%	28,415	\$1.83	\$3.00	\$1.00
WAIKIKI	1,658,067	146,995	8.87%	(4,855)	\$9.48	\$18.98	\$2.61
WEST OAHU	1,721,637	81,283	4.72%	65,303	\$4.34	\$4.77	\$1.29
WINDWARD OAHU	1,621,750	65,600	4.05%	(12,092)	\$2.93	\$4.71	\$1.44
TOTALS*	17,092,060	1,040,288	6.09%	222,919	\$3.60	\$4.61	\$1.34

*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	3,269,784	323,808	9.90%	24,410	\$3.93	\$4.73	\$1.58
NEIGHBORHOOD	4,725,648	303,868	6.43%	44,686	\$3.70	\$4.40	\$2.62
REGIONAL*	5,682,175	157,749	2.78%	178,052	\$4.51	\$10.15	\$2.55
RESORT/SPECIALTY	1,829,264	155,425	8.50%	363	\$8.79	\$17.31	\$2.49
STRIP	1,585,189	99,438	6.27%	(24,592)	\$3.40	\$4.74	\$1.32
TOTALS**	17,092,060	1,040,288	6.09%	222,919	\$3.60	\$4.61	\$1.34

* 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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