

Hawaii Retail MarketView

Q3 2012

CBRE Global Research and Consulting

▲ VISITOR ARRIVALS
10%

▲ VISITOR SPENDING
20%

▲ RETAIL EMPLOYMENT
4.5%

▼ VACANCY
0.4%

RECORD-BREAKING TOURISM EXPENDITURES DRIVING RETAIL MARKET UPWARD

Quick Stats

Q3 2012		QoQ	YoY
Vacancy	5.4%	↓	↓
Net Asking Rents	\$3.80	↑	↑
Absorption (SF)	70.7k	↑	↑

Hot Topics

- ⑩ Record-setting visitor arrivals and expenditures
- ⑩ Decreasing vacancy
- ⑩ Increasing lease rates

Hawaii's retail market enjoyed positive growth in lease rates and declining vacancy during the third quarter of 2012. Most of this growth was led by metropolitan, high-traffic trade areas such as Waikiki, resort and regional shopping centers. Overall, net absorption improved from the previous quarter, decreasing vacancy to 5.4% while net asking lease rates rose to \$3.80 PSF.

Through August, the Hawaii Tourism Authority reports that 2012 visitor arrivals grew 10% and expenditures 20% to over \$9.5 billion. As in other sectors, the November elections and ongoing financial uncertainties are giving retailers reason to be conservative but overall, robust tourism is fueling positive market movement.

CBRE professionals note long-term confidence in Hawaii retail supported by the recent opening of national retail brand TJ Maxx's third location on Oahu in one year. Ala Moana Center,

Hawaii's largest, also acquired its anchor Sears location to convert the space into more than 319,000 SF of more profitable in-line tenants. The center's current in-line tenants generate average sales of \$1,200 PSF. On Maui, anchor-tenant Safeway's acquisition of Lahaina Cannery Mall speaks to further growth expectations on the neighbor islands as well. This continues a trend of retail users also being aggressive in the investment market.

Looking ahead, Hawaii's retail market will continue to grow, driven for the most part by record-breaking visitor industry performance that is concentrated on Oahu but spread statewide. How far into and how long before this growth reaches more remote, resident community and strip centers with typically higher vacancy rates remains to be seen but continued recovery is anticipated in 2013.

Chart 1: Vacancy Rate vs. Asking Lease Rents

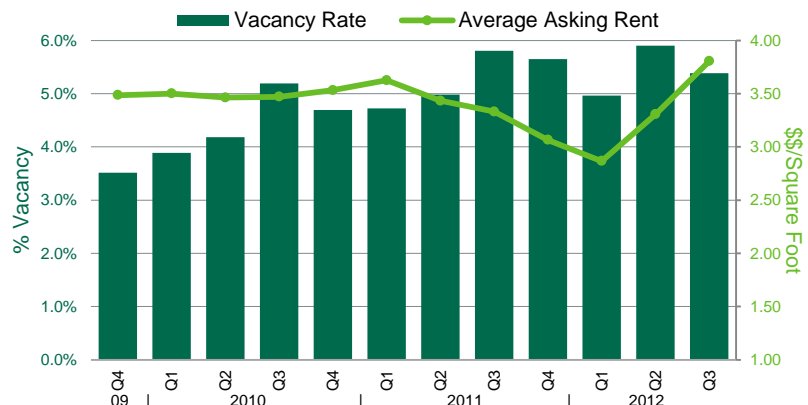
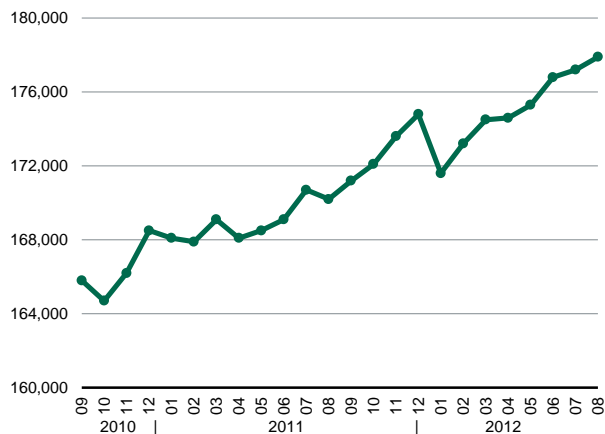


Table 1: Hawaii Retail Center Market

Centers	#	Gross			Op Exp	Low Net	High Net	Average Net	Low % Rent	High % Rent	2012 Q3 Absorption	2012 YTD Absorption
		Leasable Area	Vacant Area	Vacancy Rate								
Community Centers	45	5,809,459	386,629	6.4%	\$0.93	\$2.36	\$3.48	\$2.92	2.0%	12.0%	19,716	48,060
Regional Malls	7	5,334,546	260,447	4.1%	\$1.20	\$4.44	\$4.96	\$4.70	2.0%	12.0%	(3,543)	(27,855)
Resort Centers	10	1,060,319	35,913	3.4%	\$2.15	\$11.17	\$11.47	\$11.32	2.0%	15.0%	11,155	43,385
Strip Centers	14	820,673	112,151	13.5%	\$0.94	\$1.97	\$2.95	\$2.46	6.0%	10.0%	5,898	26,294
Value Centers	7	2,248,581	84,488	3.8%	\$0.59	\$3.28	\$4.61	\$3.95	6.0%	10.0%	45,908	32,906
Islands												
Oahu	47	10,319,704	365,452	3.5%	\$1.16	\$3.48	\$4.39	\$3.94	2.0%	15.0%	51,515	120,276
Maui	17	2,435,030	287,288	11.7%	\$0.94	\$4.06	\$5.01	\$4.53	1.0%	10.0%	(3,973)	(10,464)
Big Island	15	2,007,867	177,879	6.5%	\$0.65	\$2.60	\$3.31	\$2.95	5.0%	12.0%	(17,037)	(36,193)
Kauai	4	510,977	49,009	9.4%	\$1.06	\$2.57	\$3.88	\$3.22	4.0%	10.0%	40,237	48,597
State	83	15,273,578	879,628	5.4%	\$1.06	\$3.34	\$4.27	\$3.80	2.0%	15.0%	70,742	122,216

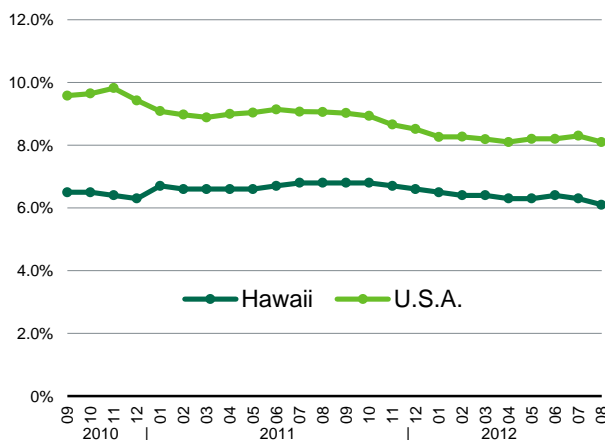
Chart 2: Retail Sector Employment



Source: SOH DLIR, Research and Statistics Office

Through the month of August (most recent data available), Hawaii's number of retail jobs continued to grow to over 177,900. Net growth has been steady month over month since January of this year. Seasonal holiday hiring could bring the number of retail jobs in the state to a new record high, surpassing the previous record of 182,750 jobs in December of 2007.

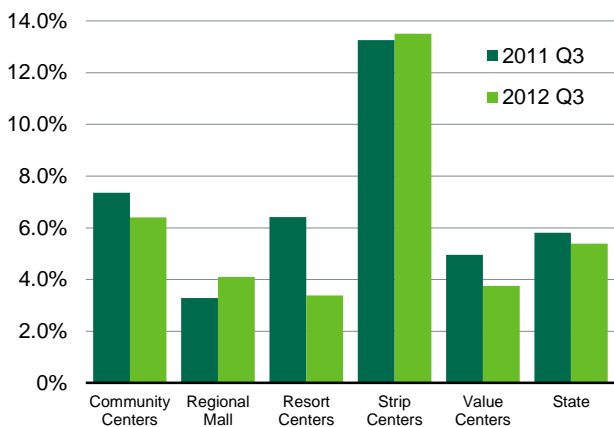
Chart 3: Unemployment Rate



Hawaii's unemployment rate fell to 6.1% in August. Compared to the national rate, state unemployment continues to hold 2 full percentage points lower than the U.S. average of 8.1%.

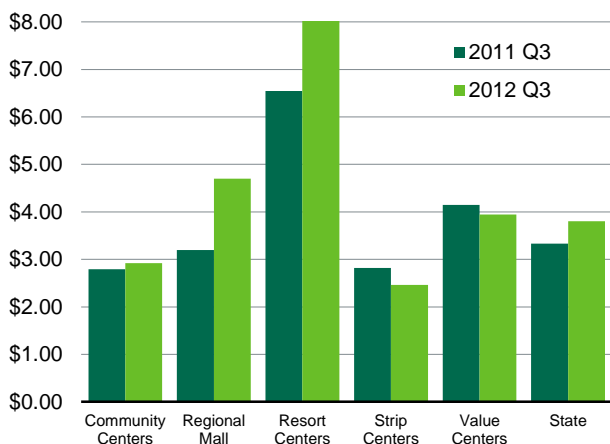
Source: SOH, DLIR, Research and Statistics Office & U.S. DOL, Bureau of Labor Statistics

Chart 4: Vacancy



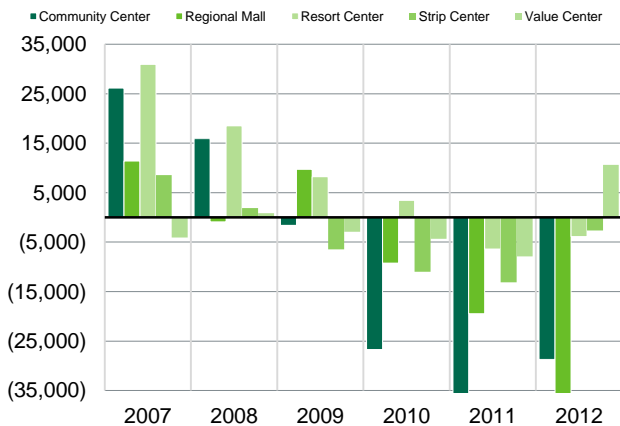
During the third quarter of 2012, vacancy rates decreased dramatically in resort, value and community centers. Regional mall increases are likely temporary with the movement of a few large retailers. However the traditionally higher vacancies in strip centers is expected to continue. Overall, the net effect is a moderate drop in retail vacancy across the state.

Chart 5: Center Asking Lease Rents



Center asking lease rates moved upward in the third quarter, from \$3.31 in 2011 to \$3.80 presently. Given tourism's strength, growth is concentrated in resort and regional centers although community center lease rates increased slightly as well. Not surprisingly, value and strip center rates are down but overall the state experienced relatively strong growth. Barring any shocks to visitor industry performance, these trends are expected to continue.

Chart 6: Five Year Average Net Absorption



Hawaii's retail market experienced positive net absorption of 70,742 SF during the third quarter. Five year average net absorption for the Value Center category turned positive in 2012 for the first time in recent years, gaining 10,651 SF.



CONTACTS

For more information about this Local MarketView, please contact:

Hawaii Research

Timothy J. Deegan
 Senior Marketing Specialist Hawaii
 CBRE
 Pauahi Tower 18th Floor
 1003 Bishop St
 t: +1 808 541 5173
 e: Tim.Deegan@cbre.com

Megan Chinn
 Researcher Hawaii
 CBRE
 Pauahi Tower 18th Floor
 1003 Bishop St
 t: +1 808 541 5180
 e: Megan.Chinn@cbre.com

FOLLOW US

 **GOOGLE+**
<https://plus.google.com/110640413332542089478#110640413332542089478/posts>

 **FACEBOOK**
<http://www.facebook.com/pages/CBRE/85277065893>

 **TWITTER**
<http://twitter.com/CBRE>

Global Research and Consulting

This report was prepared by the CBRE U.S. Research Team which forms part of CBRE Global Research and Consulting – a network of preeminent researchers and consultants who collaborate to provide real estate market research, econometric forecasting and consulting solutions to real estate investors and occupiers around the globe.

Disclaimer

Information contained herein, including projections, has been obtained from sources believed to be reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to confirm independently its accuracy and completeness. This information is presented exclusively for use by CBRE clients and professionals and all rights to the material are reserved and cannot be reproduced without prior written permission of the CBRE Global Chief Economist.

Waikiki Urban Retail MarketView

Q3 2012

UNPRECEDENTED TOURISM EXPENDITURES SETTING RETAIL MARKET RECORDS

- ⑩ Air seat growth projections increased
- ⑩ Visitor population shifting further Eastbound
- ⑩ Record-setting lease rates

Waikiki's retail market enjoyed continued positive growth in lease rates and declining vacancy during the third quarter of 2012. Coveted Kalakaua Avenue leases reached a record-high of \$33 PSF. Limitations in availability have spurred landlords to consolidate that which is available and place spaces as small as 200 SF on the market. Several new luxury stores, such as *Loro Piana* in Royal Hawaiian Center, are currently under construction.

Unexpected growth in air seat arrivals should continue market momentum. In September, the Hawaii Tourism Authority increased its projection to over 10 million air seats for the state in 2012—a 9% increase over last year¹. Most of this growth is coming to Honolulu International Airport from such destinations as Seoul, Shanghai and secondary cities in Japan, providing easier access from these important and growing markets known for their strong interest in shopping as a leisure activity.

The outcome of the November elections and ongoing uncertainty regarding US government expenditures continue to give retailers reason to be conservative, particularly in regard to holiday sales. However, robust tourism growth is fueling positive movement in the overall market.

CBRE professionals note long-term confidence in the market supported by Queen Emma Land Company and Taubman Centers' plans to move forward with redeveloping the historic International Market Place. Kyo-Ya Hotels & Resorts also received approval confirmation from the city's planning and permitting department to proceed with construction of a new high rise wing for Waikiki Beach's Westin Moana Surfrider Hotel.

Most of this expansion came from sturdy gains in U.S. visits and double-digit growth from Japan, fueled in part by the Yen's strength against the US Dollar. Source market diversification is also providing better stability as Oahu tourism becomes increasingly less reliant on any one or two geographic areas for its visitors. The HTA reports upwards of 60% growth in arrivals and expenditures this year from such markets as South Korea and China¹. With the exception of Kailua-Kona and the Kohala Coast resort area, Hawaii neighbor island tourism continues with its primary dependence upon North American travelers.

¹Hawaii Tourism Authority, September 2012 E-Bulletin