

Retail Market Report

OAHU | MID YEAR 2010



“The initial signs of the retail recovery for the State of Hawaii will be driven by resort retail sales which appear to be improving on Oahu and Maui.”

*- Kim F. Scoggins (S)
Vice President, Retail Division Manager*

MARKET INDICATORS

	MID YEAR		
	2009	2010	2011
VACANCY	▲	▲	▲
NET ABSORPTION	▼	▼	▼
CONSTRUCTION	▲	▲	▲
RENTAL RATE	▼	▼	▼

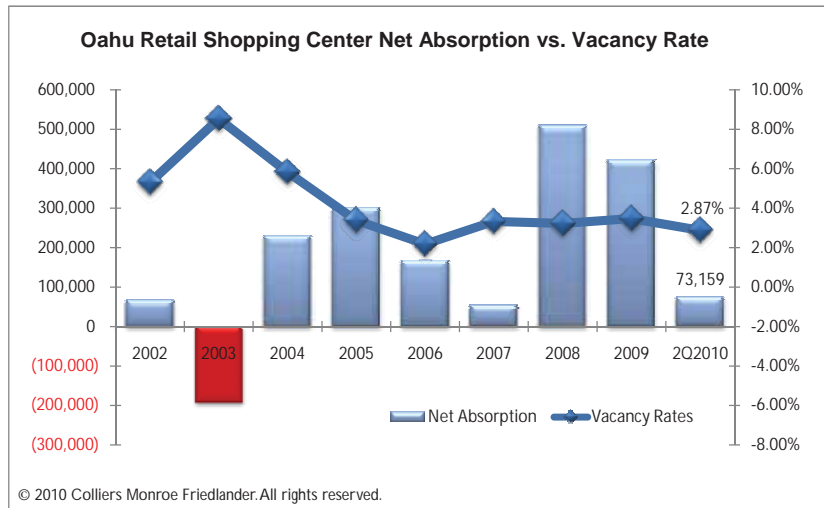
RETAIL HIGHLIGHTS

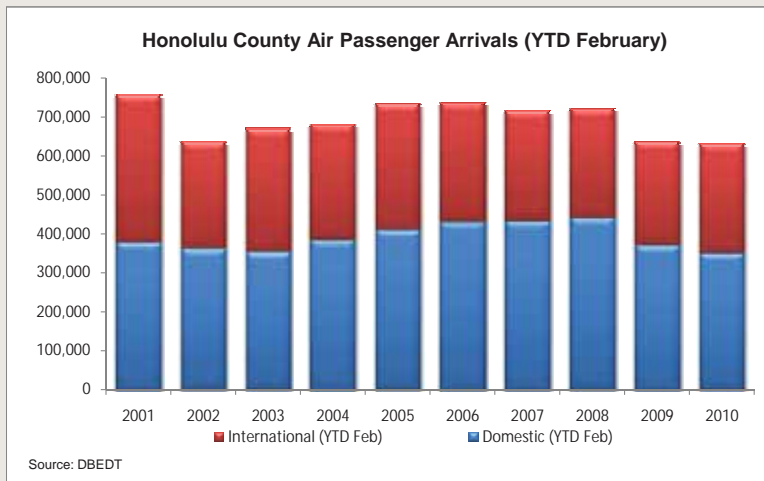
YTD NET ABSORPTION:	73,159 SF
VACANCY RATE:	2.87 %
AVERAGE ASKING RENT RANGE	\$2.99 - \$4.03 PSF/MO
AVERAGE ASKING RENT	\$3.51 PSF/MO
AVERAGE OPERATING EXPENSE	\$ 1.12 PSF/MO

Waning Recession, Retail Market Strengthens

Despite rising job losses, announcements of government furloughs and declining retail sales, the retail shopping center market surprisingly reported growth over the past six months. Regional malls generated the majority of the increased occupancy. Bed Bath & Beyond leased the 48,000 square foot former Circuit City space at Pearlridge Center and tops the list of most notable lease transactions. Additionally, both Ward Centers and Windward Mall generated healthy growth as a number of inline spaces were leased to expanding or relocating retailers.

Although Colliers Monroe Friedlander Consulting (“CMFC”) originally projected a worsening retail environment, the Honolulu retail market actually posted more than 70,000 square feet of positive growth in occupancy and a subsequent decline in vacancy rates. In fact, Honolulu’s vacancy rate fell to 2.87%, its lowest level since year-end 2006. The unpredictability of Honolulu’s small market size is demonstrated by the market’s resilience even after the loss of several mid-box retailers such as Circuit City and Comp USA. Most of these sites have been leased or have commitments from prospective tenants.





Shopping center landlords have been proactive during this tumultuous time. With an increasing number of tenants requesting rent relief or abatement, astute landlords now require careful scrutiny of tenants' financials before authorizing any reduction in contract rental rates. For financially questionable tenants, leasing agents are often notified in advance to begin working on securing replacement tenants. However, this is not to say that all landlords are strictly playing "hardball". There are instances where landlords have graciously allowed a tenant to pay "CAM" only in hopes that the tenant's financial position improves. With landlords' lower rental expectations, this is the opportune time for expanding credit-worthy retailers to capitalize on the market's uncertainty and secure expansion space that might be more difficult to obtain in rosier times.

In addition to landlords increasing their flexibility with tenants, retailers have likewise adopted a more conservative approach to operating their businesses. Many have had to reduce their hours of operation, utilize part-time labor, and effectively monitor inventory and merchandising efforts. Many retailers who experienced the stagnant economic conditions of the 1990s have continued to pinch pennies and tighten their belts to survive this economic downturn.

Improvement Anticipated

Economic indicators appear to show that locally we are nearing the bottom of the latest recessionary cycle. Hawaii's principal industry, tourism, appears to have stabilized with air passenger arrivals and hotel occupancy rates beginning to creep upward. For the first two months of the year, visitor arrivals to Honolulu International Airport have exceeded counts registered for February 2008 and February 2009 year-to-date levels. With the U.S. Gulf Coast faced with a huge oil spill and rising concern over violence in Mexico, U.S.-based travelers will increasingly view Hawaii as a favorable alternative to these competing destinations.



Additionally, air flight capacity to Hawaii will increase for both domestic and international travelers when Allegiant Air, Hainan Airlines and Korean Airlines expand their flight destinations to include Honolulu. This is good news for a battered resort retail sector.

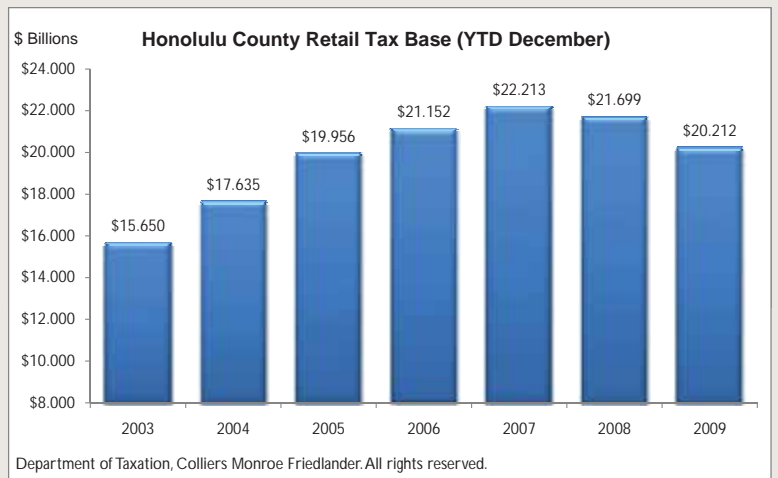
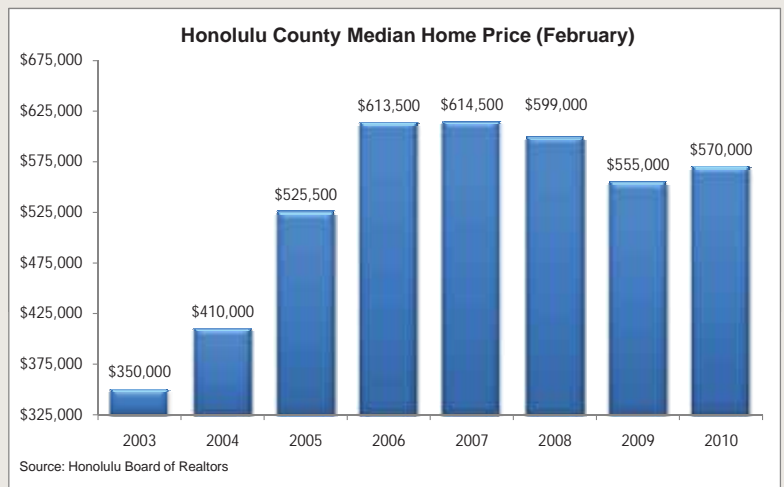
Retail sales also benefit from the sale of new homes. The establishment of new households boosts expenditures on items such as furniture, appliances and garden equipment. The Honolulu Board of Realtors reported that new residential single-family home sales jumped by 52.9% over last year's levels when 286 homes sold in April. Over the past four months, the median single family home price has fluctuated, but overall, posted a 0.9% gain in average sales price over last year at this time. However, skepticism exists that the federal government's tax credit for new home buyers is really the reason for the market improvement and therefore reflects only a short-term phenomenon.

Between February 2009 and February 2010, the retail industry lost 800 jobs as shop-keepers trimmed staff in response to falling retail sales. Retail jobs are off by 3.2% from the February peak established in 2007. Despite this, Honolulu's overall unemployment rate fell to 5.6% last April and is well below the peak 6.9% established in June 2009. Honolulu still ranks as having one of the lowest unemployment rates in the country and has fared much better when compared with the April 2010 national unemployment rate of 9.7%.

Further, Honolulu remained relatively unscathed from the overbuilding trend that plagued many markets across the country. Many of the retail projects that were hit by both the financial crisis and the recession are now faced with rapidly rising vacancy rates and an increase in foreclosures and loan defaults. For the most part, many of Hawaii's retail developers dodged the bullet by shelving or postponing their projects prior to the latest downturn in the economy.



NAPILI PLAZA

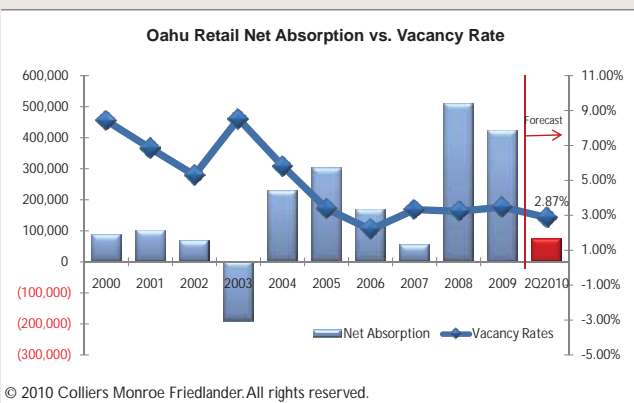
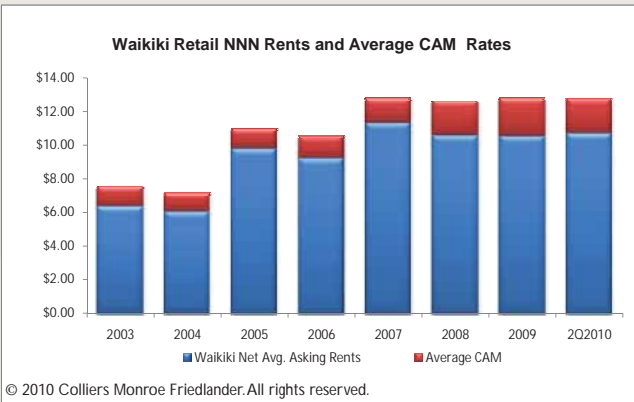
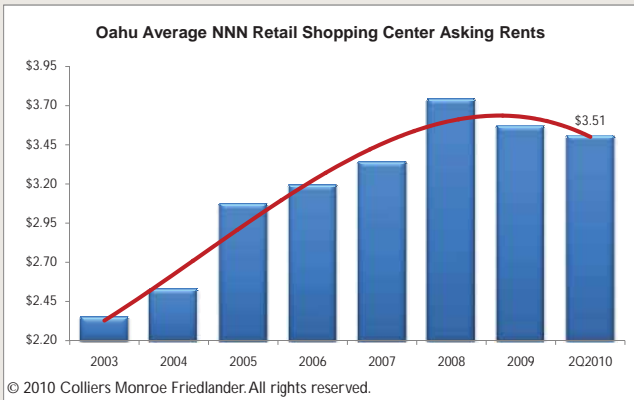


Uncertainty Remains

Despite recent economic news, there still remains lingering doubts about the staying power of this current “recovery”. Hawaii retailers remain cautiously optimistic about meeting their sales goals for 2010. Unfortunately, many still have a bitter taste in their mouths after 2009 when retail sales posted an 11% decline from 2008 levels. Job growth still appears elusive and businesses are still wary about committing to large scale hiring and capital investment until the economy establishes a firm foundation.

Retail asking rents reflected this sentiment of concern about the economy. The average NNN asking retail rent, which skyrocketed by 61% during the boom period of 2002 to 2008, is now down to \$3.51 per square foot per month (“psf/mo”). This is 6.1% lower than the peak established at year-end 2008, when the average retail rent rose to \$3.74 psf/mo.

Whether it was due to skilled forecasting or pure luck, the Honolulu retail market was able to avoid many of the problems faced by its U.S. mainland counterparts. The market’s 2.87% vacancy is an enviable position when compared to the double-digit vacancy rates in overbuilt markets. However, there remains a possibility that the first half of 2010 will be an anomaly and that the market will head south over the remainder of the year. It is because of this uncertainty that CMFC retains its original forecast that vacancy rates are likely to rise to 4% and that rents will decline by 5% to 8% over the near term.



KA MAKANA ALII



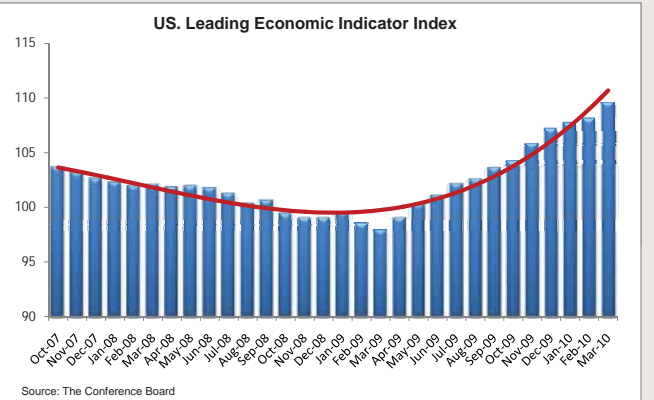
RAINBOW VISTA

Nationally, Markets Improve

The U.S. Gross Domestic Product (“GDP”) registered its third consecutive quarter of positive growth at more than 4% during this time period. Personal Consumption Expenditures (“PCE”), private inventory investment, exports, and nonresidential fixed investment made positive contributions for the first quarter 2010 GDP.

Despite this positive outcome, the National Bureau of Economic Research is still unlikely to rule on the end of the economic downturn until job growth has been established for a prolonged period. After more than two years and a loss of 8.4 million jobs, the U.S. Department of Labor registered an improvement of 162,000 jobs added to payrolls for April 2010. Whether this signals the return to more prosperous times or a continuation of the volatility in the employment sector remains to be seen.

The improvement in both consumer confidence and the leading economic indicator index support the claim that the future will be brighter. The Consumer Confidence Index rose for the third consecutive month as survey respondents indicated a more optimistic outlook for jobs and business conditions. The Conference Board’s Leading Economic Indicator Index improved for the twelfth consecutive month, rising to a record level of 109.6. This positive growth is supported by improving stock prices, building permits, manufacturer new orders and interest rate spread.





Market Happenings

Miliani Shopping Center Sold

A&B Properties engaged Colliers Monroe Friedlander's brokerage team of Mark Bratton, Kim Scoggins and Nathan Fong to market the Miliani Shopping Center for sale. Stoneridge Capital Partners paid \$50.3 million in an all cash deal for this 180,322 square foot center which is anchored by Foodland, Ross Dress For Less and 24-Hour Fitness. This is Hawaii's largest retail sales transaction for 2010.

Bed Bath and Beyond's First Hawaii Store

Colliers Monroe Friedlander's Jon-Eric Greene successfully negotiated a long term lease at Pearlridge Center for noted national housewares retailer, Bed Bath & Beyond at the former Circuit City site. This will be Bed Bath & Beyond's first location in Hawaii.

Lowe's Expands to Iwilei

Lowe's Home Improvement Warehouse has begun work on expanding its presence in urban Honolulu with its construction of the fourth location. Its newest location is a 14-acre site off of Nimitz Freeway in Iwilei and will add 117,000 square feet of additional competition to the area's existing home improvement retailers, Home Depot and City Mill.

Safeway Relocation Planned for 2011

Safeway recently purchased three parcels on Beretania Street (including the former Schumann Carriage site) with the intent to construct a 60,000 square foot grocery store to replace its existing 40,000 square foot aging Beretania Street location. This three-acre consolidation is estimated to have been purchased at a price in excess of \$186 per square foot.

Getting To Know Your Tenants



**BOBBIE LAU (B)
CPM**
Senior Vice President,
Property
Management
Division

Knowing and understanding your tenants' businesses is a must for today's commercial property manager. Property managers partner with their tenants in learning more about their businesses constantly monitoring their tenants' operations, products, services, and pay close attention to tenant sales. This fosters an environment that enables success for both retailer and landlord.

Routine visits to each tenant's establishment and observation of tenants' operations will help to gauge the health of the tenant and to "feel the pulse" of their tenants. It is also a good idea to shop at your tenants' stores to encounter the experiences of customers. Property managers should also look at the basics of each establishment, including cleanliness, window displays, and overall appearance.

Understanding and analyzing tenant sales and occupancy costs are also important elements in understanding your tenants' businesses. Tenant sales should be evaluated on a quantitative basis. One should look at whether the sales are increasing or decreasing and compare how the sales are trending month by month as well as compared to previous years. Further, property managers should measure tenant sales against similar types of uses and use market benchmarks to monitor the tenants' health. Tenants with multiple locations will be able to provide you with sales comparisons of their other locations.

If sales start to decrease, the property manager must be in communication with their tenants to understand the cause of the decrease. Once this occurs, many tenants turn to their landlords to ask for rent reductions, relief, and / or deferment. Troubled economic conditions over the past two years have resulted in an increase of requests to landlords for rent assistance. While landlords are continually looking to be efficient with property operating costs, tenants are encouraged to review their operations from a financial standpoint to see where expenses can be reduced.

Be aware of tenants sending requests for rent relief / concessions to all of their landlords via a blanket form letter. The tenant may be doing well at your location and making the request with hopes of lowering its overall expenses for all of its operations. The property manager (along with the leasing team) should determine the long term health of the tenant as it relates to the property and make recommendations to the property owner in accordance with this evaluation.

Unfortunately, some landlords have experienced tenants vacating their premises prior to their lease expiration and without any notice or approval. This has happened even in instances where landlords offered to assist the tenants with some sort of concession. A dark space, especially in a retail setting, may translate to negative perceptions about the property and lead to trouble for other tenants. The key is to continue to communicate and to monitor each of your tenants very closely and to work with them for the benefit of the property and the owner.



PEARL HIGHLANDS SHOPPING CENTER

Mid Year 2010 Oahu Retail Market Statistics

	Total Inventory	Vacant Space	Vacancy Rate	Net Absorption	Avg. Low NNN Asking Rents	Avg. High NNN Asking Rents	Avg. CAM Expenses
Central Oahu	757,084	3,822	0.50%	948	\$3.29	\$4.31	\$0.77
East Oahu	1,195,764	3,908	0.33%	7,672	\$3.92	\$5.37	\$1.50
Honolulu	3,400,021	115,897	3.41%	(6,508)	\$2.46	\$3.87	\$1.57
Leeward Oahu	3,655,367	101,591	2.78%	41,348	\$3.14	\$4.10	\$0.98
North Shore	112,903	2,373	2.10%	1,006	\$2.00	\$2.60	\$1.11
Waianae	288,000	51,355	17.83%	0	\$1.38	\$2.13	\$0.74
Waikiki	1,087,812	23,714	2.18%	17,728	\$5.11	\$16.23	\$2.08
West Oahu	604,945	5,640	0.93%	(2,136)	\$3.90	\$3.95	\$0.96
Windward Oahu	1,166,743	44,264	3.79%	13,101	\$2.54	\$3.96	\$1.00
Totals	12,268,639	352,564	2.87%	73,159	\$2.99	\$4.03	\$1.12

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

Shopping Center Type	Total Inventory	Vacant Space	Vacancy Rate	Net Absorption	Avg. Low NNN Asking Rents	Avg. High NNN Asking Rents	Avg. CAM Expenses
Community/Power Center	2,703,838	126,733	4.69%	2,812	\$3.64	\$4.53	\$1.10
Neighborhood	3,600,971	85,738	2.38%	2,664	\$2.97	\$3.89	\$0.97
Regional	4,418,985	37,290	0.84%	68,471	\$2.69	\$4.29	\$1.83
Resort/Specialty	1,341,584	93,946	7.00%	(9,798)	\$4.33	\$14.10	\$2.19
Strip	177,188	8,857	5.00%	9,010	\$3.37	\$4.08	\$1.03
Totals	12,268,639	352,564	2.87%	73,159	\$2.99	\$4.03	\$1.12

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

© 2010 Colliers Monroe Friedlander Inc. All rights reserved.



**Commercial, Industrial,
Investment, Consulting &
Research Real Estate Services
Since 1973**

1800 Central Pacific Plaza
220 South King Street
Honolulu, HI 96813
Tel: 808-524-2666
Fax: 808-521-0977

www.colliershawaii.com

All information contained herein comes from sources deemed reliable; however, we make no guarantees as to the accuracy or completeness of the data contained herein.

If you would like additional information, please contact mike@colliershawaii.com

© 2010 Colliers Monroe Friedlander. All rights reserved. Copyright is claimed on all parts of these materials with the exception of graphs and charts from other sources. No portion for which copyright is claimed may be reproduced in any form without the prior permission of Colliers Monroe Friedlander.

Consulting & Research

Mike Y. Hamasu
Consulting & Research Director
Tel: 523-9792
mike@colliershawaii.com

Nanette C. Macapanpan (S)
Research Consultant/Project Manager
Tel: 523-9764
nanette@colliershawaii.com

Colliers Monroe Friedlander has become Hawaii's largest commercial and industrial real estate firm. Colliers Monroe Friedlander is a diversified full service organization providing leasing, sales, management and consulting services throughout the Pacific.

Retail Services Group

Kim F. Scoggins (B)
Vice President
Tel: 523-9762
kim@colliershawaii.com

Jon-Eric Greene (B)
Senior Vice President
Tel: 523-9700
jon-eric@colliershawaii.com

Mark D. Bratton (R) CCIM
Vice President
Tel: 523-9708
mark@colliershawaii.com

Nathan A. Fong (B)
Vice President
Tel: 523-9740
nathan@colliershawaii.com

Kelli Wilinski (S)
Vice President
Tel: 523-9758
kelli@colliershawaii.com

Jessika G. Fodor (S)
Tel: 523-9761
jessika@colliershawaii.com

Byron "Biff" Graper (S)
Tel: 523-9737
biff@colliershawaii.com

Retail Property Management

Thomas Backman (S) RPA, CCIM
Vice President

Angela Hodge (B) RPA
Account Manager

Clive Cabral (B)
Assistant Vice President

Victoria Nabarrete (S) CPM, CCIM
Senior Property Manager

Rachel Scheer (S)
Senior Property Manager

Ernie Bautista (S)
Property Manager

Geri Dela Cruz
Property Manager

Beth Dodson (S)
Property Manager

Cindy Lau (S)
Property Manager

Sissy Noelani (S)
Property Manager

Ikuyo Kato (S)
Tel: 523-9753
ikuyo@colliershawaii.com

Marty Kenney (B)
Tel: 808-244-9104
marty@colliershawaii.com

Ryan Y. Marn (S), CPA
Tel: 523-9771
ryan@colliershawaii.com

Emalia Pietsch (S)
Tel: 523-9710
emalia@colliershawaii.com

Chris Millen (S)
Tel: 808-298-4676
chris@colliershawaii.com

Kristin Marple (S)
Property Manager



Printed in partnership with Title Guaranty of Hawaii.