

Retail Market Report

OAHU | MID YEAR 2011

“Resiliency, a retailer survival requirement.”

- Kim F. Scoggins (B)
Vice President

MARKET INDICATORS

	MID YEAR		
	2011	2012	2013
VACANCY	▲	▼	▼
NET ABSORPTION	▼	▲	▲
CONSTRUCTION	▲	▲	▲
RENTAL RATE	▼	▲	▲

RETAIL HIGHLIGHTS

YTD NET ABSORPTION: 10,472 SF

VACANCY RATE: 3.48 %

AVERAGE ASKING NET RENT RANGE \$2.88 - \$3.87 PSF/MO

AVERAGE ASKING NET RENT \$3.38 PSF/MO

AVERAGE OPERATING EXPENSE \$1.10 PSF/MO

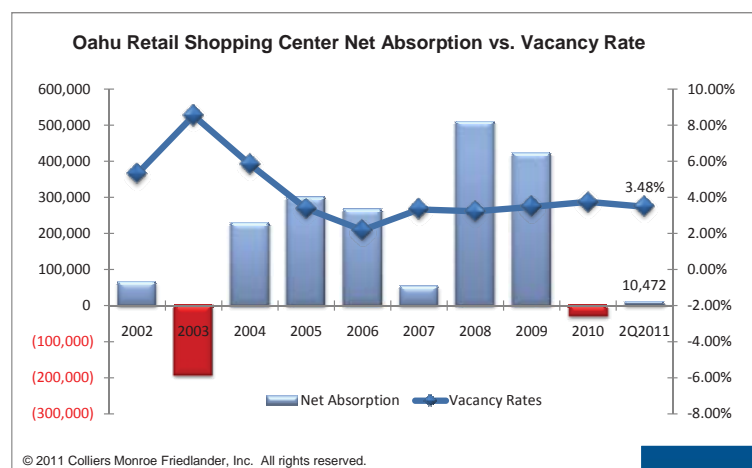
Initial Downturn Followed By Recovery

Despite steadily improving economic indicators heading into 2011, the economic shocks from the Japanese earthquake and tsunami, the rising tensions in the Middle East, and the looming state and federal government's budget deficits are likely to put a drag on Hawaii's fledgling economic recovery. Retailers appear to be cautious as growing concerns over global events place a dampening effect on projected expansion plans.

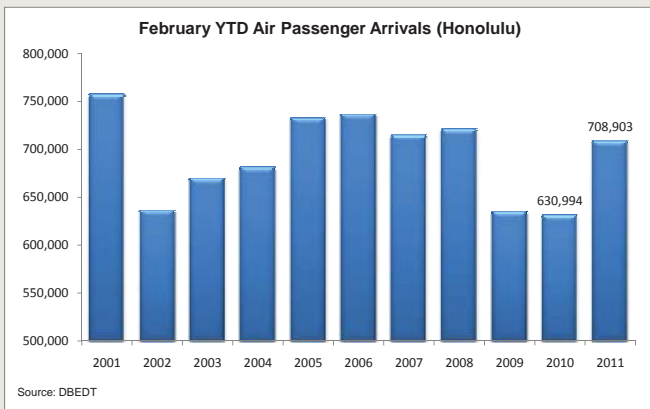
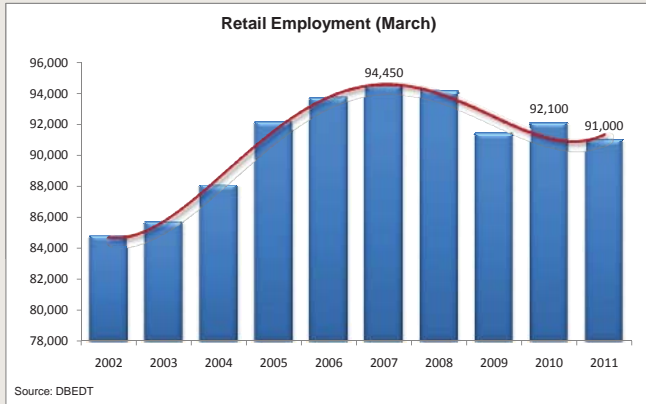
Honolulu's retail market eked out 10,472 square feet of positive net absorption at mid-year 2011 as the island's retail shopping center vacancy rate fell to 3.48% from

3.75% recorded at year-end 2010. Honolulu's retail market has held steady and posted five consecutive years of vacancy rates between 3% and 4%. Although available space remains in short supply, the average asking net rental rate generated its fourth year of declines, falling from the 2008 peak of \$3.74 per square foot per month ("psf/mo") to \$3.38 psf/mo at mid-year 2011. This is a drop of nearly 11% and reflects the soft rental rate conditions facing many shopping centers.

The unemployment rate for Honolulu fell from 5.6% to 5.1% over the past year, with the addition of 850 newly employed



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civilians. Despite this decrease in unemployment rate, weakness is still evident. The island's industrial labor force continues to reel from the decline in construction jobs. Similarly, the retail sector posted 1,100 fewer positions from last year. Despite a few new national chains opening up shop in Honolulu, many retailers reduced their labor force and maintain a conservative hiring strategy.

The hospitality sector generated healthy gains for the first two months of the year as February's hotel occupancy rates rose by 7.6 percentage points to 83.8% according to Hospitality Advisors latest Hotel Flash Report. Additionally, average daily room rates jumped 10.7% and revenue per available room rose by 21.5% over the past year. Total air passenger arrival counts shot up by more than 12.0% over 2010 levels with both domestic and international air travelers boosting their Honolulu arrivals by more than 11.0%. However, these hotel market statistics reflect activity prior to the March disasters that occurred in Japan.

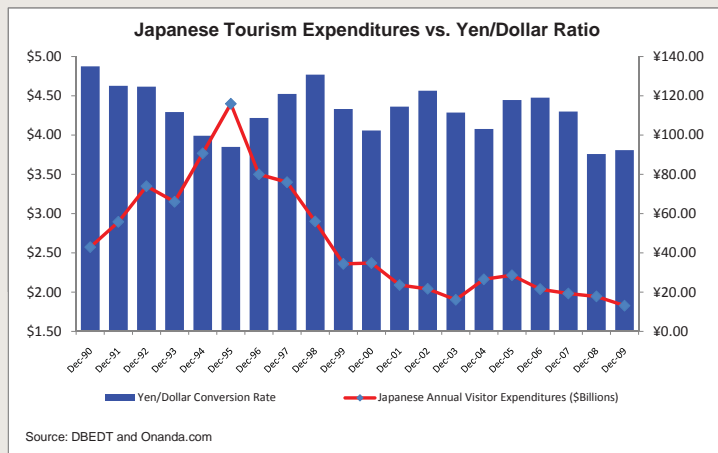
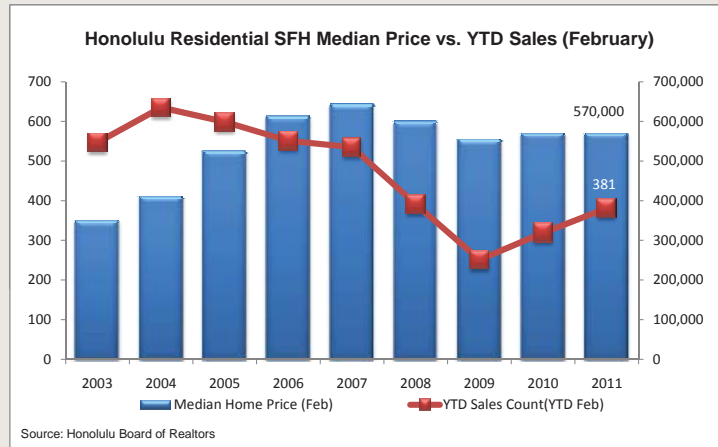
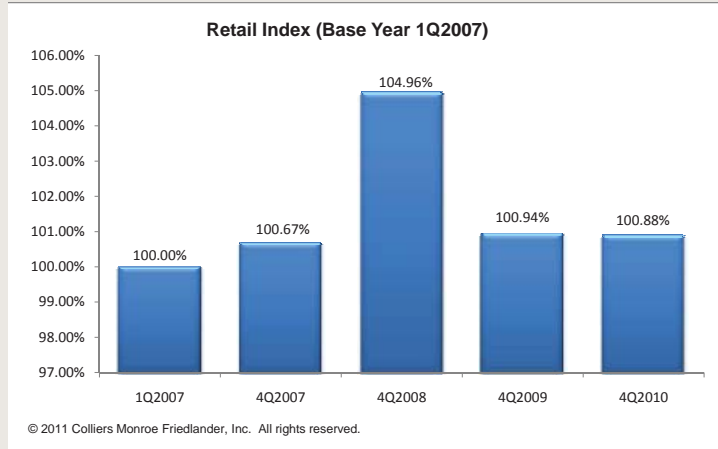
Honolulu's residential home sales market appears to be on the mend according to the statistics reported by the Honolulu Board of Realtors. The February 2011 median home price looks to have stabilized at \$570,000, and matches February 2010 price levels. Single family home sales jumped 19.4% over last year's figures. The establishment of new households is a positive sign for retail sales growth. So far, Honolulu's neighborhood centers appear resilient as slight rises in vacancy rates are being witnessed among resort and specialty centers.

Retail sales have improved from the dismal levels experienced in 2009. Year-end 2010 retail sales rose by 2.3% over year-end 2009 levels. For calendar year 2010, retailers generated more than \$20.0 billion in sales. Although this is an improvement over 2009 levels, it still remains below the \$22.2 billion peak established in 2007. The Colliers' Retail Sales Index indicates that fourth quarter 2010 reflected a slight negative bias as sales fell from fourth quarter 2009 levels.

Rising Fuel Prices Spur Inflation Concerns

The rapid run-up of fuel prices is likely to place a damper on retail sales until consumers adjust to the new gas price paradigm. Consumers previously paid \$70.00 to fill up a 20-gallon tank, but will have to adjust to paying \$90.00 per tank as gas prices have escalated to \$4.50 per gallon. For long-distance commuters, this can be quite an expensive endeavor. Consumer confidence will likely be impacted by this rapid rise in fuel costs. Should oil prices remain at this level, retail sales will be negatively affected.

Increasing concerns over the threat of inflation typically accompany a protracted period of rising oil prices. Retailers that sell commodities such as food and other necessities are already facing pressure to increase prices. Container shipping prices have posted sizeable fuel surcharges bumping up the cost of everything from heads of lettuce to bags of rice. These increased costs are filtering through to the consumer. Hawaii's pace of inflation rose from 0.5% in 2009 to 2.1% for 2010. The State forecasts that the Honolulu Consumer Price Index will increase to 2.3% in 2011. Colliers Monroe Friedlander ("Colliers") anticipates that inflation will be an increasing concern over the near term future.

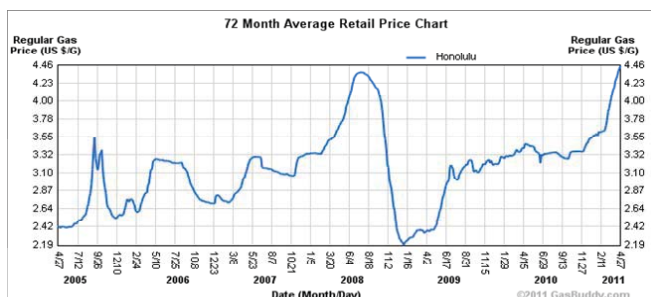


Decline in Japanese Travel Sector Anticipated

By the end of February, Japanese travel counts to Honolulu leaped by 13.2% over 2010 levels and visitor days soared by 15.5% during the same time period. Unfortunately, these figures had not yet taken into account the impact of the Sendai earthquake, tsunami and nuclear disaster. Anecdotally, hoteliers are mentioning that they indeed are facing an increase in cancellations and that March, April and May Japanese hotel bookings will be down significantly.

Optimism still exists among Hawaii's hospitality executives as Hawaii remains a favorite destination for many Japanese. Hawaii has had no shortage of travel shocks; in fact, over the past few decades, a number of events have severely curtailed Japanese travel to Hawaii. After the 1995 Kobe Earthquake, the 1998 Asian Financial Crisis, the 2001 Terrorist Attacks, and the 2003 SARS Epidemic, Japanese travel to Hawaii dramatically fell. In most of these instances, however, travel quickly typically recovered within a six to nine month period.

The Japanese yen to U.S. dollar currency conversion ratio is a good indicator as to whether Hawaii will regain lost tourists from Japan. The strengthening of the yen, which hurts Japanese exports, actually benefits Hawaii as Japanese travelers garner a boost in their spending power. Thus, even after major economic shocks, the Japanese travel market has historically recovered quickly, especially when there is a favorable yen per dollar ratio. Currently, the yen per dollar ratio is about 82:1 which is very favorable to the Japanese. Hopefully their recovery from the recent disasters will also be met with a subsequent economic boom period for redevelopment and reinvestment in their infrastructure.



KING KALAKAUA PLAZA

Moderate Short Term Economic Impact with Swift Recovery Projected

Earlier in the year, Hawaii's economic recovery seemed assured as job growth, residential home sales and the travel sector all seemed to be rebounding at a healthy pace. Unfortunately, change appears to be the only constant and we are again vulnerable to global economic shocks. Over the next few months, Honolulu's retailers will begin to maneuver the influence that the many negative external factors have on the direction of the market. Vacancy rates will most likely continue to range between 4.0% and 4.5% and rental rates are projected to continue to soften.

Any improvement to Japanese travel will likely remain contingent upon the outcome of the nuclear disaster and the pace of the rebuilding efforts from the earthquake and tsunami. The hope is that the peak summer travel season will spur U.S. Mainland, Chinese, Korean and Canadian travel markets to boost their interest for Hawaii. However, resort retailers still remain uncertain about their fate as few visitor segments carry the spending clout of the Japanese.

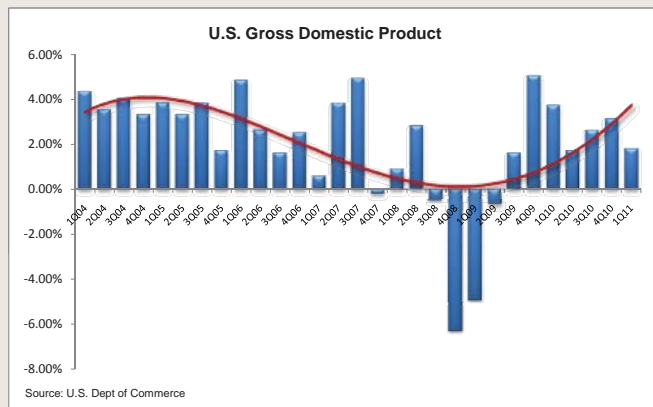
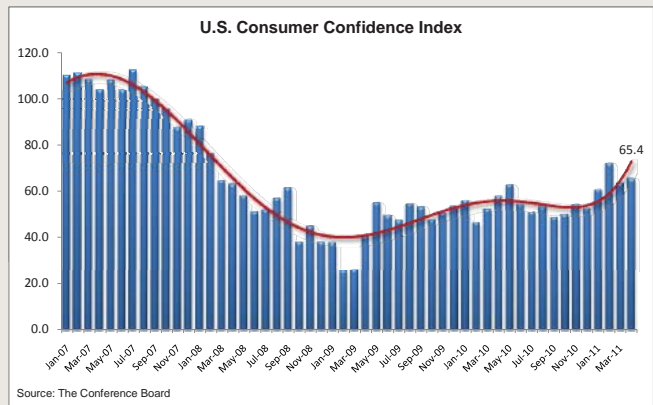
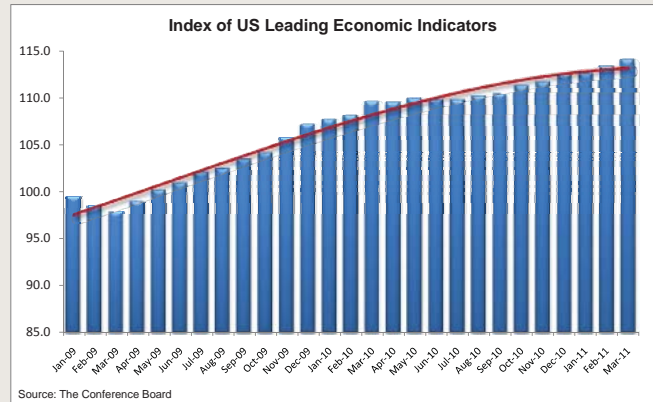
Growth Projected for National Market

The U.S. Consumer Confidence Index rose in April to 65.4 after falling in March. This is well below the readings generated during the 2007 boom period. Consumers still appear wary of the future with rising gas prices and looming inflation. Residential home sales are anemic with a large percentage of short sales and distressed properties.

The nation added more than 475,000 jobs over six consecutive months of job growth. The Labor Department reported for March 2011 that 216,000 jobs have been added. This has helped to whittle away at the national unemployment rate which steadily declined to 8.8% for April 2011. The bulk of the jobs were generated among the professional and business services, healthcare and leisure/hospitality sectors.

Steady improvement is expected for the U.S. national economy as the Leading Economic Indicator (“LEI”) index posted nearly 18 months of consistent and healthy improvement. The LEI index projects that the U.S. economy will continue to generate positive growth for the next six to nine months.

The U.S. Commerce Department recently announced that the first quarter 2011 Gross Domestic Product (“GDP”) rate recorded a 1.8% growth rate. This was considered disappointing since the fourth quarter 2010 rate was 3.1%. It was surmised that the decline was in part due to the rise in oil prices, slowdown in construction and cuts in military spending. Despite the slowdown in GDP growth, the Fed’s outlook for the economy appears to be optimistic. Fed Chairman Bernanke believes that the rise in oil prices will be transitory and that the economy will generate at least a 3.1% level of growth for 2011.





KA MAKANA ALII

Colliers Highlights

DeBartolo Development – Ka Makana Alii

New Regional Center in East Kapolei

Colliers has been appointed the exclusive leasing agent by DeBartolo Development, LLC for Ka Makana Alii, a new 1.5 million square foot urban mixed-use regional center development in East Kapolei. The first phase of development will include a grocery store, pharmacy, pet store, banking & financial services, various shops and restaurants, and a state-of-the-art fitness center.

“We are excited to be part of DeBartolo’s team in developing the first new regional center to be built in Hawaii in almost 40 years, completing the vision for the Ewa Plain, Oahu’s ‘Second City,’” said Jon-Eric Greene.

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King’s Village Shopping Center

Available Retail Space for Lease

Colliers has been selected to assume the property management and leasing of King’s Village Shopping Center. Known for their “Changing of the King’s Guard,” the Center is one of the island’s most unique and exciting visitor attractions in Waikiki.

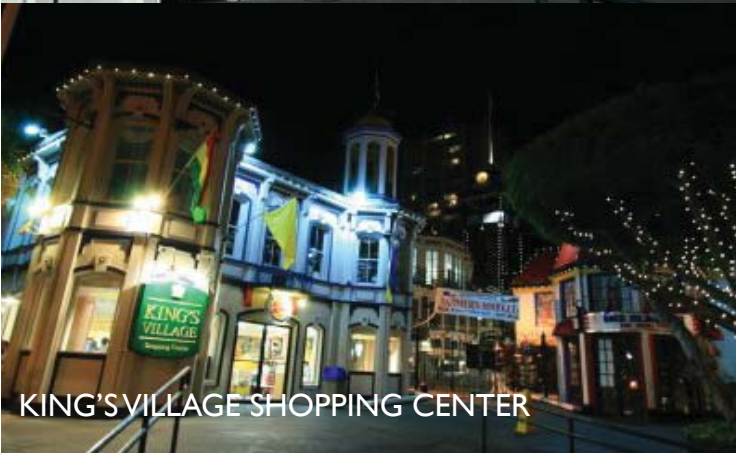
A team of experienced retail specialists directed by Colliers Vice President and Retail Division Manager, Kim Scoggins, will manage the leasing efforts for this Waikiki retail landmark.

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KING'S VILLAGE SHOPPING CENTER

Market Happenings - West Oahu Highlights



Despite recent concerns about the future, developers continue to feel confident that the retail market environment for West Oahu will continue to strengthen. A number of retail developments that have been slated for construction in West Oahu are progressing ahead with their plans. Here is the latest information:

Kapolei Village Center

This Foodland-anchored retail center is currently being leased by Colliers. Located directly on Kapolei Parkway, this retail development is nearly complete with the interiors to the Foodland store being worked on. Successful leasing efforts include two restaurants and a spa/salon.

Ka Makana Alii

The initial phase of this project is a grocery-anchored neighborhood center which is undergoing pre-leasing activities. Currently, there are a number of retailers that have secured a position to begin earnest negotiations for this project.

Kapolei Commons

After the successful completion of Phase I, Kapolei Commons announced its plans to begin marketing of Phase II. Fully committed to the "Outlet Concept," Kapolei Commons will include a new Down To Earth health food store, (represented by Colliers) and is due to open on July 2, 2011.

Leihano Senior Village Parcels

Kisco Development is underway in developing a 40-acre senior living village in Kapolei. Adjacent to this development are recently released one-acre BMX-3 zoned fee simple parcels for sale. Colliers has been selected as the exclusive agent for these parcels.

Mehana by D.R. Horton

D.R. Horton's master planned Mehana community is located makai of Kapolei Parkway. When fully built out, it will consist of 1,100 residential townhome and condominium units. Currently, the Nanala townhome development of live work and commercial flats is sold out. Blocks II and III, which includes the Lahiki and Pulewa single family homes and townhome communities, are being actively marketed for sale.

MidYear 2011 Oahu Retail Market Statistics

Trade Area	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	13,209	1.74%	(2,452)	\$3.16	\$3.54	\$0.80
East Oahu	1,195,764	18,089	1.51%	17,557	\$4.38	\$5.53	\$1.30
Honolulu	3,400,021	114,548	3.37%	13,049	\$2.34	\$3.56	\$1.57
Leeward Oahu	3,646,760	104,736	2.87%	1,132	\$3.06	\$3.99	\$1.01
North Shore	112,903	1,794	1.59%	2,026	\$1.83	\$2.80	\$1.04
Waianae	288,000	64,182	22.29%	327	\$1.38	\$2.00	\$0.69
Waikiki	1,117,812	56,224	5.03%	(11,282)	\$4.61	\$15.52	\$1.96
West Oahu	693,805	12,039	1.74%	(2,756)	\$3.08	\$4.02	\$0.96
Windward Oahu	1,140,670	45,025	3.95%	(7,129)	\$2.39	\$3.61	\$1.03
Totals	12,352,819	429,846	3.48%	10,472	\$2.88	\$3.87	\$1.10

*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	2,695,231	136,208	5.05%	(13,118)	\$3.38	\$4.25	\$1.12
Neighborhood	3,689,831	109,830	2.98%	15,708	\$2.88	\$3.76	\$0.98
Regional	4,418,985	46,564	1.05%	11	\$2.77	\$9.85	\$1.85
Resort / Specialty	1,371,584	106,347	7.75%	16,253	\$4.04	\$13.06	\$1.95
Strip	177,188	30,897	17.44%	(8,382)	\$2.87	\$4.16	\$1.19
Totals	12,352,819	429,846	3.48%	10,472	\$2.88	\$3.87	\$1.10

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

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