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Hawaii | Oahu

Retail

21Q1

“While we’re still trying to get to the light at the end of the tunnel, the recently approved Federal Aid for restaurants and bars anticipated in April 2021 will be a welcome ray of sunshine in what’s been a dark year.”

Biff Graper (S) | Retail & Restaurant Specialist

Accelerating success.



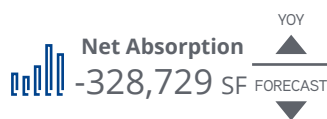
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Key Takeaways

- Occupancy losses surge during 1Q2021
- Rental rates decline for fifth consecutive quarter
- Economic indicators begin to show recovery
- Fed's American Rescue Plan targets restaurants
- 2Q2021 retail market recovery projected to begin



Retail Market Suffers Record 1Q Occupancy Losses

Oahu's retail market posted a record loss of nearly 329,000 square feet of occupancy during the first quarter of 2021. This is the largest quarterly loss of occupancy to be recorded in the past twenty years, exceeding even the closure of JCPenney's at Ala Moana Center and Pearlridge Center in 2003. In just the past quarter, vacancy rates shot up from 6.41% at year-end 2020 to 8.34%, as the pace of store closures mounted. Attempting to survive a full year without regular sales proved to be too difficult for some, as many retailers decided to throw in the towel at the start of the new year.

Regional malls bore the brunt of the pandemic's wrath recording a loss of 247,445 square feet of occupancy during the past quarter. The combination of government-mandated closures of non-essential businesses and the resultant surge in e-commerce retail sales boosted the challenges faced by many brick and mortar retailers.

For soft goods and apparel retailers, many of whom tenant Oahu's regional malls, 2020 was a continuous uphill battle, as the combination of forced closures and a lack of visitors throughout the year stunted their sales and inevitably forced many of them to close.

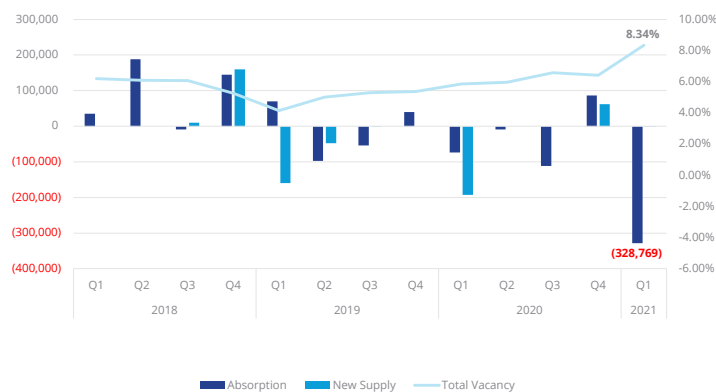
Market Indicators



Historic Comparison

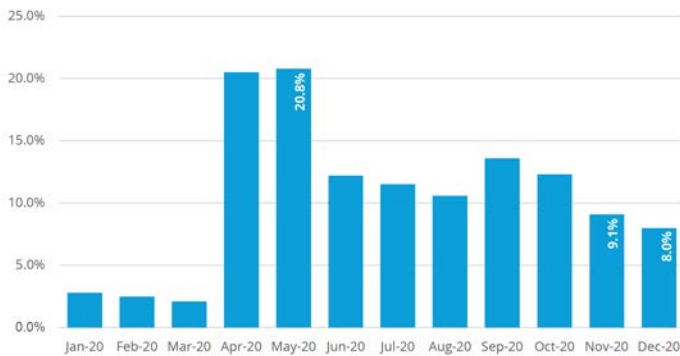
	20Q1	20Q4	21Q1
Total Inventory (in Thousands of SF)	16,909	16,971	16,971
New Supply (in Thousands of SF)	-	62.0	-
Net Absorption (in Thousands of SF)	-73.4	86.6	-328.8
Overall Vacancy	5.86%	6.41%	8.34%
Under Construction (in Thousands of SF)	164,000	156,260	156,200
Overall Asking Lease Rates (NNN)	\$4.18	\$4.17	\$4.14

Oahu Retail Net Absorption vs Vacancy Rate



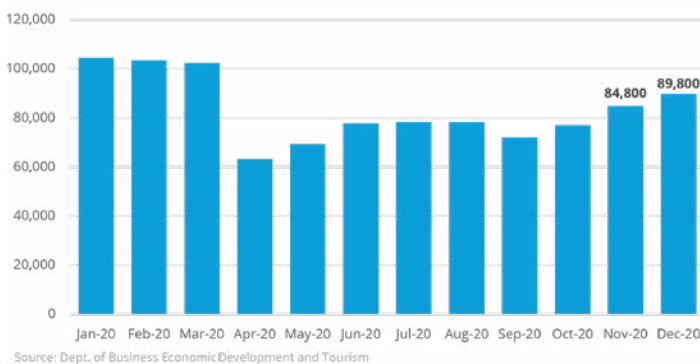
Economy Starts Long Haul Towards Recovery

Oahu Unemployment Rate 2020



The pandemic took a devastating toll on Oahu’s economy. As job losses mounted, unemployment rates skyrocketed to a record high of 20.8% in May 2020, when a total of 84,800 workers filed jobless claims. Fortunately, the worst of the pandemic appears to be behind us, as employers re-hired roughly 36,700 workers bringing the December 2020 unemployment rate down to 8.0%.

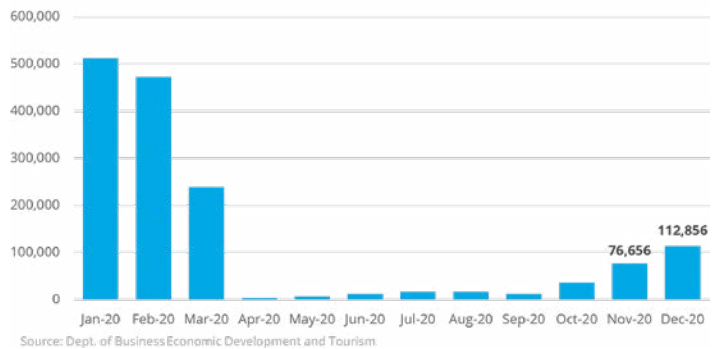
Oahu Retail Job Counts 2020



Oahu’s retail sector, which initially lost more than 39,000 jobs in April 2020, is also beginning to show signs of recovery. The initial 38% decline of Oahu’s retail workforce reflected the extreme financial challenges many retailers faced as sales revenues dropped off. Since then, the sector has been slowly bringing back jobs and by December 2020, 26,500 positions had been reinstated.

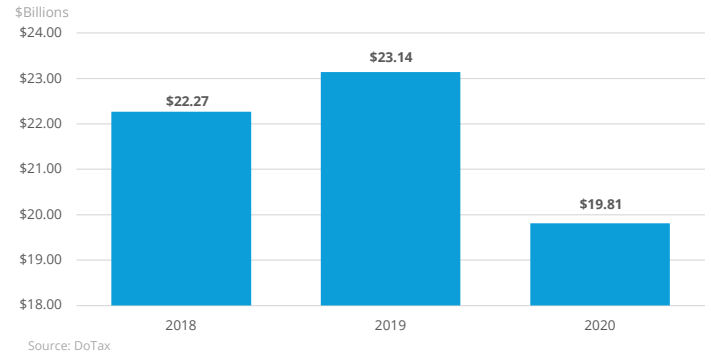
In addition to widespread job losses, the pandemic forced the government to severely restrict travel by implementing a mandatory 14-day quarantine. Oahu’s resort retailers were the hardest hit and faced an uphill battle as monthly air passenger arrivals between January and April 2020 recorded a 99.4% decline in visitors to Oahu. While still reflecting restricted travel, the slight easing of previous mandates are demonstrated in the solid month over month gains since the end of September 2020.

Oahu Monthly Air Passenger Arrivals 2020



For Oahu’s retail marketplace, the loss of jobs combined with the drop-off in tourism spending proved to be extremely painful, as retail sales tumbled. December 2020 year-to-date retail sales for Oahu fell by 14.4% for an alarming \$3.33 billion decline when compared to prior year.

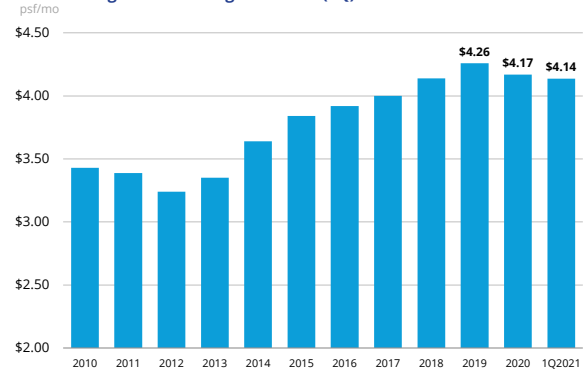
Oahu Retail Sales (December YTD)



Retail Rents Continued to Soften

The decline in retail sales and the surge in empty storefronts impacted shopping center average asking rental rates. After peaking at \$4.26 per square foot per month (“psf/mo”) at the end of 2019, Oahu’s average asking retail rental rate has decreased for five consecutive quarters and now stands at \$4.14 psf/mo. This 2.8% decline in rents is likely a result of lowered rental rate expectations from landlords.

Oahu Average Retail Asking Base Rent (4Q)



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Pandemic’s Toll on Restaurants

A report published in December 2020 by the University of Hawaii Public Policy Center stated that if tourism does not rebound in 2021, more than half of existing restaurants will be forced to close by April 2021. This study reflected the dire circumstances many restaurants and food establishments face under the weight of COVID and government restrictions. According to the National Restaurant Association, more than 110,000 restaurants - about one in six across the U.S. - have closed permanently. Locally, the Hawaii Restaurant Association estimated that 15% of a total of 3,600 (roughly 540) restaurants have already closed in Hawaii since the pandemic began.



Notable Restaurant Closures:

- Like Like Drive Inn
- Town
- REAL Gastropub
- Alan Wong’s
- Nobu Honolulu
- Dillingham Saimin
- Top of Waikiki
- Formaggio Wine Bar
- HASR Bistro
- Miyako Japanese Restaurant
- Monterey Bay Cannery
- Pomaikai Ballrooms
- Uncle’s Fish and Grill (Pier 38 location)
- Viaggio

Federal Aid for Restaurants Coming Soon

Luckily, federal aid is on its way. On March 11, 2021, President Biden signed the American Rescue Plan, which provides an additional \$1.9 trillion of federal relief in a variety of areas. Included in this program was the \$28.6 billion “Restaurant Revitalization Fund” (“RRF”) which will provide direct grants to restaurants. This program will be administered by the Small Business Administration and may provide up to \$10 million for eligible restaurants, bars, caterers, food trucks, and other food service operators.

To qualify, a food service or drinking establishment must have fewer than 20 locations and not be publicly traded. The amount of the grant must not exceed the “pandemic-related” revenue loss of the applicant, which compares an applicant’s 2019 gross receipts to its 2020 gross receipts. These funds can be used to cover a wide range of expenses including payroll costs, rent payments, utilities, supplies and expenses incurred within the normal scope of business.

Restaurant owners are required to register for a Data Universal Numbering System number, a nine-digit identifier assigned to companies by Dun & Bradstreet, prior to being able to receive grants from the government. Additionally, an applicant will need to sign up for the U.S. government’s System for Award Management at SAM.gov in order to receive payments. The Small Business Administration is projected to open up RRF grant applications within the next month.

Resources of Interest

Back to the Table, A Hawaii Restaurant Survey by the University of Hawaii Public Policy Center

<http://bit.ly/Retail-Q12021-1>

Restaurant Revitalization Fund Policy Brief by the National Restaurant Association

<http://bit.ly/Retail-Q12021-2>

Small Business Administration

<http://bit.ly/Retail-Q12021-3>

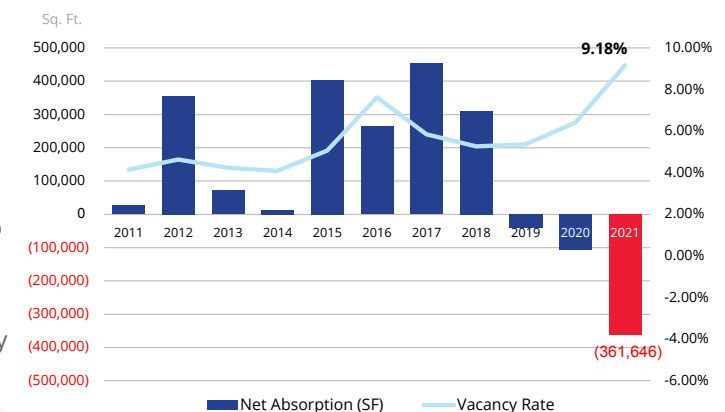
Turning the Corner, Retailer Resiliency Needed for Survival

On February 22, 2021, the City and County of Honolulu entered Tier 3 of Honolulu’s Reopening Strategy, which eased COVID-19 restrictions and allowed retailers to open their shops without occupancy limitations. This was welcomed news for retailers and restaurants that have had to adhere to 50% occupancy requirements under Tier 2. There is hope that Honolulu has turned the corner and that COVID-19 vaccinations will diminish the likelihood of a future surge of infections.

While the market is poised and ready for a recovery to occur, there remains underlying weaknesses for many that suffered a severe drop in sales over the past year. Colliers forecasts that there will be additional store and restaurant closures in the near-term horizon, as the shakeout of the retail sector continues. Vacancy rates are projected to reach their apex by 3Q2021 and slowly decline thereafter. Retail rents are forecasted to decline an additional 10% to 15% before the bottom of the market is reached.

After a year of living under pandemic guidelines, a return to normalcy is eagerly anticipated. It has been an extremely challenging year for many retailers, and many have had to explore new markets, broaden their sales channels, and adopt new technologies to survive. While incorporating new retail strategies did not guarantee success, many retailers are stronger and wiser for it.

Oahu Retail Net Absorption vs. Vacancy Rate Forecast



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Submarket	Total Inventory SF	Direct Availability Rate	Sublease Availability Rate	Availability Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (NNN)
Central Oahu	889,235	37,097	0	37,097	4.17%	3.34%	(7,415)	(7,415)	0	0	\$4.19
East Oahu	1,561,774	63,985	0	63,985	4.10%	3.89%	(3,254)	(3,254)	0	0	\$5.20
Honolulu*	4,514,761	495,060	0	495,060	10.97%	4.24%	(303,812)	(303,812)	46,400	0	\$4.05
Leeward Oahu	4,287,863	275,165	0	275,165	6.42%	6.33%	(3,696)	(3,696)	0	0	\$3.92
North Shore	225,125	840	0	840	0.37%	1.10%	1,626	1,626	2,000	0	\$3.71
Waianae	364,060	31,762	0	31,762	8.72%	8.73%	27	27	0	0	\$2.50
Waikiki	1,618,460	193,333	0	193,333	11.95%	11.52%	(6,883)	(6,883)	36,000	0	\$13.71
West Oahu	1,840,133	97,633	0	97,633	5.31%	5.39%	1,513	1,513	71,860	0	\$4.60
Windward Oahu	1,670,150	221,117	0	221,117	13.24%	12.83%	(6,875)	(6,875)	0	0	\$3.98
TOTAL	16,971,561	1,415,992	0	1,415,992	8.34%	6.41%	(328,769)	(328,769)	156,260	0	\$4.14

Subtype	Total Inventory SF	Direct Availability Rate	Sublease Availability Rate	Availability Rate	Vacancy Rate	Vacancy Rate Previous	Net Absorption Current	Net Absorption YTD	Under Construction	Deliveries YTD	Avg Direct Asking Rate (NNN)
Community/Power Center	3,295,502	138,510	0	138,510	4.20%	4.58%	5,951	5,951	30,000	0	\$4.50
Neighborhood	4,765,648	377,637	0	377,637	7.92%	6.56%	(64,775)	(64,775)	0	0	\$4.08
Regional*	5,315,145	540,335	0	540,335	10.17%	5.51%	(247,445)	(247,445)	0	0	\$7.27
Resorts/Specialty	1,789,657	223,730	0	223,730	12.50%	11.04%	(26,123)	(26,123)	0	0	\$12.60
Strip	1,805,609	135,780	0	135,780	7.52%	7.72%	3,623	3,623	126,260	0	\$4.19
TOTAL	16,971,561	1,415,992	0	1,415,992	8.34%	6.41%	(328,769)	(328,769)	0	0	\$4.14

* 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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