

HVS Market Pulse: State of Hawaii

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Hawaii experienced another stellar year of RevPAR performance in 2018, bolstered by improved airlift and a strong domestic economy, which resulted in another record year of visitor arrivals. Despite these impressive achievements, the year was not without its share of difficulties, including volcanic eruptions at Kilauea, disruptions caused by Hurricane Lane and Hurricane Olivia, and an extended 51-day hotel worker strike. Nevertheless, the Hawaii Department of Business, Economic Development & Tourism (DBEDT) forecasts sustained year-over-year growth in visitor arrivals through 2022, which should support a robust hotel market.

Location:	Occupancy			Average Daily Rate			RevPAR		
	2018	2017	% Chg.	2018	2017	% Chg.	2018	2017	% Chg.
State of Hawaii	80%	80%	-0%	\$278.07	\$264.49	5.1%	\$221.85	\$212.07	4.6%
O'ahu	83.9	84	0	238.16	233.02	2.2	199.70	194.51	2.7
Maui County	75.9	77.0	-1	385.39	353.64	9.0	292.35	272.35	7.3
Island of Hawai'i	72.2	75	-3	261.43	249.04	5.0	188.76	186.34	1.3
Kaua'i	75.4	76	-0	291.45	263.87	10.5	219.82	199.78	10.0

Source: Hawaii Tourism Authority

According to the 2018 December Hawaii Hotel Performance Report published by the Hawai'i Tourism Authority, overall occupancy levels for hotels statewide declined between 2017 and 2018. However, the decrease in occupancy was offset by strong gains in average daily rate (ADR). Overall, RevPAR rose from \$212.07 to \$221.85, placing Hawaii as the second-strongest-performing major market in the United States, only trailing New York City. This is the ninth consecutive year that hotels in Hawaii have experienced gains in RevPAR.

Year:	Visitor Arrivals		Visitor Days		Visitor Expenditures*	
	Visitors	% Chg.	Days	% Chg.	Days	% Chg.
2017	9,404,346	—	84,065,784	—	\$16,809,400.00	—
2018	9,954,548	5.9%	88,559,788	5%	17,952,400.00	6.8%

Source: Hawaii Department of Business, Economic Development, & Tourism

Visitor arrivals surged by nearly 6% between 2017 and 2018, primarily generated by growth in domestic tourism.^[1] On the island of O'ahu, this corresponded with an increase in occupancy of 0.4%, while Maui, Hawai'i, and Kaua'i experienced slight declines.^[2] The overall statewide decrease in hotel occupancy, coupled with the significant increase in visitor arrivals and total visitor days, suggest that a notable portion of occupied room nights were accommodated by other forms of transient lodging, particularly short-term vacation rentals. While short-term vacation rentals accommodate a certain segment of unaccommodated demand, oversupply and competition from vacation rentals will likely remain a threat to the hotel industry in Hawaii for the foreseeable future.

Summary

Hotels in the state of Hawaii reached record RevPAR levels in 2018, supported by continued growth in visitation.

1 Comments

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Below is a brief list of recent highlights pertaining to the Hawaii lodging market, categorized by island:

Hawai'i:

- The former Mauna Lani Bay Hotel & Bungalows closed in October 2018; redevelopment is currently underway, and the hotel is expected to reopen as an Auberge Resort in late 2019.^[3]
- In January 2019, developer Kennedy Wilson announced that the Kona Village Resort would reopen as a Rosewood Resort in 2022.^[4]
- Ocean Tower by Hilton Grand Vacations opened in February 2019; the 72 timeshare units are the first of a multi-phase redevelopment of the former 600-room Ocean Tower at Hilton Waikoloa Village.^[5]

Maui:

- Developer R.D. Olson broke ground on the 110-room AC Hotel by Marriott Wailea in April 2019.^[6]
- The Blackstone Group is currently pursuing entitlements related to a 224-guestroom expansion and renovation of the Grand Wailea, a Waldorf Astoria Resort.^[7]
- Construction has started on the first phase of the Maui Bay Villas by Hilton Grand Vacations; the initial phase is expected to feature 131 timeshare units and is anticipated to open in 2021.^[8]

Lāna'i:

- The Four Seasons Lana'i Lodge at Koele is expected to reopen in early 2020 following its closure in January 2015.^[9]

O'ahu:

- Park Hotels & Resorts announced plans to develop a new hotel under a brand affiliated with Hilton Inc. adjacent to the Grand Waikikian by Hilton Grand Vacations.^[10]
- Construction is likely to commence before year-end 2019 on the Mandarin Oriental Hotel & Residences near the Hawai'i Convention Center and Ala Moana Shopping Center.^[11]
- The Modern Honolulu, purchased by Diamond Resorts in 2018, is expected to be converted to timeshare units; a concrete timeline for its redevelopment has yet to be announced.^[12]

Kauai:

- The Princeville Resort (formerly known as the St. Regis Princeville) is anticipated to undergo an extensive renovation and reopen as the 1 Hotel Hanalei Bay in 2022.^[13]
- Following a failed redevelopment attempt under the Unbound Collection by Hyatt brand, the site of the former Coco Palms Resort is reportedly on the market.^[14]

Another major highlight is the recent introduction of Southwest Airlines' service to Hawaii. The Dallas-based carrier began flights from the mainland U.S. to the state of Hawaii mid-March 2019, as well as interisland service

in late April. The introduction of Southwest Airlines' service to Hawaii is also expected to increase competition in pricing, which should support growth in visitation. According to an analysis conducted by *Kayak.com*, the average round-trip, economy-class fare from California to Hawaii decreased by 17% in March 2019, compared to March 2018.

In general, the Hawaii hotel market continues to remain an attractive market for institutional capital, and trophy assets should continue to draw investor interest both domestically and internationally. The market's high barriers to entry, forecasted growth in visitor arrivals, and favorable economic conditions support a positive outlook.

HVS continues to regularly consult in this area, with the San Francisco office serving the greater Hawaii market.

John Berean, Adam Lair, MAI, and **Suzanne R. Mellen, MAI, CRE, FRICS, ISHC**, are ready to assist you on any consulting need you may have.

^[1] Hawaii Department of Business, Economic Development & Tourism (DBEDT)

^[2] Hawai'i Tourism Authority (HTA)

^[3] Auberge Resorts Collection. "Hawaii's Mauna Lani Bay Hotel & Bungalows Joins Auberge Resorts Collection". 23 May 2018: <https://aubergeresorts.com/press/hawaiis-mauna-lani-bay-hotel-bungalows-joins-auberge-resorts-collection/>

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^[5] Hilton Grand Vacations. "Hilton Grand Vacations Opens Ocean Tower by Hilton Grand Vacations Club". 7 Feb. 2019: <https://www.hgv.com/hilton-grand-vacations-opens-ocean-tower-by-hilton-grand-vacations-club/>

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^[9] Gollan, Doug. "Four Seasons to open Nine Resorts in 2019". 5 Dec. 2018: <https://www.travelmarketreport.com/articles/Four-Seasons-to-Open-Nine-Resorts-In-2019>

^[10] Magin, Janis L. "Park Hotels & Resorts plans to build first new Waikiki hotel in 30 years". 27 Mar. 2019: <https://www.bizjournals.com/pacific/news/2019/03/27/park-hotels-resorts-plans-to-build-first-new.html>

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^[12] O'Connor, Christina. "The Modern Honolulu to lay off 78, according to Local 5". 2 Feb. 2019: <https://www.bizjournals.com/pacific/news/2019/05/02/the-modern-honolulu-to-lay-off-78-according-to.html>

^[13] SH Hotels & Resorts. "Starwood Capital Group Acquires Princeville Resort". 16 Nov. 2018: <https://www.prnewswire.com/news-releases/starwood-capital-group-acquires-princeville-resort-300752310.html>

^[14] Magin, Janis L. "Coco Palms project listed with no asking price but valued at \$40M". <https://www.bizjournals.com/pacific/news/2019/03/28/coco-palms-project-listed-with-no-asking-price-but.html>

About **John Berean**



John Berean, a Vice President with HVS San Francisco, conducts hotel appraisals and feasibility studies in markets across the western U.S.; John is the firm's Hawaii expert. HVS leaders now live in and work from markets throughout the western Americas region, including LA, San Francisco, Portland, Vancouver, Las Vegas, and Phoenix. John's hands-on hospitality experience includes work as Accounts Coordinator and Revenue Analyst for the Queen Kapiolani Hotel in Honolulu, Hawaii. John earned a Masters of Economics, with a concentration in Quantitative Finance, from the Peking University HSBC Business School in Shenzhen, China. He previously majored in International Studies, with a minor in Environmental Studies, at Middlebury College in Middlebury, Vermont. Contact John at +1 (281) 381-3456 or [\[email protected\]](#).