

Hospitality Aggregation in Waikiki

When you think of hospitality portfolios or large room counts in Waikiki, your mind likely goes to familiar industry names like Sheraton, Hyatt or Kyo-ya. For many decades, these were the dominant players in the industry by scale and very much the bellwethers for the area. Further, their influence within Waikiki's related retail environment was unquestioned.

But to a lesser, yet significant degree, activity in smaller hospitality market movers is having a significant impact on the retail landscape of Waikiki. Some of this is via ownership, some is via hospitality management and some is via a combination of both. In any case, more influence from this group is on the horizon, but first, a look at some of these mid-tier players.

Aqua Hotels

They are now "Aqua-Aston Hotels & Resorts" (and further owned by Marriott), but the traction made by Aqua Hotels prior these two acquisitions was an integral part of the current trend. As they began to control more and more assets, their ability to cross market properties gave them an increasing platform. Although Aqua was already a recognized name in the hospitality management sector when the Aston acquisition took place, their activity gained further momentum.

The portfolio now consists of 4,994 hotel rooms rivaling the combined size of Hilton's Hilton Hawaiian Village Waikiki Beach Resort, Hyatt Regency Waikiki Beach Resort and Spa and Prince Waikiki (formerly the Hawaii Prince Hotel Waikiki). There are clear differences between this room count being consolidated at one property versus spread over a variety of properties, but either configuration has its respective impact on Waikiki.



223 S. King St, Ste 200
Honolulu, HI 96813
(808) 533-BLUE (2583)



FRED M. NOA (S)

Principal

T | (808) 533-BLUE x101
F | (808) 369-8669
frednoa@bluerockhi.com



ANTHONY J. HUNT (B)

Principal

T | (808) 533-BLUE x102
F | (808) 369-8669
anthonyhunt@bluerockhi.com

Highgate

In 2013 Highgate entered the Waikiki market with its purchase of Courtyard by Marriott Waikiki Beach hotel for \$127 million and began an aggressive run of hospitality acquisitions. The combination of the New York company's access to capital and the local expertise of Kelly Sanders as vice president of Hawaii operations created a potent hybrid well-suited for growth.

Over the past six years Highgate has expanded their portfolio in Waikiki to six properties comprising of 2,930 rooms ranging from one of the markets to the other and varying considerably in product type. Although it is not unique to only them, their comfort with acquiring leasehold positions adds to their ability to be effective in Waikiki which has large portions of land only available in leasehold.

Larger Portfolios by Comparison

There are larger assets and portfolios like Kyo-ya, Hyatt and the Hilton properties that can almost create their own retail environments on property. These have influence on the larger retail scene and, in some cases, compete with more retail-centric properties like Royal Hawaiian Shopping Center and International Market Place.

Tens of millions have been invested in recreating these larger retail formats over the past 10 years in both the hotels and the retail properties. With Kyo-ya revisiting the plan to redevelop the Sheraton Princess Kaiulani Hotel, there is another large asset in the core of Waikiki poised to further influence the retail landscape.

Aggregation's Effect on Retail

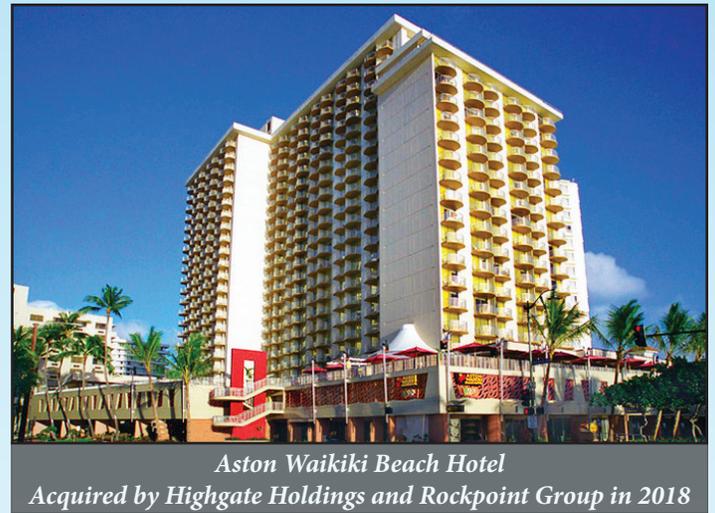
While those larger portfolios and properties populating Waikiki have their recognized impact, the critical mass being formed by the likes of Aqua-Aston Hotels & Resorts and Highgate are also having their own effect.

The majority of smaller platform hotels have some retail representation on their ground floors. Following the acquisition of these assets, most of them have capital investment in them to improve their retail offerings. It could be a renovated sundry store, a coffee shop or a restaurant - an offering that creates an amenity for the guest on property, but more importantly, an amenity for anyone within a convenient walking distance.

Were it only a few hotels dispersed in Waikiki, it would be of little consequence, but these two mid-tier groups alone have a combined 25 hotel assets in the trade area spread from one end to the other. Assuming there is an adjacent benefit of their amenities of a mere block, their circles of influence cover over 80% of Waikiki and, in some areas, with significant concentration.

These smaller properties will not compete in the luxury scene of Kalakaua Avenue's core, but the sectors of food & beverage, convenience and impulse retail have already had a large infusion in the competitive set. Guests & residents of Waikiki continue to benefit from these improved offerings, but this dynamic is continuing to change how hotel owners consider their merchandise mixes.

The mid-tier hotel groups have become a collective force in the machine of Waikiki and their impact on the retail sector will progressively increase as the sizes of their portfolios continue to grow.



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