

Riding the VRBO Wave

The visitor counts for Hawaii are considerably higher than 10 years ago and the amount of economic stimulus this has brought to our state has been beneficial. We have clearly reaped rewards from the military's investment but tourism continues to be the largest driver.

At just a high level glance, there are some metrics that are not consistent with the traditional correlations for visitor numbers rising so significantly. Generally speaking, one would expect there would be hotel room growth to host the increased visitors and increased lift from new airline routes to Hawaii.

Hawaiian Airlines has dominated the skies in Hawaii and, for years, stated there was no ability to add routes due to the lack of hotel rooms. The pattern developed whereby they would add a new flight but then remove another so their net seat count did not fluctuate significantly for non-interisland routes.

A logical question could be asked about Alaska Airlines' entry into the Hawaii market over the past 12 years and more specifically their strong growth over the past 5-7 years. Presently, Hawaiian Airlines has routes from 12 cities on the mainland which is the most of any carrier coming in/out of Hawaii, but Alaska Airlines has more flights to the West Coast per month than any other carrier. Interestingly, United Airlines has the second most flights to the West Coast.

Now add to the backdrop the recent introduction of Southwest and their projected flights to Hawaii from outside destinations. Besides the lack of infrastructure and gate space for another major player, many have speculated that Hawaii only has the traffic capacity to support two major airlines. Yet something is making a compelling enough case for Southwest to take the chance which brings us back to the matter of where are all of these visitors staying?

How can it be possible to have visitor numbers climb from 6,517,054 to 9,954,548 over the last 10 years and all of this competitive growth within the Hawaii airline sector while the hotel room count in a submarket like Waikiki (the largest submarket) has had only modest hotel room growth in 20 years?

The answer lies largely within the free market's creation of Vacation Rental By Owner ("VRBO's"). Hawaii, and especially Waikiki, has an aging product offering in considerable need of renovation & rebranding.

As traditional hotel product has become less relevant to the modern traveler, the free market has generated alternatives to fill the created void (see the chart on the second page). It is the same dynamic within the aging taxi cab realm that led to the market driven outcome of Uber.

Our state's inability to catch up to the pace of the market shifting has created a subsequent issue. The VRBO's not being subject to the Transient Accommodations Tax which, along with not being required to have union employees, has given the traditional hotels an even deeper hole out of which to dig. And then there are the negative aspects like the Lanikai neighborhood condition and monster home construction.



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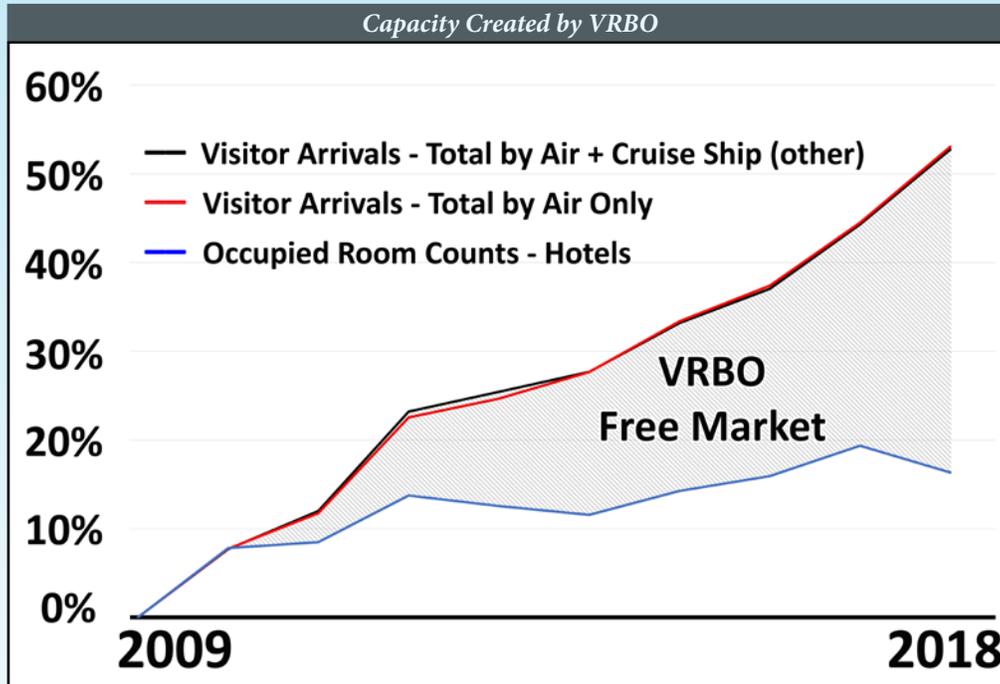
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To be clear, our firm (Blue Rock Partners) is not taking a position or advocating for or against VRBO's or traditional hospitality. The elements described above are simply factual dynamics that many folks do not realize are having significant impacts on our economy.



The free market has never been so free with the pervasiveness of technology and ubiquitous access to information. Hawaii has economically benefitted tremendously for the last decade not because our state or the traditional hospitality players have kept themselves on the leading edge - quite the opposite. Our offerings are so far behind the curve that we have unknowingly created a void for which the free market has birthed a complicated but effective solution.



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