

TOP PICKS OF THE YEAR

Each year in the Fourth Quarter we highlight some of the biggest themes in the commercial markets. Here are our top picks for 2020 as we close out the year:

Impacts of Government Policies

If you are thinking COVID should top the list, rest assured it is strewn in different forms throughout this edition, but at the top of the list is Hawaii's policy response to the pandemic. We generally stay clear of the political realm, but stating that Hawaii's governor's and Honolulu's mayor's offices displayed weak leadership and poor communication throughout this critical window of time is perhaps the understatement of 2020 in Hawaii.

The details of their lapses are well-documented in many other publications, so we won't delve into them here, but more so the impacts of those missteps. The length of recovery from COVID is yet to be seen but Hawaii is going to lag well behind other parts of the country even though we have the benefit of tremendous international exposure and a potent brand which has historically buoyed our economy even when the U.S. mainland was struggling.

In a state where tourism is so central to our core economy, these impacts extend far beyond the confines of Waikiki, Lahaina, the Kohala Coast and the likes. So many of our local residents have livelihoods dependent on the tourism

resulting in expansive fallout across Hawaii. Each policy error made by our politicians deepened the economic damage and extended the time for recovery. In our opinion, we are likely not to see the depth of pain and permanent damage until well into 2021.



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Food & Beverage Reset

This sector of our economy went through an unsustainable expansion period over the past few years. The farm-to-table movement along with the Food Network era producing shows like Diner's Drive In's & Dives, Iron Chef, and Hell's Kitchen, to name a few, produced a frenzy within the food & beverage industry. Literally hundreds of new restaurants were opened between 2016-2019 to the point that unemployment rates for food service employees was essentially zero and many consumers were distracted by so many options.

It was an amazing industry expansion that created unhealthy fundamentals in the sector. But then it ran headlong into the teeth of COVID and the result is a historic industry implosion. On nearly a daily basis there are permanent closure announcements of established restaurants with many smaller closures taking place largely out of the public eye.

Most consensus estimates are that eventually 40%-50% of the food establishments in the state will close their doors permanently. This creates not only a primary problem for the owners and their employees, but also a secondary problem for property owners, hotels and shopping centers. With restaurants occupying about half of the storefronts in

Hawaii shopping centers and being critical amenities in hospitality settings, the vacancies are both plentiful and damaging.

There is obvious opportunity for those restaurants that survive COVID as well as a stabilization of food service workers from an employment standpoint, but those industry positives are not only outweighed by the challenges of our post-COVID environment, but there is also the matter of where Hawaii sits in the resetting process. It is entirely possible the contraction in food & beverage is not even halfway complete at this point.

2020 ends with some daunting challenges for Hawaii – here's to hoping 2021 will include the shoring up of our core economic fundamentals.



MERRY CHRISTMAS

HERE'S TO A HEALTHY 2021!

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