

SURVIVORS BECOMING THRIVERS

In Hawaii, we are nearly at the first anniversary of the COVID lockdown and one of the most unprecedented years in modern history. In some ways the impacts to the retail and hospitality markets have responded as expected, but the depth of the damage has not yet reached levels many thought would, or will likely still occur.

A series of federal relief and state stimulus packages have provided a degree of sustenance allowing many in these two industries to continue operations. The collateral effects of the lockdown are still apparent for many operators, but the final chapter of this cycle is far from over.

The relief stimulus options are not endless, and with a new federal administration in place, there is less predictability – at a minimum, a break in continuity. In any case, the pipeline of financial assistance will come to an end and probably well before the core tenets of the economy are back to normal levels.

The result of this upcoming lag is a fallout that could exceed the magnitude of what we have already witnessed in 2020. For smaller retailers, creative adaptation along with stimulus dollars are a recipe for living check-to-check. But when stimulus funds are no longer available, they will need to close their doors permanently.

We are already hearing of a large number of instances where stimulus dollars are being misused to create something resembling a “golden parachute” for owners who have no intention of continuing operations.

On larger operations like hospitality assets, forbearance arrangements have been made in some instances, but for many owners the financial margins were too thin, the pinch was insurmountable, and the assets are now under lender control. Lenders are rarely in the business of owning hard assets, but it generally takes several months before their Special Servicing Departments can adequately prepare for disposition. This also means there is a lag time in seeing final fallout of this industry as well.

Although the painful impacts dominate the headlines, we have seen a positive shift in the outcomes for those who find a way to survive – not dependent on stimulus funds, but rather, the reward of operational adaptation. These are the survivors, and the landscape ahead is rife with opportunity.

In our 2020 Q3 newsletter we addressed a number of specific examples of where innovation is taking place within the retail sector and how those on the front of that curve are already seeing impressive returns. (That publication is on our website, titled “Retail Reinvented”.)

For retail, emergence from COVID will result in a decrease in competition and fewer customer alternatives by category. Layer on top of the supply & demand curve shifting, most of the survivors created new ways to connect with their patrons, so they have an expanded value proposition even after the lockdown restrictions are lifted.



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From an operational level, and with fewer options being available, many retailers have realized incremental growth in their customer base giving them a far deeper reach than they had pre-COVID. Additionally, the real estate options & terms currently available to them are more favorable when compared to Hawaii's historically landlord-heavy environment.

For hospitality, many of Hawaii's hotels needed significant capital improvements and there is considerable work ongoing while travel is limited. An entire subset of hotels across the state will be improved and a step above by comparison to their competition who did not utilize the lockdown as strategically in preparation for the inevitable post-Covid economic recovery.

Another ancillary opportunity within the hospitality sector is how to benefit from the retraction of the food & beverage industry. As hotels consider their amenities and how to apply F&B components, a lack of options in the street retail scene mean that a well-executed restaurant or bar could have consumer reach well beyond what could typically be expected. Now more than ever, it is critical to capitalize on that opportunity.

One more macro theme benefiting both sectors is the quality of Hawaii's employee base. In 2019 there were massive, and many within the industry would have said, unsustainable employee challenges within the food service industry, as an example. Our tenants and clients have begun to assemble teams of unprecedented quality making their execution even better.

This example is just a slice of one sector, but representative of what we are seeing in both the retail and hospitality industries as a whole. Hawaii has had an employment challenge, but the washout of COVID is going to equip the surviving operators with human resources capable of grabbing market share.

As in any crisis, amidst the clouds there is a silver lining and Hawaii's survivors have an unusual landscape in front of them with unique opportunities to take their businesses to the next level.

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