

Kauai's Construction Sector, Job Picture Looking Up Despite Weaker Tourism Growth

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(Lihue, Kauai, October 2, 2014) – "Kauai construction activity is slowly improving and the labor market continues to create jobs even though the island, like the rest of the state, has seen tourism growth weaken in early 2014," economist Dr. Jack Suyderhoud said today.

"Guarded optimism may be the best description for 2015, especially if construction breaks out," he said.

Suyderhoud, First Hawaiian Bank economic adviser and professor of business economics at the Shidler College of Business at the University of Hawaii-Manoa, also cited these other positive signs for Kauai:

- Real estate sales and prices have remained on positive trajectories benefiting from income growth and low interest rates.
- Unique agriculture-based businesses are developing brand identities.

Suyderhoud spoke at the 40th Annual First Hawaiian Bank Economic Outlook Forum at the Kauai Beach Resort. His other observations on the Garden Island economy:

TOURISM

"Monthly growth rates for arrivals were strong in early 2013, but weakened and then turned negative in the latter part of the year. This downturn lasted into the first part of 2014 so that arrivals through June were down by 1.5% over the same period in 2013 in spite of positive April and May numbers," he said, with other Neighbor Islands showing similar trends due in part to "competition from other markets, especially Mexico, the Caribbean and other foreign destinations."

He cited concerns that rising costs of airfare and lodging "have turned off some price-sensitive market segments. Thus Kauai needs to improve its value proposition to visitors. This seems to be happening. For example, close to \$30 million has been invested in east side hotel renovation and upgrades. The prospective sale of the Aloha Beach Resort should allow for renovation and possible rebranding. The Royal Coconut Coast Association continues to market and brand its offerings."

Visitor spending on Kauai seems to have been more robust than arrivals, he said though "spending growth did slow and became erratic in the latter part of 2013 and into 2014."

"Kauai daily visitor spending per person trails the rest of the state," he said. "Through the early part of 2014 average daily spending per visitor was \$175, compared to \$190 on Maui and \$196 on Oahu. Part of this is explained by lodging inventory. Among all Hawaii's islands, Kauai has the greatest proportion of non-hotel accommodations. These tourists tend to spend less."

"Airlines serving Kauai increased airline seats to Lihue in the first half of the year," Suyderhoud said. "Hawaiian Airlines has, for the first time, commenced Lihue to mainland service with seasonal flights from Oakland and Los Angeles providing both a real and emotional boost to the island. Overall, people in the visitor sector remain optimistic even given the swings in the arrival numbers."

CONSTRUCTION

"The slowdown in the tourism sector is gradually being offset by a long-awaited rebound in construction, although construction jobs have barely budged and remain 600 jobs below the pre-recession peak," he said.

"But better things are on the horizon, as shown by a recent upward trend in single-family housing permits. Single-family construction remained the important and steady component of the construction sector even after the recession. Grove

Farm's Pikake subdivision has sold 320 lots and has seen 150 houses built. They are also planning another 200 lots as part of the Puakea master plan development and 46 more up-market units at their Waihohonu project at old Koloa Camp."

In contrast, he said, multi-family housing permits "almost disappeared from the scene in the last few years before making a recovery in the second quarter of 2014. An example of this is the phase-one, 60-unit Rice Camp elderly housing project costing about \$8.6 million. Ground breaking at Princeville for the Kolopua workforce housing occurs in the fall after permits have been obtained. This will allow expansion of the Princeville shopping center."

Snyderhoud noted significant commercial activity underway such as Longs in Kapaa and Hokulei Village on 14.25 acres purchased from Grove Farm. There, the planned Safeway lifestyle store is expected to open in the first quarter of 2015 and will be joined by Walgreens, Petco, Jack-in-the-Box and Shell gasoline, he said.

"The purchase of Coconut Market Place by ABC Stores means that this retail center may get a makeover. Ohana Real Estate Investors plans for an 86-room hotel and 34 individual lots at the site of the former Hanalei Plantation Hotel in a \$450 million, 8-10 year project that will create jobs as well as shoreline access to the rehabilitated Kamo'omaika'i fish pond," he added.

LABOR MARKET

"Kauai jobs have grown and there are now 2,500 more jobs since the low point in 2010. At the same time, Kauai's unemployment rate declined to a post-recession low of 4.9%, only to regress to 5.4% as of June, somewhat above the statewide average," Snyderhoud said.

"Although job growth has been concentrated in in tourism-related sectors, with accommodations leading the way, job counts in the restaurant sector have actually declined slightly."

REAL ESTATE

"Real estate sales have been strong on Kauai, with both single-family and condo unit sales experiencing four years of growth; 2014 is expected to continue that trend," he said. "Median prices are still well off their prior peaks, which arguably were unrealistic."

He said little office or commercial space has been added in recent years, as costs of constructing new space are still higher than rents charged in existing buildings.

ELECTRICITY

"Although the number of customers for the Kauai Island Utility Cooperative continues to grow, conservation by customers and distributed generation, such as rooftop photovoltaic, has caused the utility's sales to decline significantly since 2007. This puts cost pressure on KIUC since more customers have to be served on a smaller revenue stream," Snyderhoud said.

"The utility has been aggressively pursuing lower cost, renewable sources of power. The solar farm at Eleele has been joined by the recently operational \$40-million Koloa solar facility providing 12 megawatt capacity. A \$90-million biomass plant will add another 7 megawatts of base power by late 2014, and 12 MW will be added in spring 2015 with the \$54-million Anahola solar farm."

"In 2010, 92% of the electricity used on Kauai was generated by burning oil. After the new facilities come on line, this will be down to 60%."

The utility is investigating technologies from batteries to pumped hydro to store surplus daylight power for use at peak demand in the morning and evening, he said, which would allow KIUC to be even less dependent on oil-fired generators.

"Significantly, KIUC estimates that the new renewable power can be created at lower costs than oil-fired. Hence, KIUC actually hopes it can cut rates and certainly not increase them as much as the price of oil. Lower relative energy prices will put disposable income in consumers' pockets and stimulate business opportunities. Hence, KIUC will be an important

catalyst to economic development on the island," Suyderhoud said.

AGRICULTURE

Suyderhoud's observations, by sector:

Seed corn: "The demise of sugar and pineapple caused total cropland acreage to fall over 50% from 1982 to 2007. The seed corn companies stepped into this vacuum and now farm about 2,500 acres out of 30,000 acres of total cropland," Suyderhoud said, with 300-400 fulltime workers, another 300 seasonal employees and \$80 million per year in operating budgets on the island. "If regulations drive these businesses from Kauai, it will be impossible to replace their jobs and spending."

Coffee: "Kauai Coffee has been caught up in the regulatory net aimed at the seed corn companies. Through their European parent company, Kauai Coffee has focused on establishing a niche brand with some success, employing 90 full-time equivalent employees with over 100 seasonal harvest workers. They want to expand their acreage, but this is on hold until the regulatory uncertainties are settled."

Shrimp: "Another bright spot is Sunrise Capital's Kauai Shrimp, which has been very successful in growing breed stock shrimp for a global market. Last year they shipped over 200,000 and are ahead of that pace in 2014. They employ 54 full-time plus a dozen part-time workers with a \$5 million per year operating budget. Two Japanese companies have accepted their products as "sashimi grade". In the future look for Kauai Shrimp to expand processing facilities and move into new product lines such as clams."

Dairy: "The Hawaii Dairy Farm project that has been a vision of Grove Farm and the Ulupono Initiative is an example of how any new project can create unexpected community resistance. The concern is that the operations will create negative impacts for Poipu tourism and for streams and ocean waters. Project managers and investors have proposed a smaller start-up. They estimate supplying enough milk for the entire island and an annual operational budget of \$6 million."

PACIFIC MISSILE RANGE FACILITY

"PMRF at Barking Sands is another important and integral part of Kauai's economy. It employs about 1,000 workers including about 90 active duty military and 150 civil service employees, plus about 750 contractors. It injects \$137 million per year into the Kauai economy through local payrolls and contracted goods and services, plus another \$8-15 million annually for periodic testing events," Suyderhoud said.