

First Hawaiian Bank 2015 Maui Economic Forecast

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Maui's Economic Outlook: "There is much to be Happy About"

(Kahului, Maui, September 10, 2015) – "There is much to be happy about in looking at Maui's economy in 2015 and going into 2016, including tourism, the labor market and construction," economist Dr. Jack Suyderhoud said today. Suyderhoud, First Hawaiian Bank economics adviser and professor of business economics at the Shidler School of Business at the University of Hawaii-Manoa, spoke at the 41st Annual First Hawaiian Bank Economic Outlook Forum today at the Maui Beach Hotel.

Suyderhoud cited these key trends on Maui:

- "The visitor sector has led the way and 2016 looks promising as more capacity comes on line."
- "Thanks to vibrant tourism, the county's labor market is strong, almost to the point of not being able to keep up with demand for workers."
- "Construction, which has been bolstered by public infrastructure, seems ready to break out as greater commercial construction leads into more residential building activity."

However, he added, "question marks remain. A sustainable resolution for Maui Memorial Medical Center's financial problems is a necessary condition for the island's long-term outlook. Likewise, legal challenges to some agricultural enterprises and observatory activity on Haleakala have the potential for substantial economic interruptions. Assuming no significant changes on these issues, 2016 should be another good year for Maui's economy."

A summary of Suyderhoud's analysis by sectors of the economy:

Tourism: "Compared to the state as a whole, Maui is almost three times as reliant on tourism. U.S. visitors dominate Maui's tourism market, accounting for 72 percent of all arrivals. This has been good for Maui since the U.S. market has been strong while Canada has been flat and Japan was down by 24 percent last year. In 2014, despite the Japanese decline, Maui visitor arrivals reached over 2 million, the highest total since 2007.

"Average length of stay remained strong in 2013, 2014 and into 2015. Improved arrivals and visitor days have caused total visitor spending to double since the 2008-09 doldrums. However, visitor spending per day has barely budged between 2007 and 2013, and actually fell in inflation-adjusted terms," he said.

He said airline decisions on flight capacity are benefiting Maui, which leads the state in seat growth from both domestic and Canadian origins.

"If the U.S. government works out a pre-clearance arrangement for visitors traveling from Narita and other Japanese airports, direct service from these markets to Maui will become more likely. At some point, the capacity of Kahului airport will become an issue. Already plans are being made for adding two jet ways at the commuter end of the building," Suyderhoud said.

He noted that tourism facility owners have continued to invest in properties such as the Makena Resort, Maui Lu, Kaanapali Ocean Resort and Kaanapali Alii. Even the Maui Palms property will be resurrected as a 174-room hotel, he said, and the Whaler's Village has started a \$26 million renovation to be completed in late 2016.

Labor Market: "Robust tourism has helped the Maui labor market continue to recover from the Great Recession. Since 2010, Maui has added nearly 9,000 jobs with most of those in the restaurant and lodging sectors, increasing the total jobs in the county to within 1,300 of the pre-recession peak. Maui's unemployment rate, well above the statewide average in

2009, has declined even faster than that of the state and is now equal to the state average of about 4%,” Suyderhoud said.

“Low unemployment is good news, but comes with a cost to employers, who are starting to have trouble hiring skilled workers such as machine operators. Likewise, hiring less-skilled workers and middle managers has become harder and more expensive as potential employees have more options in the strong economy.”

Construction: “For several years we have been hoping that the good tourism news would spread to the construction sector. While this still has not yet occurred broadly, there are glimmers of hope,” Suyderhoud said. “Only about 1,100 construction jobs have been added since the 2010 trough. Total construction jobs remain 1,800 below the pre-recession peak.”

He said residential construction has been “moribund for the better part of six years,” but recently there has been an uptick in the value of permits. In 2009 total private permits averaged less than \$20 million per month; by 2014 this had increased to nearly \$37 million. “In 2015, all categories of private permits are up significantly, foreshadowing accelerating construction into 2016,” he said.

Suyderhoud said residential development will see a boost from the county’s decision to relax the constraints from the residential workforce requirements. About 1,400 residences are planned for Waikapu and A&B has plans for 1,600 units at various locations, he said.

There is some concern that commercial development will create more space than can be supported by present absorption rates. Vacancies and the resulting rents will keep a lid on commercial development payoffs.

The county’s effort to improve infrastructure is continuing, focusing on roads, parks, wastewater treatment and consolidation of the county base yards. The county purchased 4.1 acres in the Maui Business Park to consolidate services and get out from under lease costs. State construction includes the new airport access road and a \$340 million airport car rental facility.

“At some point, private activity will have to pick up to fill in for the completion of public projects,” Suyderhoud said.

Real Estate: “The real estate recovery from the Great Recession is almost complete, especially for the condominium market. Condo sales recovered to their 2007 levels back in 2012. Single-family unit sales grew smartly through 2013, leveled off in 2014, but are on the upswing again in 2015. Reflecting strong market demand, prices have also recovered well from the 2011 low. While prices have not yet returned to 2007 levels, the increases have been steady and solid,” Suyderhoud said.

“While 2015 is expected to be a good year for the single-family market, there are concerns that the condominium market will soften due to declining demand from Canadian buyers whose purchasing power is being eroded by the strong U.S. dollar.”

He summarized major projects:

- New Maui Lani residential properties are building out and moving.
- The Tradition project by D. R. Horton is almost sold out.
- The Parkways Phase I sold all 40 units, and Phase II has 45 units of which a third have been sold.
- Maui Lani will start grading another 45 acres for 500 units that are 51% affordable.
- A&B’s residential project in Kihei will start with an increment of about 170 affordable units to reach market in 2018. This project will build out to over 600 units.
- At Wailea, A&B will commence sales later this year for their Keala O Wailea project, 70 condominiums priced in the high \$800,000 to low \$1 million range.

“Commercial real estate is also doing well. A&B Properties has seen brisk sales at strong prices (\$40 per square foot) in

the Maui Business Park South project. Maui Lani is finding strong demand for its office and warehouse properties,” he said.

Agriculture: “Maui agriculture has become increasingly controversial but remains an important part of the county’s economy,” Suyderhoud said.

He said last year’s wet weather kept the HC&S sugar yield down to 172,000 tons, less than the hoped for 190,000, and above normal rain will keep 2015 below the goal. “Sugar prices have been helped by countervailing duties imposed by the U.S. International Trade Commission on Mexican sugar imports, but U.S. prices remain at about \$.24 per pound. Employment at HC&S stands at 750, down from 800 about a year ago, mostly due to attrition of older workers who have not been replaced,” he said.

“The seed corn companies continue to be major contributors to the economy. While these companies were successful in fighting off restrictive legislation at the state level, the outcome of county level initiatives is in the hands of the courts. The supply chain infrastructure created by the seed companies also benefits diversified agriculture in the county. For example, extension services estimate there are about 50 full-time vegetable farmers growing everything from sweet potatoes to zucchini,” he added.

Health care: “Maui Memorial Medical Center is the second largest employer in the county. After years of financial woes, new legislation may allow privatization. If it does become privately operated there will be relative financial stability, which will allow for expansion of services and even job growth. The Maui community as a whole needs a reliable modern medical infrastructure. Without it, Maui becomes a much less attractive place to live and invest,” Suyderhoud said.

Higher education: “UH Maui College continues to fulfill a crucial role in providing well-qualified, creative graduates to Maui’s workforce. Enrollments are down slightly as the labor market has improved. Leveraging local advantages, UHMC has opened the Daniel K. Inouye Allied Health Center housing the dental hygiene program, and is moving ahead on its Food Innovation Center and Hotel Ha, a teaching hotel for visitor industry students,” he said.

Haleakala: “Haleakala observatories involve seven mountaintop facilities. According to the UH Institute for Astronomy the annual operating budget of Maui facilities is about \$40 million, supporting about 170 county-based staff,” Suyderhoud said.

“The Daniel K. Inouye Solar Telescope is a \$340 million project with a 2019 completion date. Since 2012, it is estimated that \$40 million has been spent in Hawaii and an additional \$160 million elsewhere for structures and equipment. It is now half completed, and once finished the annual operating budget will be \$13 million in today’s dollar values with 35 local staff. However, uncertainty hovers around this project in the form of two pending Supreme Court cases,” he said.

Lanai: “Pulama Lanai, the operating company for Lanai’s owner, has focused on renovating the Manele Bay Resort which closed June 1 to focus on common area improvements, including the pool. The strategy is to develop a low-density, high-dollar visitor experience using the Four Seasons brand. The room count at Manele will come down from 248 to 217 when it reopens,” he said.

“The Lodge at Koele was shut down in January to house construction workers, and it too will reopen in early 2016. The company has also renovated 180 rental units for workforce housing and has not laid off hotel staff during construction. Rather, they have reassigned these workers to community service and improvement projects.”

Molokai: “Molokai remains a fragile and vulnerable economy. When Molokai Ranch shut down, 120 jobs were lost. If the seed corn companies are driven out by regulatory pressures, 300 more would be lost,” Suyderhoud said. “The island has embarked on a 10-year community plan aiming to identify sustainable options that leverage its special features. There has been some talk that Molokai Ranch may bring back investors and re-open the Kaluakoi Resort, but nothing definitive has occurred. The biggest step would be a clear signal from the community that investment would be welcomed.”

To read the full First Hawaiian Bank Maui Economic Forecast report visit this [link](#).

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