

Maui Tourism Sputters, But Island's Outlook Remains Positive

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(Kahului, Maui, September 18, 2014) – "Maui's tourism boom began slowing in late 2013 and an anticipated construction rebound has yet make up for it. Yet, there are reasons for hope on Maui as job creation continues and the real estate market remains firm," economist Dr. Jack Suyderhoud said today at the 40th Annual First Hawaiian Bank Maui Business Outlook Forum.

Suyderhoud is a First Hawaiian Bank economics adviser and professor of business economics at the Shidler School of Business at the University of Hawaii-Manoa.

"Locally focused retailing remains positive and the commitment of airlines to provide more seat capacity is encouraging," he said. "The recovery continues, though it has not been consistent. 'Choppy' may be the watchword on Maui for the next year."

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

Tourism: "The visitor industry directly or indirectly accounts for about 40% of Maui County's GDP -- higher than any other county of the state. Maui County remains largely dependent on visitors from the U.S. west and east coasts as well as Canadian tourists. Together, they account for 85% of the visitor arrivals to Maui," he said.

Suyderhoud said recent disclosure by the Hawaii Tourism Authority of possible errors in their data concerning Maui "makes trend analysis problematic. However, we can say that 2013 started with strong arrivals, but the arrival count turned down in the last four months of the year" Despite that dip, full-year arrivals were up 2% from 2012, and nearly equal to the pre-recession peaks of 2006 and 2007. This year's arrivals have been choppy with the first three months showing negative growth followed by good April and May numbers. Through the first half of the year arrivals are even with the 2013 period.

He said Maui Island's per-person daily visitor spending (\$196 as of 2013) is above the statewide average "but somewhat lower than Oahu. Unlike Oahu, visitors to Maui are more likely to stay in alternatives to hotels such as time-shares."

"In spite of the slowdown in recent months, industry insiders seem optimistic about the future despite strong competition from traditional sources such as Mexico and the Caribbean," Suyderhoud said. "In addition, international travelers, especially those from Asia, are finding alternatives such as Dubai and the Maldives."

He said new room inventory from the Andaz at Wailea, Montage at Kapalua and Westin's \$60-million renovations at Kaanapali "will perhaps create price competition." He said pending developments at Wailea and Makena "indicate longer-term investor confidence in Maui tourism."

"Key to short-term success is airlift, where Kahului is the only airport in the state to see positive changes in both domestic and international seat growth in 2014, a trend likely to continue," Suyderhoud said. "Hawaiian has added two daily flights between Los Angeles and Kahului. Likewise, Island Air's resurgence and Hawaiian's new Ohana service will add capacity in the Honolulu/Maui market."

"Overall, while the first half of 2014 has seen mixed visitor numbers, there are reasons to be hopeful for the rest of 2014 and 2015," he concluded.

Jobs: "The strength of tourism up to late 2013 helped improve the Maui labor market. Maui lost about 10,000 jobs as a result of the Great Recession, but about two-thirds have returned and Maui's unemployment rate has dropped to 5%."

However, job creation has been uneven. Tourism-related jobs such as hotels and restaurants have seen the most growth. Federal government and some service jobs have actually declined," he said.

Retailing: Job growth "translates into higher retail spending. For example, Queen Kaahumanu Center, with a predominantly local customer base, reports greater foot traffic and revenues up 3-4% this year." He said a new Target on A&B property, new Foodland at Kehalani and recently opened Safeway "signal investor and developer confidence in the future of Maui retailing."

Electricity Sales: "Renewable sources that currently supply 20% of Maui Electric Co. sales with a goal of 30%. About 5-6% of the existing renewable energy is from HC&S co-generation," Suyderhoud said, though new solar installations leveled off last year. "The windmills on the ridge over Maalaea and on Ulupalakua Ranch lands, the \$30 million Smart Grid project by Hitachi and the Japanese government are tangible evidence that Maui is on the forefront of changing how electricity is generated and used."

Construction and Development: "Last year we had hoped a construction rebound would help offset the deceleration in tourism. Unfortunately, this has yet to occur," he said. "Construction jobs were down by 2,700 from the peak of 2007 to the trough of 2010. We have recovered only 800 of those."

"Part of the problem is the lack of residential construction. Some things are happening in this sector, but regulatory hurdles have, over time, prevented more housing from being built. The value of residential permits as a percentage of all permits has declined from about 60% ten years ago to 30% today. When it takes 7-10 years for new projects to get their entitlements, it can't help but slow down housing construction."

Infrastructure: "The strength in construction remains the public infrastructure sector. The new airport access road has begun and is budgeted for \$53 million. The Phase 2 bid is being contested but it is expected to get going in September," he said, with other pending airport projects under way or starting soon including a new centralized rental car facility (\$250 million) restroom improvements (\$7.5 million), runway resurfacing (\$3.2 million) and more efficient lighting systems (\$60 million). He said the Kihei high school will involve more than \$130 million in construction.

Commercial Development: "A&B's Maui Business Park has benefited from the opening of Ho'okele Street and Costco's gas station. Their initial increment of 70 acres of fee-simple commercial lots is on the market. Likewise, Maui Lani is providing and selling fee-simple commercial space and developing their Village Center on the mauka side of their property. These spaces are meeting an important need for small businesses who want to own their property."

Real Estate: "When combined with job growth and a still-favorable interest rate environment, the lack of residential construction creates a supply-demand imbalance in the housing market," he said. "As a result, sales activity for condominiums is now above the 2007 peak. Single-family units sold are not there yet, largely due to a lack of inventory, but single-family prices are now close to their pre-recession levels."

"As reported by the Realtors Association of Maui, a decline in foreclosures and short sales from 45% of all transactions in 2011 and have since declined to less than 15% in 2014. This cannot but help firm up an already robust market," Suyderhoud said.

County of Maui: "Improving property values and assessed valuations have helped County finances. Property tax collections are expected to be \$16 million higher for fiscal 2014. Higher assessments have allowed the County to lower rates while maintaining revenue increases," he said.

"The Kihei Police Station was completed at a cost of \$33 million and the South Maui gym and multi-purpose center is expected to cost \$16.6 million. Additional projects include \$14 million for the flume at Waikamoi and \$20 million for planned wastewater recycling."

"Maui is fortunate to have some economic drivers other than tourism that contribute significantly to the island's

economy," he said, mentioning

Sugar: "HC&S is an important component to the Maui economy with about 800 employees. The four-year trend of increasing HC&S production seems to have come to an end. Passage of the U.S. national farm bill has reduced some of the uncertainties faced by HC&S, yet it remains a vulnerable part of Maui's economy."

Seed corn: "The seed corn industry has diversified Maui County's economy. Monsanto farms about 1,900 acres on Maui and Molokai. They have 540 employees with an annual payroll of \$17.8 million. Cumulatively they have invested \$100 million in Maui County. Dow Agro Sciences employs another 100 employees on Molokai. Seed companies purchase supplies and services from local vendors, maintaining a distribution channel that other farmers can tap into. Without the activity created by seed corn, those channels would either not be there or the distribution costs would be much higher," Suyderhoud said.

Haleakala Observatory: "According to the UH Institute for Astronomy the annual operating budget of Haleakala's eight observatory facilities is \$40.4 million, supporting 167 county-based staff. The new Advanced Technology Solar Telescope, renamed as the Daniel K. Inouye Solar Telescope (DKIST), is a \$340-million project with a 2019 completion date. It is estimated that local contractors will be paid \$29.5 million for local labor and materials during site preparation and basic building construction. Another \$49 million will be spent on Maui for construction and/or assembly of the telescope enclosure. Once completed the annual operating budget will be \$18 million in today's dollar values with 35 local staff."

UH Maui College: "More than 90% of the 4,000 students come from Maui County. The Daniel K. Inouye Allied Health Center will be completed by the end of 2014 at a cost of \$4.5 million. It is likely that the \$3.5 million for renovations of student housing and creating a teaching hotel will be underway this fall. The Molokai Education Center has acquired an additional three acres and they are looking for additional monies to leverage \$1.2 million already available for expansion. UHMC is also working with Pulama Lanai to provide workforce development in support of developments on that island."