

## **Maui Tourism Boom Is Spreading to Construction, Real Estate, Jobs**

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Sept. 5, 2013) – "Maui's tourism-dependent economy has benefited from the ongoing visitor boom. Slowly these benefits have spread from the tourism sector to other parts of the economy including commercial construction, retailing, real estate, and most importantly, jobs," 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 39<sup>th</sup> Annual First Hawaiian Bank Economic Outlook Forum today at the Maui Beach Hotel.

"Maui's tourism boom will slow down, but its continued strength will support the rest of the economy. We are seeing improvements in the labor market as job creation has continued, benefiting retailing and real estate. Certainly challenges remain in the residential construction sector, but infrastructure and commercial construction are leading the way. The business outlook for Maui is positive in the next year."

### **Tourism: Exceptional Rebound Continues**

"Consistent with other Hawaii markets, Maui visitor arrivals are trending upward with many months seeing more than 200,000 arrivals. While international arrivals are showing solid trend increases, Maui remains highly dependent on tourism from the U.S. west and east coasts," Suyderhoud said.

He noted that visitor spending has increased even faster than arrivals, except for "the summer 2011 doldrums when the U.S. economy experienced a slowdown. This is a good reminder of how we are still very much linked to external economic forces."

Based on a ratio of visitor arrivals to island population, he said, "Maui is three times more tourist-dependent than Oahu."

"The rebound of the last two years has been exceptional, and we should not assume that it will last forever. In fact, the Maui Visitors Bureau is expecting growth of about 2-3% in arrivals for all of 2013," he said.

He noted increases to Maui's visitor plant including Marriott time-share towers, Andaz Hotel in Wailea, and Hyatt Regency time-share towers which will add 140 rooms in Kaanapali in late 2014. "Further on the horizon, the Royal Lahaina Resort has plans for a \$300-million renovation pending financing and permitting. The Sheraton Kaanapali is likewise making renovation and expansion plans. Alexander & Baldwin has plans to build an all-suites hotel on its Wailea property," Suyderhoud said.

"To make sure the visitor experience remains the best, the Kaanapali Resort Association is planning a major, \$7-million beach replenishment project for 2015-16."

He noted continuing concerns about air seat capacity due to cutbacks by some airlines, including after the Northwest-Delta merger.

"Visitor-focused retailers are benefiting from the positive trends. Whalers Village reports 2013 sales up by more than 4% compared to the same period in 2012. They anticipate renovations and adding 15,000 square feet of space in 2014," Suyderhoud said.

### **Jobs Up, Unemployment Down**

"Between the 2008 peak and the 2010-11 low point Maui lost almost 9,000 jobs. About 5,000 of them have returned. As

a result, the Maui unemployment rate has followed the statewide unemployment rate downward since mid-2011," Suyderhoud said. "Unlike the other Neighbor Islands where the job market lags the statewide average, Maui's unemployment rate is now only marginally higher than the state overall. While this is very good news, it is worth noting that Maui is still 4,000 jobs below the prior peak and the unemployment is rate is still well above the 3% rate before the Great Recession."

He said job growth has been mostly in tourism and other service-related fields. Even construction jobs are up, but this is from a very low base.

### **Electricity Sales Dropping**

Typically, Suyderhoud said, "a strong economy translates to strong electricity use". However, due in part to the market penetration of residential and commercial photovoltaic systems as well as demand-side management, Maui Electric Co.'s electricity sales have been dropping since 2008 even though the number of customers has not declined.

"Renewable sources currently supply 20% of Maui Electric sales with a goal of 30%," Suyderhoud said. "About 5-6% of the existing renewable energy is from HC&S sugar plantation co-generation. Two so-called "smart grid" demonstration projects, one of them funded to the tune of \$30 million from Japan's Hitachi, will help with demand management goals."

### **Construction: More Upbeat**

"Construction activity is trending up and contractors and developers seem more upbeat, but not jubilant," Suyderhoud said. "Construction jobs began picking up in early 2011 and are now about 700 jobs above their low point, but still 2,000 below the prior peak reached in 2008.

"Private building permits show some signs of trend improvement, and this holds out hope that the industry will continue to expand into 2014. Insiders are saying that the mix of work has changed with more opportunities coming from infrastructure and commercial construction and less from residential and time-shares."

He said infrastructure projects helping to buoy the sector include: the new airport access road (\$52 million). "Confirming the fact that construction is not out of the woods, it appears that all five bids for the airport side of the access road project came in under budget, in some cases significantly so," Suyderhoud said.

He also mentioned other airport projects in the pipeline including: the new centralized rental car facility (\$200-million), rehabilitation of the main runway (\$3-million project, beginning in September) and \$12 million worth of other airport improvements, including restrooms, roofs, the PA system, and fire sprinklers.

Phase three of the Lahaina bypass road has begun archeological work, and the Kihei police station and Kihei high school will together involve more than \$300 million in construction, he said.

"As of now, commercial development appears to be leading the way on Maui. The new Safeway center and the planned Target store will help transform Maui retailing," Suyderhoud said. "Other parts of A&B's Maui Business Park are well under way with the completion of Ho'okele Street and the initial increment of 70 acres of fee-simple commercial lots being sold. Likewise, Maui Lani is providing 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, and sales seem to confirm that desire."

Suyderhoud said residential development "is lagging commercial activity. The county's affordable housing and water access requirements appear to remain as obstacles to residential property development." However, he said sales of 150 lots at The Tradition by D.R. Horton have accelerated and Towne Island Homes is developing 200 lots at The Parkway. A&B is planning single- and multi-family units at Wailea, the latter with Armstrong Development and for sale commencing 2013 and construction starting in 2014.

## Real Estate: Positive Signs

"The Maui residential market is in recovery mode. Units sold have increased for four consecutive years and condo unit sales are above their 2007 peak," Suyderhoud said. He said foreclosure sales have declined significantly since 2012.

## Retail Returns As Jobs Improve

"As job growth has returned, so has the retail sector. One good gauge of this is the Queen Kaahumanu Center where 85% of the customers are local. They expect sales to be up 5-10% in 2013 with the smart merchants who know and anticipate customer wants doing even better," Suyderhoud said.

A&B's Maui Mall is adding TJ Maxx with construction expected to begin in 2014 and opening summer in 2015. Queen Kaahumanu is also adding new "name" brands shops.

## Maui's Economic Drivers

"Maui is fortunate to have some economic drivers other than tourism that contribute significantly to the island's economy," Suyderhoud said, including:

- **HC&S**, where sugar production has continued to increase from the low year of 2009 and is approaching 200,000 tons per year thanks to more acres planted and better yield. "However, since 2013 sugar prices are down, 2014 is not expected to be as good a revenue year for HC&S even if improving production trends continue," Suyderhoud said.
- **Haleakala Observatories**, including nine facilities with annual budgets totaling \$55 million, supporting 244 county-based staff. He said: "The big news on the mountain is the Advanced Technology Solar Telescope, a \$340-million project that started in 2012 with completion forecast in 2019. Once completed the annual operating budget will be \$18 million in today's dollar values with 35 local staff."
- **Maui Research and Technology Park** at Kihei which houses the Pacific Joint Information Technology Center supporting U.S. Defense Department medical readiness requirements and IT modernization. The park houses \$60-million worth of projects employing more than 60 people and has incubated 25 start-ups, he said.
- **UH Maui College**: Student enrollment increased by 45% from 2006 and now stands at about 4,000, with 500-600 in bachelors' programs. Construction of the \$26-million science building has been completed. Starting this summer, the old science building is being renovated to the tune of \$4.5 million and will house the Daniel K. Inouye Allied Health Center for the nursing, dental assistant, and dental hygiene programs.

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