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Tourism heads into unsure year

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It's going to be an iffy year for tourism in the isles.

If there's a war in Iraq that lasts a month or longer, and incidents of international terrorism rise, visitor arrivals will look a lot like they did in 2002, said David Carey, chief executive and president of the parent company of Outrigger Hotels & Resorts. A disheartening 6.4 million visitors came to Hawaii in 2002, according to state estimates.

If there's a war with Iraq and it's over quickly, visitor arrivals will take a hit, then recover much faster than they did after the oft-remembered Persian Gulf war of 1991. "If that's the

case I'm tremendously optimistic about business," Carey said.

The immediate impact of a new war isn't likely to be as harsh as Sept. 11, 2001, after which air travel was halted for days, and Hawaii visitor arrivals plummeted by double digits through January 2002, observers said.

Also, Hawaii's recovery from war in 2003 would be marked by different world economic circumstances than in the Persian Gulf war.

Following the Persian Gulf cease-fire in April 1991, Hawaii's domestic arrivals continued to fall, bottomed out in 1993, then took until a record travel year, 2000, to completely recover. But the state was buoyed through the mid-1990s by continued growth in Japanese tourist arrivals, despite the bursting of Japan's bubble economy.

This time around, the mainland economy is already out of recession and interest rates are at historic lows. On the flip side, Japan is really hurting. Personal bankruptcies are up by a third, and economic growth is expected to be 0.1 percent in 2003, according to recent reports in the New York Times. "They're in much worse shape than they were before," said Joe Toy, a hotel consultant with Hospitality Advisors LLC.

So far, Hawaii hotel bookings for the first few months of 2003 look mixed, Toy said. Major hotels that do a lot of group business are optimistic about January, February and March, Toy said. In contrast, hotels that deal with independent travelers are cautious.

At Outrigger, January and February bookings are not looking as good as they should, Carey said. In other words, business is shaping up to be as slow as early 2002, a period that was marked by substantial discounting, he said.



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Tourists crowded the beach last week in Waikiki. This year should bring an improving tourism picture, though war with Iraq could deter visitors. Any drop is not expected to be as harsh as after 9/11.

Beyond that, it's hard to see, because people are not booking their vacations very far in advance, Carey said.

"We are seeing some pickups in travel overall, certainly in the last half of 2002, but it's been what I would consider weak recovery," Toy said. "Part of it is driven by the economy, but also the uncertainties."

Another open question, Carey noted, is the bankruptcy reorganization of United Airlines. Consumers are likely showing concern about whether the carrier will make major cutbacks in its flights. "That causes people to blink," Carey said.

Absent any economic or travel disruptions, the official state forecast is for optimistic improvement in tourism in 2003. A total of 6.8 million visitors are projected to come to the isles and spend a record total of \$11.13 billion, a 7.6 percent jump from an estimated \$10.34 billion in 2002.

But even as visitors return to the isles, Waikiki hotels have done so much discounting of their rates to boost their occupancy that some hotel managers say it will take until 2005 before room revenues return to the high levels seen in 2000.

Meanwhile, at the Hawaii Convention Center, a total of 28 major outside conventions are scheduled for 2003, including 20 definite events and eight tentative ones, according to the Hawaii Tourism Authority. That leaves the center seven conventions short of its goal of 35 events for the year, and little time remains for booking.

Notable events at the \$350 million center will include a convention of the American Association of Orthodontists, set to bring 18,000 attendees in early May, and an annual meeting of the American Academy of Neurology, scheduled for late March, with 10,000 attendees.

Those gatherings will be nowhere near the size of the 1999 convention of the American Dental Association, which brought some 30,000 people to the islands.

Other forecasts for 2003:

Home sales

After record sales years in 2001 and 2002, Hawaii residential real estate experts say that in spite of shrinking inventories in some neighborhoods, the outlook for Hawaii residential real estate remains bright for 2003.

Real estate analyst Ricky Cassidy predicts some slowing in single-family home resales, particularly in the higher end of the market.



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Home sales are expected to remain solid this year, though they may taper slightly. These homes are in Ocean Pointe.

"The market will continue to grow next year but there is now less pent up demand in the upper end of the single family home resale market. Those who have bought have already bought, prices have appreciated pretty strongly in the last couple of years so there will be some exhaustion, less pent up demand and price fatigue," he said.

Cassiday also predicts a slow upward movement of interest rates, although not to levels likely to cause a significant slowdown in activity.

"Interest rates have been slowly creeping up over the year and that will continue. But I don't believe it will be enough to cut off a lot of people," he said.

Now that the effects of an improved economy have filtered down or shifted to middle- and lower-income buyers, expect continued activity in condominium resales and also in the new home market, Cassidy said.

Cassiday said new homes in general provide better value -- particularly in the lower end of the market. With the majority of new home construction on the Ewa Plain where prices are still comparatively affordable, most of the activity will continue in those neighborhoods.

Record condominium resale activity will continue all around Oahu, so don't be surprised if

at least one more new condominium project springs up in Honolulu, or perhaps even a hotel conversion, he said.

But Cassidy predicts the need for affordable housing will continue to be a problem for neighbor islanders. Allowing developers -- who have so far been reluctant to tackle affordable and medium-priced projects -- to build in greater density may be the only way to create new housing in those categories, Cassidy said.

"If the counties allow more density, then developer costs equalize. But I don't see that happening yet," he said.

-- Lyn Danninger

Commercial real estate

The vacancy rate in Oahu commercial real estate will rise this year, particularly in the second half, because some businesses have closed and are not being replaced.

One plus is that rents are likely to come down, experts say. Mike Hamasu, research chief at the commercial real estate firm Colliers Monroe Friedlander, predicts a 13.5 percent islandwide office vacancy level in the second half of 2003, up from a year-end 2001 level of about 12.8 percent. Demand is falling off, he said.

Jeff Nasrallah, director of research at Grubb & Ellis/CBI Inc., sees increased vacancies leading to an average annual office rent of \$27.48 a square foot in the fourth quarter of this year, a decline of 1.5 percent from the fourth quarter of 2002. That is well under the \$50-plus per square foot projected for New York and makes Honolulu, already No. 33 on an international list of 92 cities ranked by office rents, more attractive to outside businesses.

Retail space has some variables. A recovery in the past six months has the Oahu retail vacancy rate at 5.3 percent but Waikiki is still at 15 percent, Hamasu said. J.C. Penney's departure from Ala Moana Center and Pearlridge Center opens a total of 310,000 square feet of retail space. McNerny, which had 19 stores in the islands at the start of 2001, will be gone from all those locations by the end of January. Those events could raise the Oahu retail vacancy level to 8 percent.

But McNerny said other retailers have already booked six of its spaces. Ala Moana Center says that if Nordstrom doesn't come into the 180,000 square feet vacated by J.C. Penney it will look for several large retailers or a bunch of small ones.

-- Russ Lynch

Retailing outlook

Hawaii's retailing industry looks to be in a holding pattern this year, with big new stores such as Wal-Mart's Keeaumoku project not due to enter the market until 2004 or later. J.C. Penney will be gone Jan. 10, after 36 years in the islands, and the historic McNerny name will go, too, at the end of January.

With moves like that, the industry should be happy with the status quo, said retailing consultant Stephany Sofos of SL Sofos Co.

On the bright side, new retailers are planning to come to the island later, such as electronics superstore Best Buy. High-end retailers and bargain businesses will continue to do well but those in the middle of the price range are hurting, Sofos said.

Carol Pregill, president of the trade association Retail Merchants of Hawaii, said there is still room for certain types of retailers that don't yet have a strong presence in the island market, such as home furnishings, and bedroom and bathroom shops. Sales of new homes are booming and that will create a demand this year, Pregill said.

The big news that the retail industry and its customers are waiting for is Nordstrom Inc.'s decision on whether or not it will open its long-expected full-line department store in the islands. Currently, Nordstrom has no commitment for department store space on Oahu but says it is still very interested.

-- Russ Lynch

High-tech

For Hawaii's struggling high technology industry, 2003 shows promise but no return to the heady days of the late '90s, industry professionals say.

Obtaining venture capital will still prove difficult -- especially so for small start-up companies, said John Chock, president of Hawaii Strategic Development Corp.

Companies coming back for a second round of funding with some track record of success

will fare better, he said.

"Certainly with respect to VC funding, that will remain somewhat tight," Chock said. "We are in a mode right now where because of the lack of large pools of VC, the companies are in a holding-on mode so track record is going to count."

However Chock is hopeful that Act 221, which allows tax credits for investors in qualified high technology businesses, will stimulate more investment.

"I think Act 221 is having a positive impact in bringing in new investment to local companies," he said.

Research and development in areas such as biotechnology holds promise as the state moves closer to completion of a new medical school and biotech research center in Kakaako, he said. Likewise, Chock is optimistic about ocean science-related projects such as development of microalgae products and fish farming.

"I think there's a lot of good activity in aquaculture. They're gaining traction in proving their business model," he said.

For information technology consultant John Agsalud, president of ISDI Technologies Inc., areas related to defense and homeland security are offering opportunities for local companies.

"I think we are starting to see quite a bit more spending in the Department of Defense because it's reached a higher priority recently," he said.

Should the worst happen, and additional terrorist attacks occur, expect additional emphasis on disaster recovery services, he said.

Like Chock, Agsalud also does not foresee a loosening of venture capital in the immediate future.

"Don't expect the VC's themselves to loosen up anymore, certainly not with respect to local IT. It's not to say there won't be any, but it will continue to be more difficult," he said.

--- Lyn Danninger

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