Tourism Market Study

BANYAN DRIVE,
HILO, HAWAII

Prepared for:

State of Hawaii

Department of Land and Natural Resources

July 2014

MUNEKIYO & HIRAGA, INC.

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I. INTRODUCTION

A. PURPOSE

The State of Hawaii, Department of Land and Natural Resources (DLNR) owns land in the Banyan Drive area of Hilo on the island of Hawaii. The DLNR leases its lands along Banyan Drive for various hotel and resort-related uses. Many of these leases were entered into in the 1960s or earlier and are set to expire in the next several years. With the approaching expiration of these leases, DLNR has commissioned several studies on the Banyan Drive area to assist with long-term planning efforts for the area.

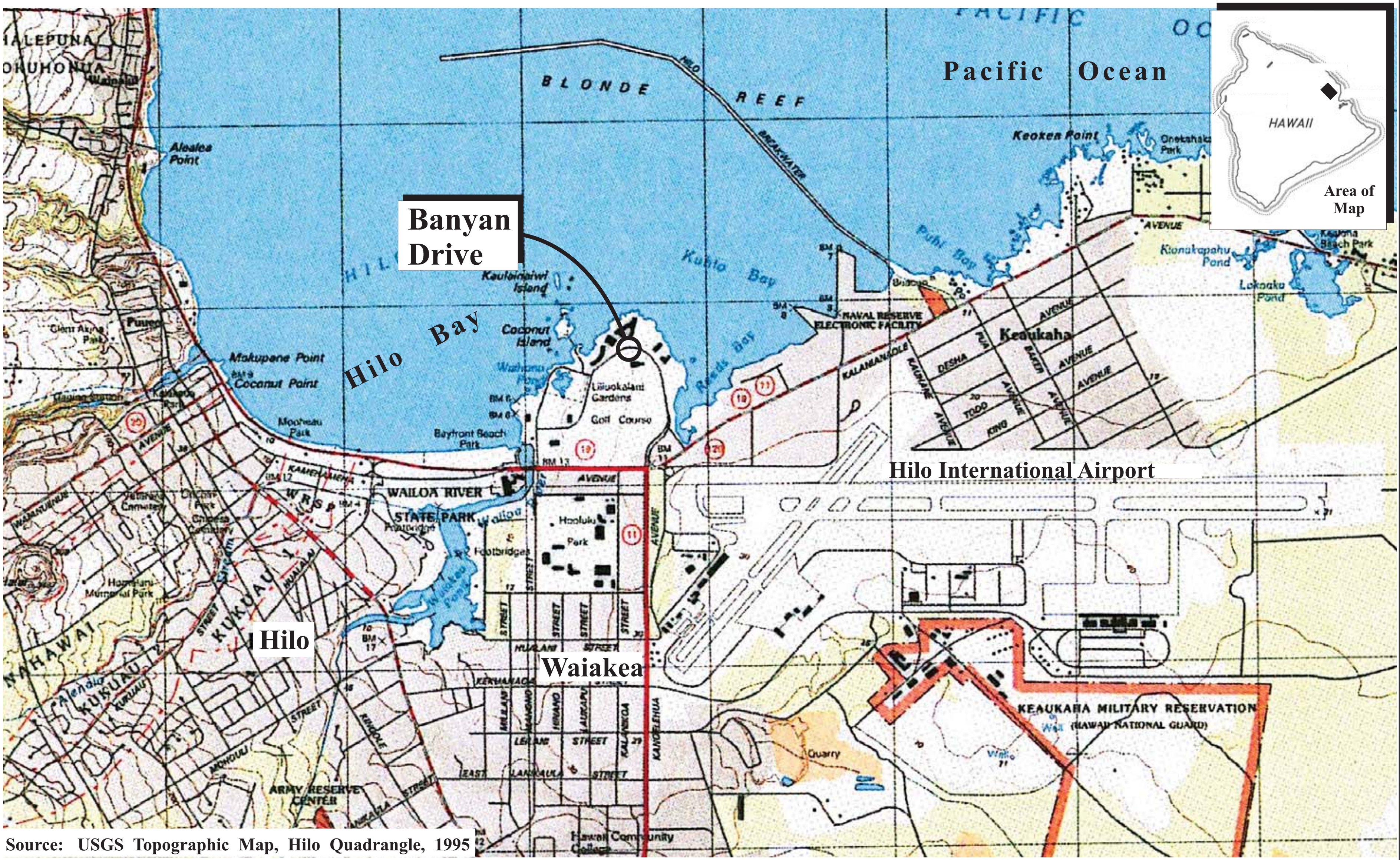
This Market Study will provide current and forecasted data on Hawaii's tourism industry, including lodging and visitor statistics for the Island of Hawaii and the Hilo area specifically. In addition, the Study will provide an analysis and forecast of the market demand for and supply of rooms in the Banyan Drive area of Hilo, including information on the current and forecasted visitor plant inventory and the types of accommodations that visitors will likely be seeking.

B. BANYAN DRIVE OVERVIEW

Banyan Drive is a tree-lined street at the shoreline of Hilo that is known as the "Hilo Walk of Fame" for the banyan trees planted by celebrities. Located near the Hilo International Airport, Banyan Drive traverses the makai side of the Waiakea Peninsula offering views of Kuhio Bay and Hilo Bay. See **Figure 1** and **Figure 2**. Banyan Drive is centrally located in Hilo in close proximity to the Hilo International Airport and downtown Hilo. Volcanoes National Park, one of the most popular attractions in the area, is located approximately 30 miles away. Other attractions, such as Akaka Falls State Park (15 miles away) and Imiloa Astronomy Center (3 miles away), are within close driving distance of Banyan Drive.

The Naniloa Volcanoes Golf Club, a semi-private 9-hole golf course is also located on Banyan Drive. The Naniloa Volcanoes Golf Club is one (1) of two (2) golf courses in Hilo.

East Hawaii's largest hotels are located on Banyan Drive on lands leased from the DLNR. There are five (5) hotels along Banyan Drive on DLNR lands. Many of these buildings were built in the 1970s or earlier and exhibit signs of age.



Source: USGS Topographic Map, Hilo Quadrangle, 1995

Figure 1

Tourism Market Study

Regional Location Map

NOT TO SCALE

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SOH DLNR/Banyan Drive\Tourism Market Study\RegionalLocation

Figure 2

Tourism Market Study
Hilo Hotels

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SOH DLNR\Banyan Drive\Tourism Market Study\Hilo Hotels (1)

C. **METHODOLOGY**

To facilitate an understanding of market conditions in the Hilo and Banyan Drive areas, this study analyzes visitor arrival patterns and characteristics, as well as the lodging sector environment. Data is analyzed for the State of Hawaii, individual island markets, and where possible, the Hilo and Kona markets specifically for the island of Hawaii. Comparisons are drawn between Hilo, the State of Hawaii, and other neighbor island destinations to better understand the unique conditions present in Hilo and the competitive advantages and disadvantages it faces.

This market study incorporates data from numerous sources. The Hawaii Tourism Authority (HTA) and the State of Hawaii Department of Business, Economic Development, and Tourism (DBEDT) publish monthly, quarterly, and annual data on various tourism-related statistics. Much of the data on specific visitor characteristics, activities, and satisfaction levels were drawn from HTA's Annual Visitor Report and Visitor Satisfaction and Activity Report. At the time the analysis for this market study was conducted, the most current Annual Visitor Report and Visitor Satisfaction and Activity Report available were for 2012. While this report will present overall visitor arrival data for 2013, the detailed analysis of visitor characteristics, activities, and experiences will be based on data from 2012.

In addition to market data from HTA, DBEDT, and other sources, industry experts were contacted and interviewed to provide qualitative information on conditions in Hilo and their perspectives on the market. These individuals included hotel operators and others familiar with the local industry.

II. TOURISM INDUSTRY IN HAWAII

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A. VISITOR ARRIVALS

1. Visitor Arrival Trends

In 2013, a total of 8,235,510 visitors came to Hawaii, surpassing the record set in 2012 by 2.6 percent. The Hawaii Tourism Authority reports that gains in visitor arrivals during the first half of 2013 offset weaker performances in the second half of the year. The vast majority of visitors come to Hawaii by air; 8,064,291 visitors, or 98 percent tourists to the State arrived by air in 2013. Cruise ship visitors accounted for 171,219 tourists. However, cruise ship arrivals increased 6.0 percent over 2012. See **Table 1**. Because the majority of visitors to the islands arrive by air, the analysis in the remainder of this report will be based on data for air arrivals only, unless noted otherwise.

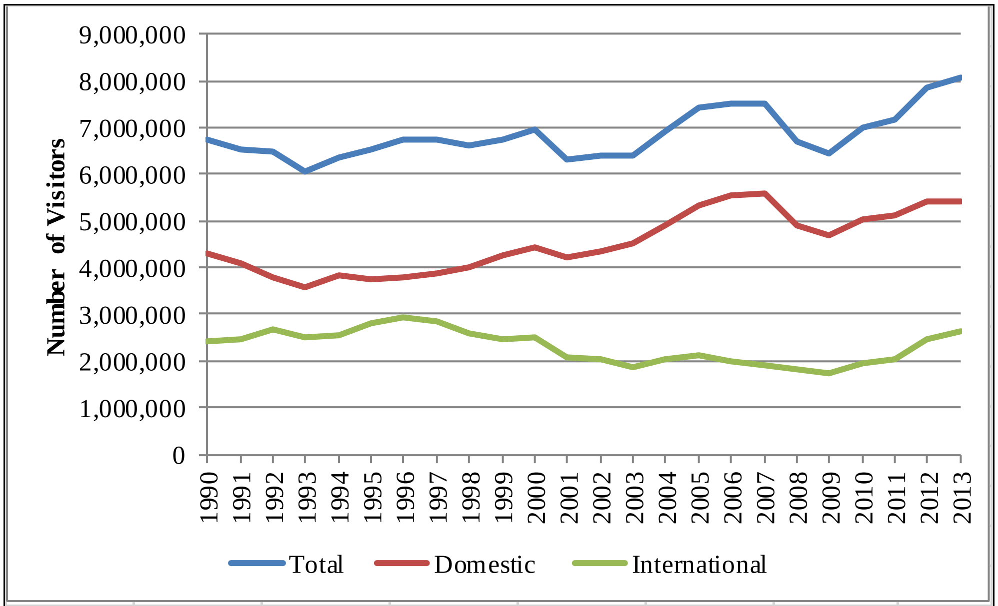
Table 1. Total Visitor Arrivals, 2012 and 2013

	2012	2013	Percent Change
By Air	7,867,143	8,064,291	2.5%
By Cruise Ship	161,600	171,219	6.0%
TOTAL Arrivals	**8,028,743**	**8,235,510**	**2.6%**
Source: HTA, 2012 Visitor Research Report and December 2013 Visitor Highlights.			
Prepared by: Munekiyo & Hiraga, Inc., 2014.			

Visitor arrivals in 2012 and 2013 represent a significant improvement over previous years. The State's tourism industry suffered as a result of the Great Recession, with fewer visitors travelling to the islands. Following several years of steady growth between 2003 and 2006, arrivals to the State plateaued in 2007 before decreasing in 2008 and 2009. There were 6.4 million visitors to Hawaii in 2009, over a million fewer visitors than just two (2) years earlier in 2007. See **Figure 3**. Visitor arrivals began to recover in 2010 and jumped 9.7 percent between 2011 and 2012. Growth continued in 2013, which was the first year that the State saw more than 8.0 million arrivals by air.[1]

[1] There were 7.9 million arrivals by air in 2012; when combined with cruise ship visitors, the number of total visitors to the State in 2012 exceeded 8.0 million.

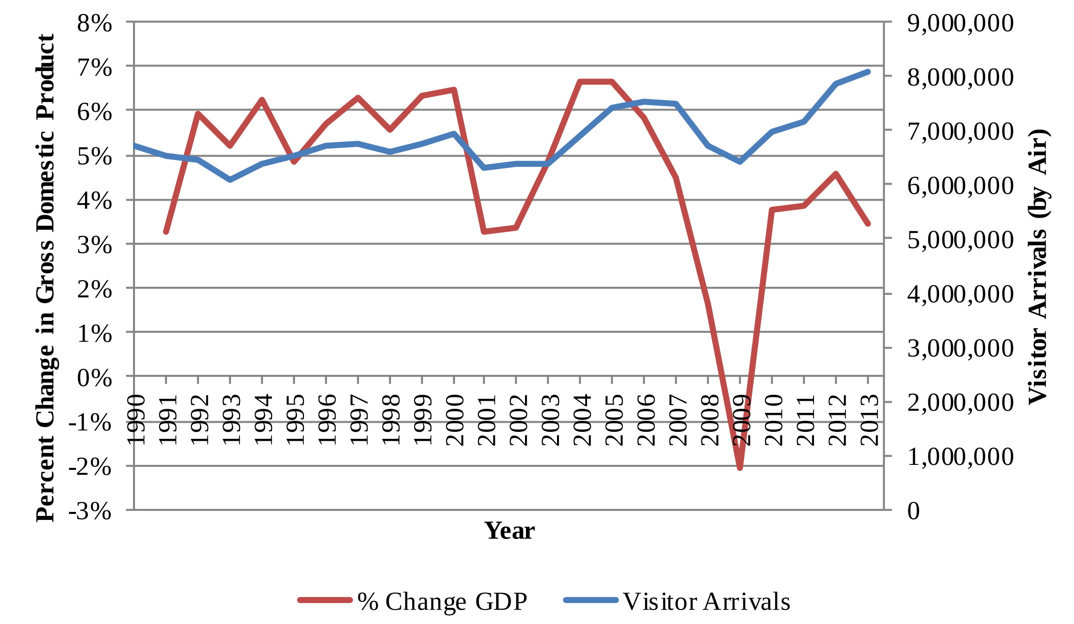
Figure 3. Visitor Arrival Trends, 1990-2013



Source: HTA, Visitor Arrivals by Country and Island, 2012 and December 2013 Visitor Highlights.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

Trends in the State's tourism industry are correlated with overall economic conditions as a whole. As shown in **Figure 4** below, the two (2) most recent declines in visitor arrivals to the state correspond with times of economic slowdown in the United States, as measured by the change in the country's Gross Domestic Product (GDP). Arrivals fell in 2001, coinciding with the burst of the dot-com bubble and again in 2008 and 2009 when the economy stagnated and contracted. The correlation illustrated in **Figure 4** underscores the vulnerability of the industry to external factors.

Figure 4. Visitor Arrivals and Change in Gross Domestic Product, 1990-2013



Source: HTA, Visitor Arrivals by Country and Island, 2012; US Bureau of Economic Analysis, 2014.

Prepared by: Munekiyo & Hiraga, Inc., 2014.

2. <u>Visitor Origin and Island Destinations</u>

The island of Oahu is Hawaii's most visited island, with the majority of all tourists to the State visiting Oahu. In 2012, 62.3 percent of visitors went to Oahu. Maui, the second-most frequently visited island, was visited by 29.4 percent of visitors to the State in 2012. Another 18.2 percent of tourists, or 1.43 million people, visited the Big Island, while 13.8 percent visited the island of Kauai. See **Table 2**. It is noted that tourists may visit multiple islands and, as such, the sum of the number of visitors to each island exceeds the total number of visitors to the State.

Table 2. Distribution of Visitors to Hawaii by Island, 2012

	Number of Visitors	Percent of Total Visitors to State
Oahu	4,904,045	62.3%
Maui	2,309,194	29.4%
Molokai	53,323	0.7%
Lanai	72,649	0.9%
Kauai	1,084,681	13.8%
Hawaii Island	1,433,282	18.2%
Hilo	526,435	6.7%
Kona	1,191,469	15.1%
Note: Represents Visitors arriving by air only.		
Visitors may visit multiple islands so total percent exceeds 100 percent.		
Source: HTA, 2012 Visitor Research Report.		
Prepared by: Munekiyo & Hiraga, Inc., 2014.		

Of the 1.43 million people visiting the Big Island in 2012, a much higher proportion visited Kona compared to Hilo. There were 0.53 million arrivals in Hilo compared to 1.19 visitor arrivals in Kona. The number of visitors to Hilo represents just 6.7 percent of all visitors to the State of Hawaii in 2012. Refer to **Table 2**.

Domestic travelers accounted for 62.0 percent of visitors to Hawaii in 2012. The western half of the United States (west of the Rocky Mountains) is the single largest market origin for visitor arrivals to the State of Hawaii, with 3.12 million visitors representing 40.4 percent of all visitors to Hawaii in 2012. The next largest market areas from which tourists to Hawaii originate are eastern United States (21.6 percent of all visitors), Japan (18.6 percent), and Canada (6.3 percent). Together, these four (4) market areas represented 87.0 percent of all visitors to the State in 2012. See **Table 3**. See **Appendix 1** for a detailed breakdown of visitors by island visited and origin. A discussion on trends and future forecasts for visitor arrivals, including visitor origin, will be presented in Chapter III.

Table 3. Visitor Origin by Major Market Area, 2012

	Number of Visitors	Percent of Total	Ranking
US West	3,178,824	40.4%	1
US East	1,699,625	21.6%	2
US Domestic Total	**4,878,449**	**62.0%**	--
Canada	499,144	6.3%	4
Japan	1,465,654	18.6%	3
China	116,866	1.5%	9
Korea	153,338	1.9%	7
Other Asia	19,773	0.3%	11
Europe	129,252	1.6%	8
Australia & NZ	273,039	3.5%	6
Latin America	25,519	0.3%	10
Other	306,110	3.9%	5
International Total	**2,988,694**	**38.0%**	--
TOTAL	**7,867,143**	**100.0%**	

Note: Represents Visitors arriving by air only.
Source: HTA, 2012 Visitor Research Report.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

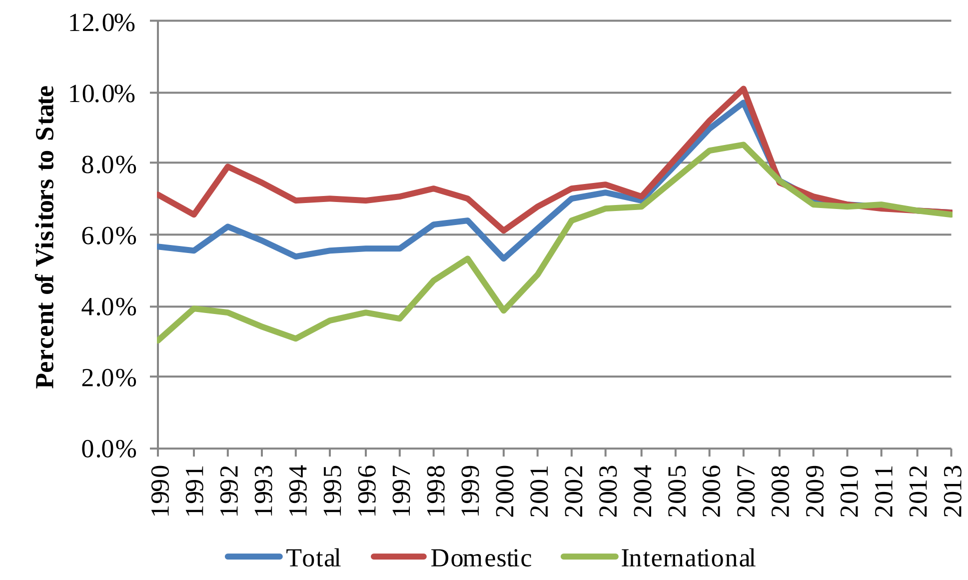
It is interesting to note that the destination of visitors to Hawaii varies widely based on visitor origin. In general, domestic visitors are more likely to visit neighbor island destinations compared to international visitors. However, in 2012, international visitors were slightly more likely to visit Hilo than visitors from the United States; overall, 7.1 percent of international visitors to the State came to Hilo compared to 6.5 percent of domestic visitors. Even within international and domestic market origins, there is still variation in the percentage of visitors going to Hilo and other neighbor island destinations. See **Table 4**.

Table 4. Distribution of Visitors by Island and Origin, 2012

		Percent of Visitors from Origin Visiting Island					
	Total Visitors	**Oahu**	**Maui**	**Kauai**	**Big Island**	**Hilo**	**Kona**
US West	**3,178,824**	**43.8%**	**34.9%**	**17.4%**	**18.1%**	**5.0%**	**16.0%**
US East	**1,699,625**	**59.8%**	**36.6%**	**19.9%**	**22.4%**	**9.2%**	**19.0%**
US Domestic Total	*4,878,449*	*49.4%*	*35.5%*	*18.3%*	*19.6%*	*6.5%*	*17.0%*
Canada	**499,144**	**41.9%**	**51.2%**	**13.3%**	**19.3%**	**6.5%**	**17.5%**
Japan	**1,465,654**	**96.2%**	**4.6%**	**1.9%**	**13.9%**	**5.9%**	**9.3%**
China	116,866	93.9%	13.1%	3.3%	15.3%	7.3%	11.3%
Korea	153,338	95.9%	28.3%	1.6%	8.7%	5.3%	5.0%
Other Asia	19,773	88.6%	18.8%	4.1%	20.6%	12.8%	13.6%
Europe	129,252	69.1%	41.4%	22.3%	31.5%	14.5%	25.8%
Australia & NZ	273,039	95.3%	18.5%	8.4%	16.8%	10.2%	12.6%
Latin America	25,519	76.5%	36.4%	13.2%	21.6%	9.5%	17.3%
Other	306,110	76.0%	25.3%	11.9%	17.1%	8.0%	13.4%
International Total	*2,988,694*	*83.5%*	*19.3%*	*6.4%*	*16.0%*	*7.1%*	*12.1%*
TOTAL	**7,867,143**	**62.3%**	**29.4%**	**13.8%**	**18.2%**	**6.7%**	**15.1%**
Source: HTA, 2012 Visitor Research Report.							
Prepared by: Munekiyo & Hiraga, Inc., 2014.							

Although the percent of visitors coming to Hilo is relatively small compared to other neighbor island destinations, it is noted that Hilo has captured a larger share of Statewide visitors since 1990, when just 5.7 percent of visitors to the State came to Hilo. Between 1990 and 1999, Hilo captured an average of 5.8 percent of visitors. In the 2000s, this figure steadily increased, peaking at 9.7 percent in 2007. Since 2007, the percent of visitors coming to Hilo has decreased, but remains higher than Hilo's capture rate of visitors in the 1990s. See **Figure 5**.

Figure 5. Percent of State Visitors that Travel to Hilo, 2012

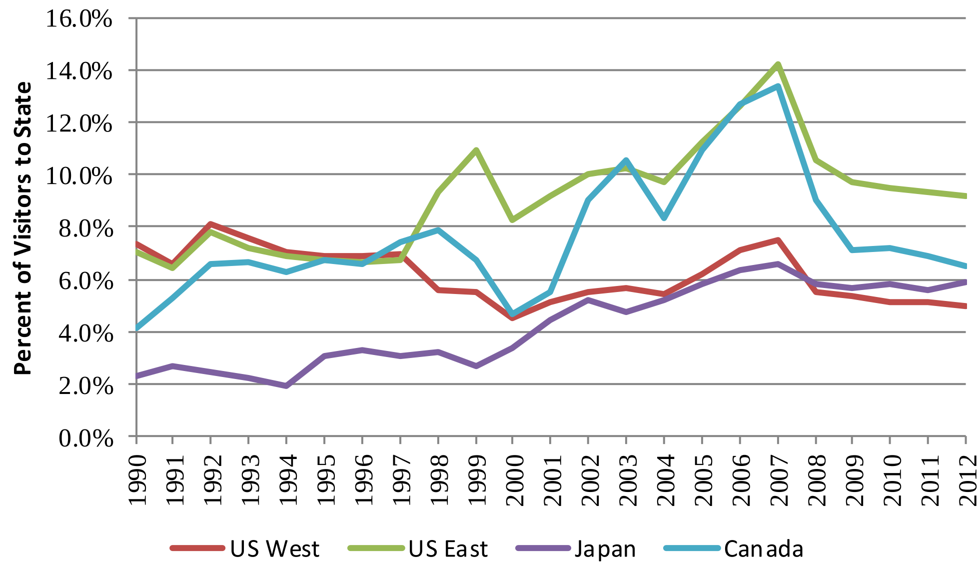


Source: HTA, Visitor Arrivals by Country and Island, 2012 and December 2013 Visitor Highlights.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

Historically, a higher percentage of domestic visitors travelled to Hilo compared to international visitors. During the 1990s, approximately 7.1 percent of domestic visitors to the State visited Hilo on average, compared to just an average of 3.8 percent of international visitors. Since that time, the percent of international visitors coming to Hilo has increased and has been comparable to percent of domestic visitors travelling to Hilo since 2008.

Figure 6 presents the proportion of visitors travelling to Hilo from the four (4) largest origin markets: US East, US West, Japan, and Canada. As shown, the increase in the proportion of international visitors travelling to Hilo is driven by an increasing proportion of Japanese and Canadian visitors going to the area. In 1990, just 2.4 percent of Japanese visitors went to Hilo. By 2012, that figure had more than doubled, reaching 5.9 percent. The proportion of Canadian visitors to Hilo has also increased, rising from 4.2 percent in 1990 to 6.5 percent in 2012.

Figure 6. Percent of Visitors that Travel to Hilo by Origin, 1990-2012



Source: HTA, Visitor Arrivals by Country and Island, 2012 and December 2013 Visitor Highlights.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

The fluctuation in the proportion of both domestic and international visitors to Hilo between 2005 and 2009 exhibited in **Figure 5** and discussed earlier is largely driven by the variation in patterns from travelers from the US East and Canada. As shown in **Figure 6**, there is a dramatic increase in the proportion of visitors from these two (2) markets that went to Hilo during this time. In 2007, the year characterized by the highest proportion of statewide visitors going to Hilo, 14.2 percent of visitors from the US East and 13.4 percent of Canadian visitors went to Hilo, much higher proportions than previous and subsequent years. While the US West and Japan also saw a slight uptick in the percent of visitors to Hilo during this time, the shift was not as dramatic as those from the US East and Canada.

B. <u>AIRLINE SEAT CAPACITY</u>

Part of the reason Hilo captures such a low percentage of tourists to Hawaii is its significant disadvantage in airline seat capacity. **Table 5** shows the total number of airline seats on all flights in 2012 for domestic and international origins. There were 10.3 million seats to the islands, 7.1 million of which were on domestic flights. Hilo accounted for 58,577 seats in 2012, less than one percent of all seats to the State. The majority of the seats were on flights from Los Angeles while a small portion were from San Francisco. While Hilo is an

Table 5. Airline Seat Capacity, 2012

	Domestic Seats	International Seats	Total Seats	Percent of Total
State of Hawaii	**7,073,037**	**3,249,427**	**10,322,464**	
Honolulu	4,215,824	3,043,155	7,258,979	70.3%
Kahului	1,613,642	168,399	1,782,041	17.3%
Kona	609,337	21,439	630,776	6.1%
Hilo	**58,577**	**0**	**58,577**	**0.6%**
Lihue	575,657	16,434	592,091	5.7%
Source: Hawaii Tourism Authority, Final Seats Report for 2012.				
Prepared by: Munekiyo & Hiraga, Inc., 2014.				

international airport, there are no direct international flights to Hilo. See **Appendix 2** for a detailed breakdown of flight capacity by airport and origin.

Even within the State, there are fewer inter-island flights to Hilo compared to the other larger neighbor island destinations such as Kahului, Lihue, and Kona. Hawaiian Airlines, the largest inter-island carrier, flies 14 non-stop trips to Hilo from Honolulu. By comparison, there are 15 non-stop flights to Lihue, 17 to Kona, and 26 to Kahului. See **Table 6**. In addition, smaller carriers such as Island Airlines, Mokulele, and Ohana provide inter-island service, with a greater emphasis on smaller-market areas such as Lanai and Molokai. Go Airlines was the only smaller carrier that services Hilo from Honolulu. However, Go Airlines discontinued service in April 2014. A new airlines, Ohana by Hawaiian, began turbo-prop aircraft service to smaller airports in March 2014. Ohana will begin with service to Molokai and Lanai, but does not have routes to Hilo from Honolulu planned at this time.

Table 6. Inter-Island Flights per Day (Direct from Honolulu International Airport)

	Hawaiian	Island Air	Mokulele	Ohana	Total
Kahului	26	6	1	--	33
Lanai	--	5	--	2	7
Molokai	--	2	6	3	11
Lihue	15	6	1	--	22
Hilo	**14**	**--**	**--**	--	**14**
Kona	17		2	--	19
Source: Airline websites, 2014.					
Prepared by: Munekiyo & Hiraga, Inc., 2014.					

Because 98 percent of visitors arrive to the islands by air, the limited seat capacity to Hilo serves as a significant disadvantage to attracting tourists to the area. Other neighbor island destinations are more easily accessible than Hilo. Industry experts interviewed for this report confirmed that the lack of direct flight capacity to Hilo is a factor in the number of visitors who come to the area. They noted that in the 1970s and 1980s, there were multiple domestic and international flights to Hilo. Industry professionals recall a time when there were six (6) to seven (7) daily direct flights to Hilo. However, as more flights shifted over to Keahole-Kona International Airport, the visitor distribution on the island of Hawaii shifted from Hilo to Kona.

C. VISITOR CHARACTERISTICS

Hawaii attracts many different types of visitors, including couples, families, tour groups, and others. **Table 7** provides a summary of visitor party size, visit status, and travel method by island. Overall, approximately 42 percent of visitors to Hawaii travel in groups of two (2), while another 42 percent came in groups of three (3) or more. However, trends in party size differ between the neighbor islands and Oahu. The neighbor islands, when compared to Oahu, attract a larger percentage of travelers in groups of two. Oahu, on the other hand, is the only island where the largest percentage of travelers is in groups of three (3) or more. In Hilo, approximately 47 percent of visitors came in groups of two (2), while 37 percent came in groups of three (3) or more.

Table 7. Visitor Characteristics by Island, 2012

	Oahu	Maui	Molokai	Lanai	Kauai	Hilo	Kona	STATE
Total Visitors	4,904,045	2,309,194	53,323	72,649	1,084,681	526,435	1,191,469	7,867,143
PARTY SIZE								
One	16.7%	13.0%	19.6%	15.6%	13.5%	16.0%	14.3%	15.6%
Two	40.5%	47.1%	51.1%	53.2%	51.1%	46.6%	46.3%	42.3%
Three or more	42.9%	40.0%	29.4%	31.1%	35.4%	37.3%	39.4%	42.1%
Avg Party Size	2.2	2.1	2.0	1.9	2.0	2.2	2.0	2.2
VISIT STATUS								
First-Time	42.2%	32.8%	37.3%	32.9%	30.6%	45.0%	33.2%	35.0%
Repeat	57.8%	67.2%	62.7%	67.1%	69.4%	55.0%	66.8%	65.0%
Average # of Trips	4.3	5.1	5.1	5.2	5.2	3.9	5.1	4.9
TRAVEL METHOD								
Group Tour	12.6%	4.8%	7.9%	7.1%	4.5%	13.2%	7.3%	8.8%
Package	42.7%	28.4%	27.1%	26.7%	23.8%	36.6%	29.0%	34.6%
Group Tour & Pkg	10.9%	3.8%	5.8%	5.4%	3.4%	11.1%	5.7%	7.4%
True Independent	55.6%	70.5%	70.8%	71.5%	75.1%	61.3%	69.4%	64.0%

Source: HTA, 2012 Visitor Research Report.

Prepared by: Munekiyo & Hiraga, Inc., 2014.

The majority of visitors to all islands and the state as a whole are repeat visitors. Overall, 65 percent of people travelling to Hawaii are repeat visitors. Kauai attracts the highest proportion of repeat visitors (69 percent), while Hilo attracts the lowest proportion (55 percent). Refer to **Table 7**.

Most tourists to Hawaii are independent travelers, meaning they did not come on a group tour or with a package. In general, a larger share of visitors to Oahu, compared to the neighbor islands, travel via a group tour or package. As shown in **Table 7**, approximately 13 percent of Oahu visitors were on a group tour and 43 percent used a package. Hilo is the only neighbor island destination with a higher proportion of group and package travelers than the State as a whole. Approximately 13 percent of Hilo visitors were part of a group tour and 37 percent traveled with a package deal. The remaining neighbor island destinations have a higher proportion of visitors travelling independently without group tours or packages.

Visitors coming to Hawaii overwhelmingly cite pleasure as the reason for their trip to the islands. Statewide, 83 percent of visitors come to the islands for pleasure, including vacation, a honeymoon, or to get married. In general, a slightly higher proportion of visitors to neighbor islands indicate that the purpose of their travel is pleasure when compared to Oahu or the State as a whole. As shown in **Table 8**, 86 percent of visitors to

Table 8. Purpose of Visit by Island, 2012

	Oahu	Maui	Molokai	Lanai	Kauai	Hilo	Kona	STATE
Pleasure (Net)	80.7%	89.8%	81.8%	83.8%	90.5%	85.6%	87.4%	83.4%
.....Vacation	71.5%	83.0%	77.4%	78.4%	84.4%	79.3%	81.9%	76.0%
.....Honeymoon	9.2%	7.0%	4.6%	5.6%	6.4%	6.4%	5.6%	7.4%
…Get Married	1.9%	1.3%	1.3%	1.5%	1.3%	1.4%	1.3%	1.6%
Meetings, Conventions, & Incentiv	4.9%	5.4%	5.6%	8.6%	4.2%	3.7%	5.7%	5.2%
.....Convention/Conf.	2.9%	3.0%	3.7%	3.4%	2.5%	2.5%	3.8%	3.0%
.....Corp. Meetings	1.0%	1.1%	0.9%	2.3%	0.8%	0.5%	1.0%	1.0%
.....Incentive	1.2%	1.5%	1.1%	3.7%	1.1%	0.9%	1.2%	1.3%
Other Business	3.7%	2.3%	4.2%	3.5%	2.2%	3.4%	2.9%	3.2%
Visit Friends/Relatives	9.8%	5.5%	13.2%	9.1%	6.4%	10.6%	7.8%	8.6%
Government/Military	1.7%	0.2%	1.1%	0.5%	0.5%	0.5%	0.3%	1.2%
Attend School	0.4%	0.1%	0.4%	0.2%	0.1%	0.4%	0.3%	0.3%
Sport Events	1.7%	0.6%	1.9%	0.9%	0.5%	1.0%	1.6%	1.4%

Source: HTA, 2012 Visitor Research Report.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

Hilo are travelling for pleasure. Approximately 11 percent of Hilo visitors travel to visit friends and relatives.

The average length of time visitors stay in the State of Hawaii is 9.4 days. With the exception of Molokai, Lanai, and Hilo, visitors to all islands stay an average of 7.0 days or more. Maui has the longest average length of stay at 8.1 days. Visitors to Molokai, Lanai, and Hilo stay fewer days compared to other destinations in the State. On average, Hilo visitors stay for 3.9 days, second lowest only to Lanai. See **Table 9**.

Table 9. Average Length of Stay by Island, 2012

	Average Length of Stay (Days)
Total	9.4
Oahu	7.3
Maui	8.1
Molokai	4.9
Lanai	3.6
Kauai	7.5
Big Island	7.3
Hilo	3.9
Kona	7.1

Source: HTA, 2012 Visitor Research Report.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

D. VISITOR ACTIVITIES AND EXPERIENCE

Hawaii offers visitors a wide range of activities, including sightseeing, recreational activities, entertainment, shopping, and culture. Each island is unique and offers different opportunities to experience and enjoy Hawaii's outdoors, culture, and entertainment. The Hawaii Tourism Authority, in its annual Visitor Satisfaction and Activity Report, provides detailed information on the types of activities that visitors to the State and each of the islands participate in. The activities are grouped into sightseeing, recreation, entertainment, shopping, culture, meeting, and convention. **Table 10** summarizes the activity participation rate for these various categories for the State and Hilo. Detailed data on participation rates for specific activities within each category by island is presented in **Appendix 3**.

Table 10. Visitor Activity Participation, State of Hawaii and Hilo, 2012

	Types of Activities	State of Hawaii	Hilo
SIGHTSEEING	Self-guided/Drive Around Island Helicoptor/Airplane Tour Boat/Submarine Tour Whale Watching Visit Communities Limo, Van/Bus Tour ScenicViews/Natural Landmarks Movie/TV film location	93.5%	91.5%
RECREATION	Beach/sunbathing/swimming Surfing/bodyboarding/paddleboarding Canoeing/kayaking Snorkeling/scuba diving Jet skiing/parasailing/windsurfing Golf Running/jogging/fitness walking Spa Backpacking/hiking/camping Agritourism Sports event/tournament StateParks/Botanical Gardens	94.7%	74.3%
ENTERTAINMENT	Lunch/sunset/dinner/evening cruise Live music/stage show Nightclub/dancing/bar/karaoke Fine dining Family restaurant/diner Fast Food Cafe/Coffee House Ethnic dining Prepared own meal	98.5%	71.1%
SHOPPING	Mall/Department stores Designer boutiques Hotel stores Swap meet/Flea market Discount/outlet stores Supermarkets Farmers Market Convenience Stores Duty Free stores Local shops/artisans	96.6%	69.6%

	Types of Activities	State of Hawaii	Hilo
CULTURE	Historic military site Other historic site Museum/art gallery Luau Polynesian show/hula Lessons, Hula/Canoeing Ukulele Lessons Play/concert/theatre Art/craft fair Festivals	69.4%	34.1%
MEETING		7.5%	2.2%
CONVENTION		4.5%	1.0%
Source: Hawaii Tourism Authority, Visitor Satisfaction and Activity Report.			
Prepared by: Munekiyo & Hiraga, Inc., 2014.			

Hilo and East Hawaii are unique from many of the destinations in the State and the activities visitors partake in reflect this. Sightseeing is the biggest attraction in Hilo, with 91.5 percent of visitors engaging in this activity during their stay. As will be discussed later, many visitors come to Hilo to go to Volcanos National Park or visit the many attractive State parks in the area. The topography and weather in the area, however, do not lend itself to many of the ocean recreational activities that visitors engage in on other islands. Hilo's rocky lava coast limits opportunities for recreational activities, such as going to the beach, swimming, surfing, kayaking, snorkeling/scuba diving, etc. Approximately 74 percent of visitors to Hilo engage in recreational activities, a lower percentage compared to the State as a whole. As shown in **Appendix 3**, the most popular recreational activity in the Hilo area is visiting State parks and botanical gardens, as well as backpacking/hiking/camping.

One of the biggest draws to East Hawaii and a popular sightseeing activity in the area is the Volcanoes National Park, located approximately 30 miles southwest of Hilo. Between the two (2) major towns of Hilo and Kona, Hilo is much closer to Volcanoes National Park; Kona is 95 miles away from the Park. The Park is home to Kilauea, one of the most active volcanoes in the world. The National Park is one of the most popular visitor attractions in Hawaii, bringing people from around the world looking for a chance to see the lava flows.

Other popular sightseeing activities in East Hawaii include visits to some of the area's waterfalls, including Akaka Falls, Rainbow Falls, and Umauma Falls. In addition to flowing waterfalls, the wet climate in the area allows for the growth of a variety of exotic flowers. The Hawaii Tropical Botanical Garden, World Botanical Garden, and Panaewa Rainforest Zoo and Gardens are located within close proximity to Hilo. Visitor attractions within Hilo Town include the Pacific Tsunami Museum, Lyman Museum, Palace Theater, Big Island Candies, Imiloa Astronomy Center, and the local farmers' market.

Hilo's small-town character means that it does not have an active night life, fine dining, or entertainment presence. As a result, a smaller proportion of Hilo visitors (71 percent) participated in entertainment activities compared to the State as a whole (99 percent). Shopping is also not as prevalent in Hilo as other locations in Hawaii; 70 percent of visitors to Hilo reported shopping during their stay while 97 percent of visitors statewide engaged in this activity. While Hilo has a rich historical and cultural foundation, a smaller proportion of visitors participate in cultural activities. In 2012, 34 percent of visitors to Hilo engaged in cultural activities, such as visiting historic sites or luaus and Polynesian shows. By comparison, 69 percent of visitors statewide participated in cultural activities. Refer to **Table 10**.

While Hilo differs from most of the other destinations in Hawaii, industry professionals note that it is this very uniqueness that attracts people to Hilo. Hilo does not compete with other Hawaii markets as a beach destination. Rather, Hilo's charm is derived from the fact that it has retained its small-town and local character and has not been developed into a resort-like destination.

E. VISITOR SATISFACTION

The Hawaii Tourism Authority conducts a visitor satisfaction survey annually to measure industry performance. As each island has unique characteristics, activities, and experiences, the HTA reports satisfaction ratings by island. The survey asks visitors to rate their experience as "excellent", "above average", "below average", or "poor". **Table 11** presents the results of this survey by island for 2012. With the exception of Hilo, the majority of visitors rated their experience as "excellent". Over 60 percent of visitors to Maui, Lanai, Kona, and Kauai had an excellent experience and over 55 percent of visitors to Oahu and Molokai had an excellent experience on those islands. By comparison, only 48 percent of visitors to Hilo rated their experience as "excellent".

Table 11. Visitor Satisfaction Rating by Island, 2012

	Oahu	Maui	Molokai	Lanai	Hawaii Island	Hilo	Kona	Kauai
Excellent	56.9%	65.7%	57.7%	64.4%	60.6%	48.0%	60.7%	69.4%
Above Average	39.3%	32.5%	29.1%	33.8%	37.2%	44.9%	36.6%	28.1%
Below Average	3.4%	1.5%	12.1%	1.7%	2.1%	6.8%	2.5%	2.3%
Poor	0.5%	0.3%	1.1%	0.0%	0.1%	0.3%	0.2%	0.1%
Source: Hawaii Tourism Authority, Visitor Satisfaction and Activity Report.								
Prepared by: Munekiyo & Hiraga, Inc., 2014.								

Hilo's lower share of "excellent" ratings may explain why a smaller proportion of visitors to Hawaii are repeat visitors. However, it is difficult to predict why fewer Hilo visitors had excellent experiences. A number of factors may contribute to this pattern. These factors will be discussed in Chapter V of this report.

Table 12 presents a breakdown of overall visitor experience in Hilo by visitor origin. As shown, the percent of visitors with "excellent" experiences did not vary significantly by origin. However, visitors from Canada, Europe, and Australia and New Zealand were less likely to rate their experience as "excellent" compared to visitors from the U.S. and Japan.

Table 12. Overall Experience in Hilo by Visitor Origin, 2012

	U.S. Total	U.S. West	U.S. East	Japan	Canada	Europe	Aus/NZ	Total
Excellent	49.6%	49.6%	49.7%	49.4%	41.0%	40.5%	41.0%	48.0%
Above Average	42.8%	41.9%	43.8%	45.8%	50.7%	46.4%	56.4%	44.9%
Below Average	7.4%	8.4%	6.3%	4.4%	7.3%	12.5%	2.6%	6.8%
Poor	0.2%	0.1%	0.2%	0.4%	0.9%	0.6%	0.0%	0.3%
Source: Hawaii Tourism Authority, Visitor Satisfaction and Activity Report.								
Prepared by: Munekiyo & Hiraga, Inc., 2014.								

III. LODGING TRENDS

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A. HAWAII HOTEL PERFORMANCE INDICATORS

Hotel occupancy and room rate trends can serve as a key indicator for the tourism industry as a whole. **Table 13** summarizes hotel performance indicators by island for 2012. It is noted that separate data for the Hilo and Kona areas are not available. However, more detailed information and analysis of hotels in the Hilo area will be presented later in this chapter. The key indicators presented in **Table 13** are:

- Occupancy Rate - the percent of available rooms that were sold during a specified time period
- Average Daily Rate (ADR) – a measure of the average rate paid for rooms sold (room revenue/rooms sold)
- Revenue Per Available Room (RevPAR) – total guest room revenue divided by the total available rooms

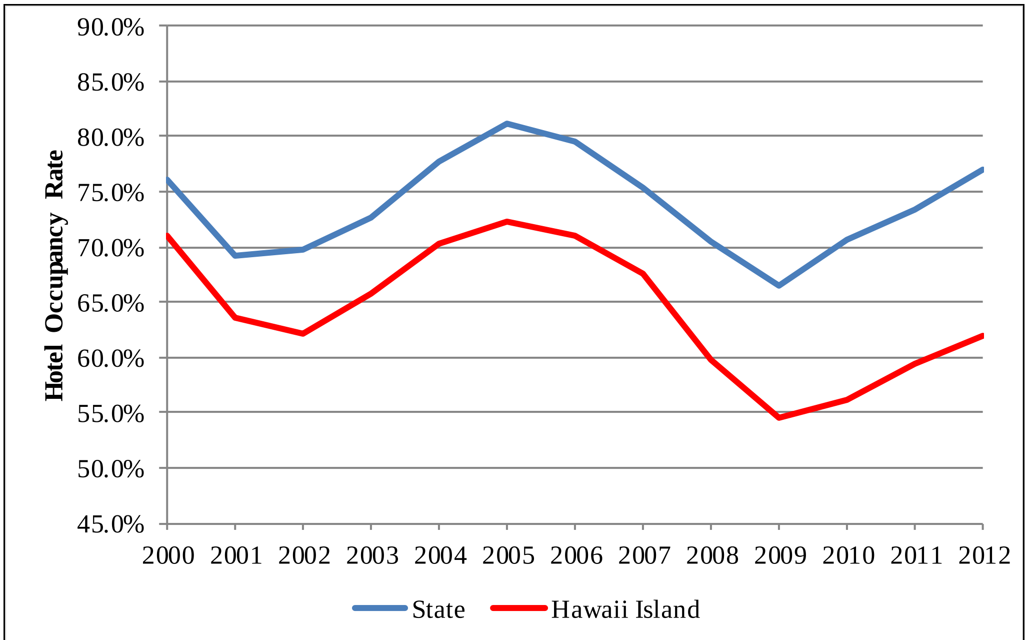
Table 13. Hotel Performance Indicators by Island, 2012

	Occupancy	**Average Daily Rate (ADR)**	**RevPAR**
State	77%	$204	$157
Oahu	85%	$184	$155
Maui	73%	$258	$187
Kauai	69%	$213	$146
Hawaii Island	62%	$193	$119
Source: HTA, 2012 Visitor Research Report.			
Prepared by: Munekiyo & Hiraga, Inc., 2014.			

As shown, in 2012, statewide hotel occupancy stood at 77 percent with hotels charging an ADR of $204. Oahu had higher occupancy rates than all neighbor island destinations, at 85 percent. Maui and Kauai lead the way in ADR, with rates of $258 and $213, respectively, in 2012. Hawaii Island lags the State in all three (3) categories, with an occupancy rate of 62 percent, ADR of $193 and RevPAR of $119. However, as will be discussed later, hotels in Hilo represent a small proportion of the total hotel inventory on the island. As such, data presented for Hawaii Island are large based on properties outside of Hilo.

Hawaii Island has always had lower hotel occupancy levels than the State as a whole. See **Figure 7**. Between 2000 and 2012, occupancy rates in the State averaged 73.8 percent while Hawaii Island rates were an average of 64.3 percent.

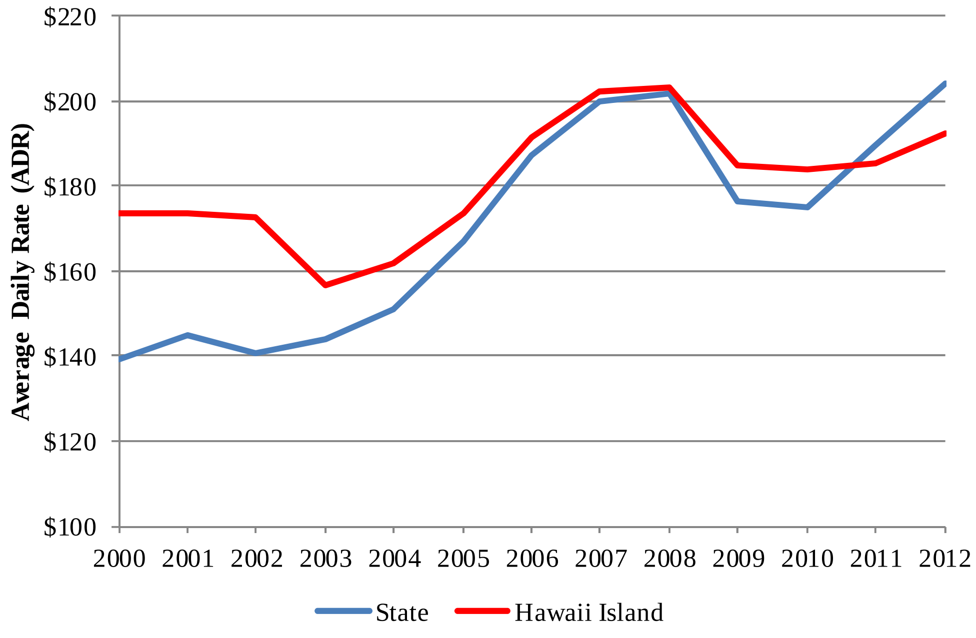
Figure 7. Hotel Occupancy Rate, State of Hawaii and Hawaii Island, 2000-2012



Source: HTA, Annual Visitor Research Report, 2000-2012.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

Unlike occupancy rates, hotel room rates on Hawaii Island have historically been higher than the state average as a whole. However, in 2011 and 2012, ADR on Hawaii Island were lower than the State as a whole. See **Figure 8**.

Figure 8. Average Daily Rate, State of Hawaii and Hawaii Island, 2000-2012



Source: HTA, Annual Visitor Research Report, 2000-2012.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

B. VISITOR ACCOMMODATION PATTERNS

Hotels represent just one (1) component of the lodging inventory. Visitors to Hawaii have a wide range of options for overnight accommodations, ranging from hotels, condominiums, and timeshare units to bed and breakfasts or vacation rental properties. Statewide, there were 74,650 total visitor units across all lodging types, of which approximately 58 percent were in hotels. On Oahu and in Hilo, hotel units comprised a much larger share, 75 percent, of visitor accommodation units on the market. See **Table 14**. While hotels are the largest provider of lodging units on all islands, they comprise a smaller share of the lodging inventory in other markets. Kona, Maui, and Kauai all have a larger proportional inventory of timeshare units. On Maui and Kauai, hotels only represent 37 percent and 32 percent of lodging units on the islands, respectively, due to the presence of timeshares, condominium hotels, and individual vacation units.

Table 14. Accommodations Inventory by Type and Island, 2012

	Oahu	Maui	Hawaii	Hilo/Honokaa	Kona	Other Hawaii Island	Kauai	STATE
Total Units	**35,126**	**19,659**	**10,794**	***1,342***	***4,698***	***4,754***	**8,289**	**74,650**
Apartment/Hotel	0.5%	0.1%	0.7%	*0.1%*	*1.7%*	*0.0%*	0.0%	0.4%
Bed & Breakfast	0.2%	0.7%	3.5%	*9.7%*	*2.3%*	*3.1%*	1.2%	0.9%
Condominium Hotel	13.9%	25.3%	6.4%	*5.4%*	*9.2%*	*3.9%*	18.9%	16.3%
Hostel	0.6%	0.2%	0.1%	*0.4%*	*0.0%*	*0.1%*	0.0%	0.3%
Hotel	**74.5%**	**36.5%**	**62.9%**	***74.6%***	***50.6%***	***71.7%***	**32.1%**	**57.8%**
Individual Vacation Unit[(a)]	3.0%	19.8%	10.2%	*9.8%*	*12.7%*	*7.9%*	14.1%	10.1%
Other	0.1%	0.0%	3.3%	*0.0%*	*5.1%*	*2.5%*	0.7%	0.6%
Timeshare	7.2%	17.3%	12.8%	*0.0%*	*18.5%*	*10.8%*	32.9%	13.5%

Note: [(a)] Cabins, Individual Cabin Units, Vacation House/Villa/Cottage were combined.
Source: HTA, 2012 Visitor Research Report.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

Just as lodging inventory varies across islands, so too does the patterns in visitor accommodation choices. As shown in **Table 15**, hotels account for the largest proportion of overnight accommodation type utilized by visitors on all islands. However, the distribution across islands varies greatly. The overwhelming majority of visitors to Oahu (73 percent) stay in hotels. On Maui and in Kona, 41 percent and 43 percent of visitors, respectively, stay in hotels; condominium, timeshare, and vacation rental properties are also popular in these markets.

Table 15. Percent of Visitors Staying in Accommodation Type by Island, 2012

	Oahu	Maui	Molokai	Lanai	Kauai	Hilo	Kona
Hotel	**73.1%**	**41.1%**	**18.1%**	**67.7%**	**30.9%**	**29.1%**	**43.0%**
Condo	7.8%	25.2%	24.4%	1.5%	17.1%	3.2%	14.8%
Bed & Breakfast	0.6%	3.0%	4.6%	1.9%	2.0%	12.8%	3.6%
Timeshare	6.0%	7.9%	4.0%	0.9%	20.2%	2.4%	10.5%
Friends' or Family's Home	5.8%	4.3%	13.0%	6.0%	3.3%	13.9%	4.7%
Home I Own	0.3%	0.5%	4.0%	0.6%	0.5%	1.1%	1.1%
Cruise Ship	1.3%	7.1%	9.2%	15.7%	10.5%	16.5%	8.9%
Vacation Rental Property	3.4%	8.6%	18.9%	2.3%	12.9%	12.5%	10.7%
Other	1.7%	2.2%	3.8%	3.4%	2.6%	8.4%	2.8%

Source: HTA, Vistor Satisfaction and Activity Report, 2012.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

Hilo has the lowest percent of visitors staying in hotels among the major markets in the State; only 29 percent of Hilo tourists stay in hotels. Cruise ships represent the second most utilized lodging type, with 17 percent of visitors. Another 14 percent of Hilo visitors stay at friends' or family's homes, a higher percentage than all other islands. Bed and breakfasts and vacation rental properties each represent 13 percent of Hilo visitor accommodations.

The low hotel usage percentage in Hilo is particularly notable considering the fact that 75 percent of the accommodation units in Hilo are hotel rooms. Most of the other markets exhibit approximate parity between hotel's share of lodging inventory and the proportion of visitors who stay in hotels. For example, on Oahu, 75 percent of lodging units are in hotels and 73 percent of visitors to the island stay in hotels. Likewise, on Maui, 37 percent of lodging units are in hotels and 41 percent of visitors stay in hotels. In Hilo, 75 percent of lodging units are in hotels, but only 29 percent of visitors to the area stay in hotels.

To better understand the discrepancy between hotel inventory and hotel usage, **Table 16** below provides a comparison of inventory and usage for all accommodation types in Hilo. Hilo has a large share of visitors who stay on a cruise ship or with family or friends. Together these two (2) categories, which are not part of the lodging inventory, account for 30 percent of where visitors stay. Another 8 percent of visitors stay at "other" lodging types, though "other" lodging units represent a very small share of the market's inventory. In comparison, other islands do not have as high a percentage of visitors staying with friends and family or on a cruise ship, which are not captured in the lodging inventory, or at "other" lodging types.

Table 16. Hilo Accommodation Inventory and Usage Comparison, 2012

	Percent of Inventory	**Percent of Visitors**
Hotel	**74.6%**	**29.1%**
Condo	5.4%	3.2%
Bed & Breakfast	9.7%	12.8%
Timeshare	0.0%	2.4%
Friends' or Family's Home	N/A	13.9%
Home I Own	N/A	1.1%
Cruise Ship	N/A	16.5%
Vacation Rental Property	9.8%	12.5%
Other	0.5%	8.4%

Source: HTA, Vistor Satisfaction and Activity Report, 2012 and 2012 Visitor Research Report.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

It is noted that accommodation usage patterns vary by visitor origin, not only for Hilo but for all markets in the State. International visitors are more likely to stay in hotels than domestic visitors. In particular, Japanese and European visitors are much more likely to stay in hotels than other accommodation types. While 20 percent of all visitors to Hilo stay in hotels, 62 percent of Japanese visitors and 42 percent of European visitors stay in hotels. On the other hand, visitors from the U.S. east and west coasts are less likely to stay in a hotel. This pattern is true for other markets as well. See **Table 17**. **Appendix 4** provides a detailed breakdown of Hilo visitor accommodation usage for all lodging types by visitor origin.

Table 17. Percent of Visitors Staying at Hotel (vs Other Lodging Type), 2012

	US-West	US-East	Canada	Japan	Europe	Oceana	TOTAL
Oahu	55.1%	66.7%	62.1%	77.6%	75.8%	87.4%	73.1%
Maui	30.3%	42.2%	21.8%	65.9%	55.3%	57.0%	41.1%
Molokai	12.9%	24.6%	11.1%		22.9%	16.7%	18.1%
Lanai	74.4%	74.6%	56.5%	42.9%	44.7%	21.1%	67.7%
Hilo	**19.6%**	**24.9%**	**22.7%**	**61.9%**	**41.9%**	**27.2%**	**29.1%**
Kona	36.3%	43.2%	26.1%	63.7%	59.9%	51.1%	43.0%
Kauai	19.7%	33.7%	17.1%	46.0%	57.4%	26.8%	30.9%

Source: HTA, Vistor Satisfaction and Activity Report, 2012.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

C. HAWAII ISLAND AND HILO HOTEL INVENTORY

As previously noted, hotels make up a large proportion of the lodging inventory in Hilo. **Table 18** provides a breakdown of the visitor plant inventory for the island of Hawaii by major area. The Hilo/Honokaa area has far fewer lodging units than other areas on the island. According to the Hawaii Tourism Authority's Visitor Plant Inventory, there are 1,342 units in Hilo/Honokaa, compared to 4,698 units in Kona and another 4,754 units elsewhere on the island of Hawaii. In total, lodging units in Hilo represent just 12 percent of all units on the island.

Table 18. Visitor Plant Inventory, Island of Hawaii, 2012

	Hilo/Honokaa		**Kona**		**Other[a]**		**Total**	
	Properties	**Units**	**Properties**	**Units**	**Properties**	**Units**	**Properties**	**Units**
Apartment/Hotel	0	2	1	78	0	0	1	80
Bed & Breakfast	30	130	28	106	30	147	88	383
Condominium Hotel	4	72	15	433	8	184	27	689
Hostel	1	5	0	0	1	6	2	11
Hotel	8	1,001	10	2,375	14	3,409	32	6,785
Individual Vacation Unit[b]	108	132	100	596	106	377	314	1,105
Other	0	0	6	240	4	119	10	359
Timeshare	0	0	10	870	4	512	14	1,382
Total	**151**	**1,342**	**170**	**4,698**	**167**	**4,754**	**488**	**10,794**

Notes:
(a) Other includes Kohala/Waimea/Kawaihae, Naalehu/Kau, and Volcano Area
(b) Cabins, Individual Condo Units, Vacation House/Villa/Cottage were combined

Source: HTA, Visitor Plant Inventory, 2012.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

The majority of the hotels in the Hilo area are found along Banyan Drive. **Table 19** provides a list of hotel properties in Hilo and **Figure 9** illustrates their location. As shown, there are eight (8) hotels in the Hilo area. It is noted that this list of eight (8) hotels includes one (1) hotel that was not included in the Hawaii Tourism Authority's Visitor Plant Inventory data shown in **Table 18** above for the Hilo/Honokaa area.

Table 19. Hilo Hotel Inventory

	Number of Rooms	Year Built/ Opened	Price Class [a]	Address	Landowner
Arnott's Lodge	20	1971/1990	Budget	98 Apapane Rd., Hilo, Hawaii 96720	Private
Country Club Hotel	70	1973	Budget	121 Banyan Dr., Hilo, Hawaii 96720	State [e]
Dolphin Bay Hotel	18	1968	Standard	333 Iliahi St., Hilo, Hawaii 96720	Private
Naniloa Volcanoes Resort [b]	325	1966	Budget (48 units) Standard (277 units)	93 Banyan Dr., Hilo, Hawaii 96720	State
Hilo Hawiian Hotel	286	1974	Standard (268 units) Deluxe (18 units)	71 Banyan Dr., Hilo, Hawaii 96720	State
Hilo Seaside Hotel	140	1956	Budget	126 Banyan Way, Hilo, Hawaii 96720	Private
Reed's Bay Resort [c]	25	1978/2002	Budget	175 Banyan Dr., Hilo, Hawaii 96720	State
Uncle Billy's Hilo Bay Hotel	143	1968	Budget	87 Banyan Dr., Hilo, Hawaii 96720	State
TOTAL [d]	**1,027**				

Notes:

[a] Budget = up to $100; Standard = $101 to $250; Deluxe = $251-$500; Luxury = $500+ per night

[b] The Naniloa Volcanoes Resort has 325 rooms, however, only portions of the hotel have been open since 2006.
The structures on the property were built in ______ and the current ownership took over in 2002.

[c] The Reed's Bay property has 60 units but only 25-30 of them are used for hotel operations. It is noted that the hotel is not included in the Hawaii Tourism Authority (HTA) Visitor Plant Inventory.

[d] The total number of rooms differs from what is shown in Table 17 which includes rooms in Hilo and Honokaa. This table also includes additional properties not included in HTA's Visitor Plant Inventory.

[e] For all properties owned by the State of Hawaii, hotel operators have executed lease agreements setting forth the terms and conditions for the use of the property.

Source: HTA Visitor Plant Inventory, 2012; Smith Travel Research, 2013; Hotel operators.

Prepared by: Munekiyo & Hiraga, Inc., 2014.

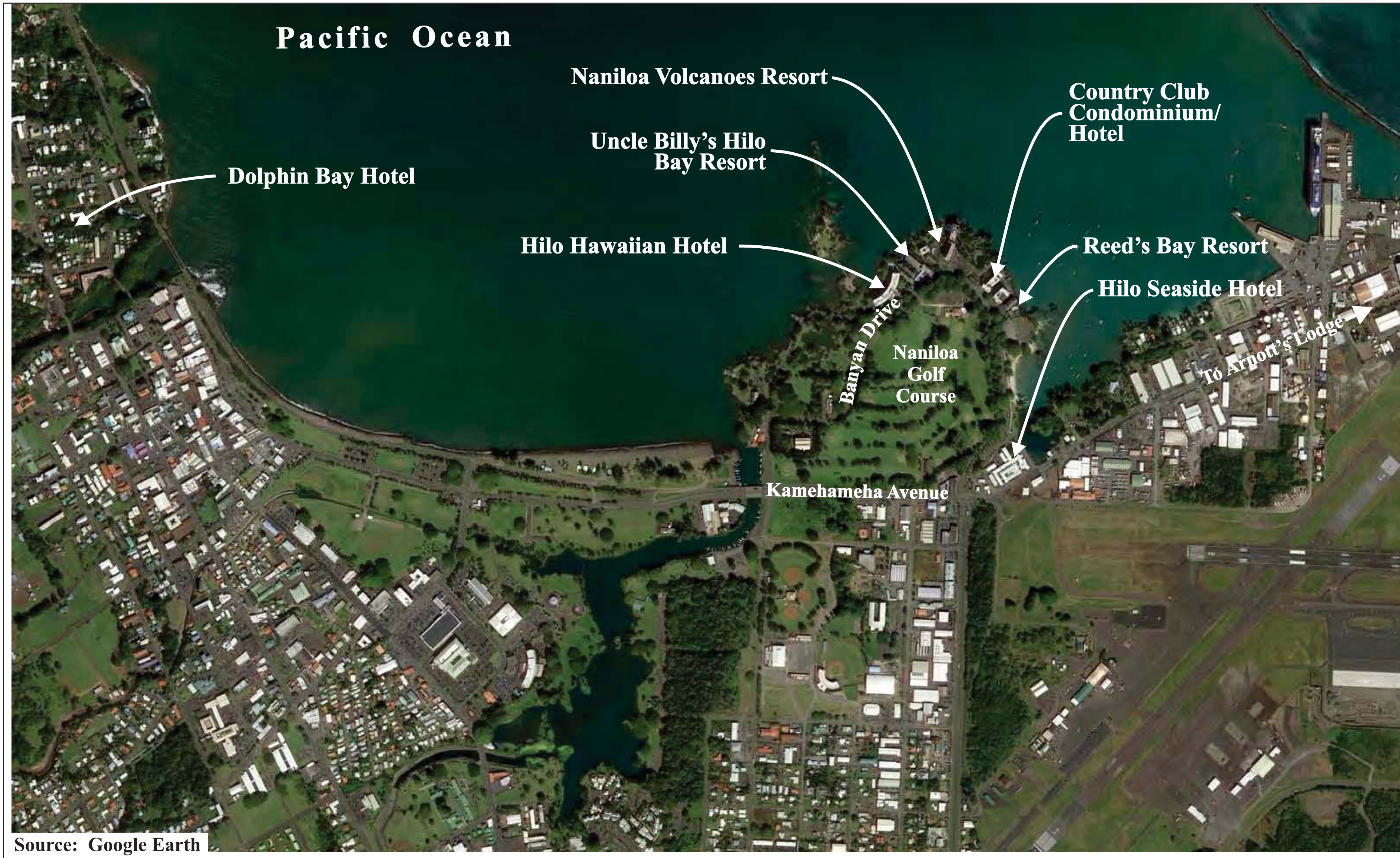


Figure 9

Tourism Market Study
Hilo Hotels

NOT TO SCALE

Prepared for: State of Hawaii, Department of Land and Natural Resources

MUNEKIYO & HIRAGA, INC.

The largest hotel in Hilo is the Naniloa Volcanoes Resort hotel with 325 rooms. It is noted, however, that since 2006, portions of the hotel have stood empty after the previous owner experienced financial difficulties following the renovation of one (1) tower amid the economic downturn. The hotel has been operating just 179 rooms and reported a net loss of $1.1 million between January and November 2013. In December 2013, the Naniloa was purchased for $7 million through a bankruptcy auction. Aqua Hospitality took over management of the hotel with the sale and rehired nearly all of the 35 employees. The new owners plan to invest $20 million on renovations to the property and rebrand it as a 3.5 to 4 star hotel as a Wyland property taking inspiration from the marine artist. The proposed renovation of two (2) of the three (3) towers is slated for completion by the end of 2014. The renovation schedule for Tower 3 (known as the Kilauea Tower), which has been shuttered since 2006, is still to be determined. [2]

There are three (3) other large hotels in Hilo with over 100 rooms. These include the Hilo Hawaiian Hotel, Uncle Billy's Hilo Bay Hotel, and Hilo Seaside Hotel. The remaining hotels in the area are smaller properties offering 18 to 70 rooms.

With a few exceptions, the hotels in Hilo fall within the "budget" category (up to $100 per night) or "standard" category ($101 to $250 per night). A recent survey of hotels in Hilo conducted for this study found that average room rates in the area range from $69 to $110. The hotel infrastructure is old, with all hotels originally built in the 1970s or earlier. While a few properties such as the Hilo Hawaiian Hotel have been recently renovated, most of the properties have not undergone substantial renovation or upgrades in recent years. As a result, the hotels in Hilo, while relatively affordable compared to other Hawaii destinations, are exhibiting signs of their age.

A review of hotel guest ratings and comments on various travel websites such as hotels.com, kayak.com, and yelp.com are consistent with the older infrastructure and "budget" category of hotels in Hilo. On yelp.com, guests rated most of the hotels in Hilo as either 1-star or 2.5-stars out of 5. Guest ratings for the same hotels on hotels.com were slightly higher, in the 3-star to 3.7-star range out of 5. Guests noted in their comments on these websites that the hotels were affordable, inexpensive and old. While some hotels were praised for being clean, guests at other hotels complained that the rooms were dirty,

[2] Gomes, Andrew. "Naniloa Volcanoes Hotel purchased for $7 million," Star Advertiser, 19 December 2013. http://www.staradvertiser.com/businesspremium/20131219__Naniloa_Volcanoes_Hotel_purchased_for_7_million.html?id=236509351
Smith, Dave and Nate Gaddis, "Naniloa Buyer Outlines Plans for 'The Wyland Hilo'", BigIslandNow.com. http://bigislandnow.com/2013/12/13/naniloa-buyer-outlines-plans-for-the-wyland-hilo/

unkept, or run-down. It is noted that these guest ratings and comments are subjective and are not necessarily representative of all guests who stay at the hotels. Nevertheless, this information provides insight into the characteristics of the hotel market in the Hilo area.

Discussions with hotel operators in Hilo indicate that many of their guests are local Hawaii residents and mainland travelers, with international visitors representing a smaller proportion of their client base. Certain events such as the Merrie Monarch Festival, a week-long cultural and hula festival, attracts many guests to Hilo.

It was noted previously that island-wide hotel occupancy on the Big Island averaged 62 percent in 2012. A survey of the hotels in Hilo found that hotel occupancy rates in the area ranged from approximately 60 percent to 90 percent, with a weighted average of 75 percent. While hotel occupancy has averaged 75 percent, the Naniloa Volcanoes Hotel, the largest hotel in Hilo, has been operating just 179 of its total 325 rooms. If the remaining rooms at the Naniloa were added back into the inventory, the overall occupancy rate for Hilo would likely be lower.

D. PLANNED AND PROPOSED HILO LODGING INVENTORY

The Hawaii Tourism Authority's Visitor Plant Inventory Report provides a list of planned and proposed lodging inventory by island. For the island of Hawaii as a whole, the inventory identifies 22 proposed B&B units, 237 multi-family units, and 75 campground units. While the inventory does not provide a breakdown of this information by region, there are no known new hotel or other lodging projects planned for the Hilo area.

E. HILO HOTEL MARKET COMPARISON TO OTHER HAWAII DESTINATIONS

Hilo's hotel inventory is unique from the hotel market found in the rest of the State. Hotels in Hilo are primarily independent hotels not affiliated with national chains or brands such as Best Western, Marriott, or Sheraton found in West Hawaii and on other islands. While the hotels in Hilo are clustered around Bayan Drive, they are not part of a resort destination such as Koolina, Waikaloa, Wailea, or Kaanapali.

Overall, the properties are older and with fewer amenities than hotels elsewhere in the islands. This is reflective in the distribution of hotel units by price class in Hilo compared to the State as a whole. Approximately 43 percent of Hilo hotel units are budget hotels, priced at less than $100 per night while another 54 percent are standard hotels, in the price range of $101 to $250 per night. It is noted that hotel rooms in the "standard" category are among the lower end of spectrum, closer to $101 per night than $250 per night. Together, 98 percent of the hotel rooms in Hilo are budget or standard rooms. By comparison, the majority of hotel rooms statewide are in the "deluxe" or "luxury" categories (43 percent and 28 percent, respectively). Just 4 percent of hotels in the State are budget hotels. See **Table 20**.

Table 20. Price Class of Hotels, Hilo and State of Hawaii, 2012

	Hilo	State
Budget (Up to $100)	43.4%	3.7%
Standard ($101 to $250)	54.8%	25.7%
Deluxe ($251 to $500)	1.8%	42.5%
Luxury (Over $500/night)	0.0%	28.1%
Source: HTA, Visitor Plant Inventory, 2012.		
Prepared by: Munekiyo & Hiraga, Inc., 2014.		

The relative affordability of Hilo hotels can be compared to price class of lodging by island as well. **Table 21** provides a breakdown of all lodging units (not just hotel rooms) by island. It is noted that this data does not separate out Hilo from Kona and other regions on the island of Hawaii. However, as previously noted, lodging units in Hilo make up just 12 percent of all units on the island. As a result, the data presented for the island of Hawaii would be heavily weighted towards Kona and other areas. **Table 21** shows that, with the exception of Molokai, the majority of lodging units on all islands fall within either the "deluxe" or "luxury" categories.

Table 21. Price Class of All Lodging Units by Island, 2012

	Oahu	Maui	Molokai	Lanai	Hawaii	Kauai	STATE
Budget (Up to $100)	7.1%	4.2%	5.2%	1.1%	9.9%	7.7%	6.9%
Standard ($101 to $250)	33.7%	25.1%	88.2%	3.1%	28.1%	26.4%	29.9%
Deluxe ($251 to $500)	40.7%	23.1%	5.9%	43.4%	48.3%	40.5%	37.9%
Luxury (Over $500/night)	18.4%	47.6%	0.7%	52.4%	13.7%	25.4%	25.2%
Source: HTA, Visitor Plant Inventory, 2012.							
Prepared by: Munekiyo & Hiraga, Inc., 2014.							

The data presented here illustrates that the hotel inventory in Hilo is much more affordable compared to other markets in the state. While there is variation in price across different islands and markets, it can be assumed that price is generally correlated with certain characteristics and expectations of hotels in terms of room size, property upkeep, level of service, and amenities.

The lack of diversity of hotel inventory in Hilo in terms of price class may limit its ability to attract visitors looking for a certain quality of hotel for their Hawaii vacation. While visitors to most other markets have a variety of options for their lodging needs, ranging from budget to luxury, visitors to Hilo are primarily limited to hotels in the budget and standard categories. As such, the demographic of visitors who do choose to stay in deluxe and luxury, four- and five-star hotels may be less likely to visit Hilo due to the lack of high-end hotels that meet their preferences and expectations.

Industry professionals note that Hilo's hotel inventory was not always dominated by budget properties. In the 1970s, there were approximately 2,000 hotel rooms in Hilo and several 3- to 4-star hotels. At that time, there were multiple direct flights from the mainland to Hilo and hotels in the area enjoyed high occupancy rates. However, as the flights and tourism infrastructure shifted to West Hawaii, the number of hotel rooms in Hilo decreased with a number of hotels closing.

Several professionals in the visitor industry in Hilo suggest that the current state of Hilo's hotel inventory limits the ability of the region to attract more visitors and conferences. They note that while a 5-star luxury hotel may not be needed in Hilo, a 3- or 4-star hotel could help attract more meetings and conferences. One person involved in the conference and event planning aspect of the industry note that some groups are reluctant to have their events in Hilo because of what they consider to be a lack of suitable accommodations. Another industry professional noted that travel agents on the mainland indicate that there are attractions in Hilo to bring visitors for several nights, but it would be difficult to sell these packages because of the hotel inventory in the area.

Instead of staying in Hilo, some visitors fly in for one-day tours of the island. These "circle island" tours fly visitors in from Oahu to Hilo or Kona in the morning, visit some of the island's main attractions, including the Volcanos National Park, before flying back out in the evening. Other visitors who are interested in the Volcanos National Park choose to stay in West Hawaii and drive to the Park, even though it is a much closer drive from Hilo. Industry professionals suggest that Hilo's hotel inventory may contribute to these patterns.

IV. TOURISM FORECAST

IV. TOURISM FORECAST

Visitor arrivals to Hawaii increased significantly on an annual basis between 2010 and 2012 to rebound from low points associated with the Great Recession. Looking ahead, the State Department of Business, Economic Development, and Tourism (DBEDT) projects more modest tourism growth between 2013 and 2016. As shown in **Table 22**, visitor arrivals are anticipated to increase by 2.1 percent to 3.0 percent annually over the next three years. In 2016, an estimated 8.9 million visitors are expected to visit the islands, compared to 8.2 million in 2013.

Table 22. Visitor Arrival Forecast, 2005-2016

	Air Only	Total Arrivals	Percent Change in Total Arrivals
2005	7,416,574	7,494,236	
2006	7,528,105	7,628,117	1.8%
2007	7,496,820	7,627,819	0.0%
2008	6,713,436	6,822,912	-10.6%
2009	6,420,448	6,517,054	-4.5%
2010	6,916,894	7,018,133	7.7%
2011	7,174,398	7,299,048	4.0%
2012	7,867,143	8,028,742	10.0%
2013	8,064,291	8,235,510	2.6%
2014	8,311,000	8,486,000	3.0%
2015	8,505,000	8,680,000	2.3%
2016	8,687,000	8,863,000	2.1%
Source: DBEDT, Tourism Forecast Arrivals.			
Prepared by: Munekiyo & Hiraga, Inc., 2014.			

The projected growth in tourism varies for different places of visitor origin. As has been widely discussed, the rapidly growing wealthy and middle-class in China is generating a boom in outbound tourism from the country. Visitors from China are anticipated to increase by 32 percent in 2014 alone and is expected to continue to see significant growth in 2015 and 2016. Korea is another growing market segment for visitors to Hawaii, with 10 percent annual growth of Korean visitors in 2014 and 2015. Growth in visitor arrivals from domestic areas, Japan, Canada, and Europe are projected to be more modest over the next three (3) years. **Appendix 5** provides a detailed projection of visitor arrivals by visitor origin.

While there is much discussion on the growing Chinese and Korean visitor segments, it is worthwhile to note that the overall distribution of visitors to Hawaii is not anticipated to change significantly. Domestic travelers and visitors from Japan will continue to comprise an overwhelming majority of visitors to the islands. They represented 81 percent of all visitors in

2012 and are projected to comprise 78 percent in 2016. See **Table 23** for a breakdown of visitor origin by major market area in 2012 and 2016.

Table 23. Visitor Origin by Major Market Area, 2012 and 2016 Projection

	2012	2016
US West	40.4%	39.0%
US East	21.6%	20.6%
Japan	18.6%	18.4%
Canada	6.3%	6.2%
Europe	1.6%	1.7%
Australia & NZ	3.5%	4.4%
China	1.5%	2.9%
Korea	1.9%	2.8%
Other	4.5%	3.9%
Total	**100.0%**	**100.0%**

Source: DBEDT, Tourism Forecast Arrivals.
Prepared by: Munekiyo & Hiraga, Inc., 2014.

While it is important to grow new visitor segments from areas such as China and Korea to grow and diversify the State's tourism base, major trends in the industry will continue to be driven by domestic and Japanese travelers.

V. LODGING DEMAND ANALYSIS

V. LODGING DEMAND ANALYSIS

The market study has presented data and analysis on the tourism, visitor characteristics, lodging trends, and tourism industry forecast. This section will summarize the key findings and present an analysis that of demand for a new hotel in Hilo. To understand the demand for a new hotel, several key questions will be addressed:

1. Why does Hilo capture a lower proportion of visitors to the State compared to other islands and markets?

2. Can the market support a new hotel?

3. Would a new hotel attract a larger proportion of visitors to Hilo?

A. KEY FINDINGS

1. **Hilo captures very low percent of visitors to State compared to all other major markets.** Approximately 7 percent of visitors to Hawaii in 2012 stopped in Hilo compared to 15 percent for Kona, 14 percent for Kauai, 29 percent for Maui and 63 percent for Oahu.

2. **Visitors to Hilo have shorter stays than visitors to other markets.** On average, visitors to Hilo stayed 3.9 days. By comparison, visitors to Kona stayed an average of 7.1 days. Visitors to Oahu, Maui, and Kauai all stayed longer than seven (7) days.

3. **Air capacity for direct flights from the U.S. mainland and international destinations to Hilo is negligible.** Flights to Hilo represented just 0.6 percent of total seats to the State in 2012. There are no direct international flights to Hilo. Of the 7.1 million domestic seats to the State in 2012, just 58,577 were to Hilo. The next lowest destination was Lihue, Kauai at 575,657 seats. There are also fewer inter-island flights from Honolulu to Hilo compared to the other major neighbor islands.

4. **Hilo has fewer repeat visitors compared to other markets.** In 2012, 55 percent of visitors to Hilo were repeat visitors. Among all of the other neighbor island destinations, repeat visitors accounted for at least 63 percent of visitors. The average number of trips a visitor has taken to Hawaii is 4.9 trips; for Hilo this figure is 3.9 trips.

5. **Visitors to Hilo were less likely to rate their experience as "Excellent" compared to all other markets.** In 2012, 48 percent of visitors to Hilo rated their experience as "excellent", the only market where less than half of visitors gave an "excellent" rating. For all other markets, at least 57 percent of visitors rated their experience as "excellent". For Kauai and Maui, 69 percent and 66 percent of visitors had excellent experiences.

6. **Many visitors to Hilo participate in sightseeing activities but there are fewer opportunities for recreation, entertainment, and cultural experiences.** Approximately 92 percent of visitors to Hilo partake in sightseeing activities, which is comparable to visitors to the state as a whole. However, a lower percentage of visitors engage in recreational activities (74 percent in Hilo, 95 percent in the State), entertainment (71 percent in Hilo, 99 percent in the State), and cultural activities (34 percent in Hilo, 70 percent in the State). While Hilo's geography and weather patterns are not as conducive to beach activities and other water sports, its small-town charm and local character are attractive to visitors.

7. **Hotels in Hilo are primarily on the lower end of the price spectrum compared to the state as a whole.** Hotels dominate the lodging inventory in Hilo, comprising 75 percent of all lodging units. Other markets have a greater diversity of lodging options, including more timeshares and condominium hotels. The hotels in Hilo are lower priced, which is reflective of the older nature of many of the properties. In Hilo, 43 percent of hotel rooms are "budget" rooms (priced less than $100 per night) and 55 percent are "standard" rooms ($101 to $250 per night). By comparison the majority (71 percent) of hotel rooms in the state are considered "deluxe" ($251 to $500 per night) or "luxury" (over $500 per night).

8. **A survey of Hilo hotels found that occupancy ranges from 60 percent to 90 percent.** The weighted average of hotel occupancy in Hilo based on this survey was 75 percent. However, the Naniloa Volcanoes Hotel, the largest hotel in Hilo, has been operating just 179 of its total 325 rooms. If the remaining rooms at the Naniloa were added back into the inventory, the overall occupancy rate for Hilo would likely be lower.

B. WHY DOES HILO CAPTURE A LOWER PROPORTION OF VISITORS TO THE STATE?

Hilo's "capture rate" of visitors to Hawaii is the lowest of all major markets. Only 7 percent of visitors to the State stopped in Hilo in 2012. In addition to the lower capture rate, Hilo visitors stay in the area for a shorter period of time, are less likely to be return visitors, and report lower satisfaction ratings compared to other markets within Hawaii. Several factors contribute to this pattern.

1. **Weather.** Many visitors to Hawaii come to the state seeking warm and sunny weather to enjoy the outdoors. Characterized by more clouds and rain, Hilo's weather differs from many other tourist destinations within Hawaii. According to The Weather Channel, the average annual precipitation in Hilo is 127.1 inches per year. By comparison, Kona receives an average of 12.0 inches of rain per year and rainfall in Honolulu averages 22.4 inches per year.

2. **Fewer Opportunities for Beach and Ocean Recreation.** As the geologically youngest island in the State, the Big Island and Hilo specifically do not have many sandy beaches that attract visitors to Hawaii. Statewide, 87 percent of visitors report participating in going to the beach, sunbathing, and swimming. Only 30 percent of Hilo visitors engage in these beach activities, by far the lowest proportion among all other markets in the state. Similarly, a substantially lower proportion of Hilo visitors go surfing/body boarding/paddle boarding, canoeing/kayaking, or snorkeling/scuba diving than other markets or the state as a whole. The limited opportunities for beach and ocean recreation activities place Hilo at a competitive disadvantage compared to other locales in the State for tourists who are seeking these typical vacation experiences. While Hilo does not try to compete with other markets as a beach destination, many visitors to Hawaii may seek that type of experience.

3. **Fewer Opportunities for Entertainment and Cultural Experiences.** As previously mentioned, the small town character of Hilo results in more limited entertainment, dining, night life, shopping, and cultural activities. A lower percentage of Hilo visitors participate in entertainment and cultural activities such as fine dining, dancing, karaoke, luaus, etc. Although Hilo is rich in culture and history, there are fewer opportunities for visitors to partake in these types of activities.

4. **Purpose-driven visits.** Local hotel operators report that many visitors come to Hilo for a specific purpose, such as sightseeing in the area. For example, many

visitors come to Hilo to visit sights unique to the region, such as Volcanoes National Park or Akaka Falls. However, visitors tend to not stay in the area for extended periods of time, due in part to the limited opportunities for beach and ocean, entertainment, and cultural activities, as discussed above.

5. **Flight Capacity Results in Lower Accessibility.** The currently available flights make Hilo more difficult to access compared to the other major neighbor island destinations in the State. In addition to significantly fewer direct domestic flights and no direct international flights, there are fewer inter-island flights from Honolulu to Hilo than other neighbor island destinations. The more limited airline capacity places Hilo at a disadvantage compared to other destinations.

6. **Lack of Critical Mass of Tourism Amenities.** While hotels in Hilo are clustered in the Banyan Drive area, Hilo does not have the critical mass of tourism amenities and infrastructure that is found in many other areas. Other islands are home to major resort destinations that have name recognition and attract visitors with their offerings of hotels, golf courses, shopping, and dining opportunities. Resorts such as Waikaloa in West Hawaii, Wailea and Kaanapali on Maui, or Poipu and Princeville on Kauai are world-renowned destinations and are well known among visitors. Part of Hilo's charm and uniqueness is that it is not developed into a major resort area like other destinations. Nevertheless, some visitors do seek out the conveniences and amenities offered by resorts.

7. **Older Infrastructure.** In addition to the lack of critical mass of tourism facilities, what does exist is older and has not received the same level of reinvestment and upkeep compared to other destinations in the State. As mentioned previously, all of the hotels along Banyan Drive were built in the 1970s or earlier and most have not undergone major renovation in recent years. In comparison, other destinations in the state, particularly those in major resort areas, have newer hotels and amenities and are undergoing constant investment to upgrade the infrastructure to ensure that the resorts remain competitive not only within Hawaii but among other destinations across the country and world. As other destinations continue to invest in and improve their tourism infrastructure, Hilo's infrastructure has been stagnant or diminished, placing it at a competitive disadvantage that becomes increasingly difficult to overcome. The declining condition of tourism facilities and infrastructure in the Banyan Drive area has led to a lack of a sense of place. Locals and industry professionals recall that Banyan Drive was once a thriving area, but as hotels closed and the property conditions and target market changed over time, that sense of place declined.

8. **<u>Lack of Diversity in Hotel Price Class.</u>** The majority of hotels in Hilo are lower-end hotels in the "budget" or "standard" price classes. By comparison, visitors to other markets have a variety of options ranging from budget to luxury hotels. Those visitors who prefer to stay in deluxe and luxury, four- and five-star hotels may be less inclined to visit Hilo due to the lack of high-end hotels. Industry professionals have noted that Hilo's hotel inventory has been a limiting factor in attracting more visitors and conferences to the area.

C. CAN THE MARKET SUPPORT A NEW HOTEL IN HILO?

Given Hilo's lower capture rate of visitors to the State of Hawaii and the circumstances contributing to this pattern, the question to be answered is whether there is demand in Hilo for a new hotel. Hotel occupancy rates for the island of Hawaii have averaged 64.3 percent between 2000 and 2012. As discussed in Chapter III, Hilo hotels comprise just a small portion (12 percent) of all hotels on the island of Hawaii, so the island-wide hotel occupancy rate is based largely on properties outside of Hilo. A recent survey of hotels in Hilo found that occupancy rates in the area ranged from approximately 60 percent to 90 percent, with a weighted average of 75 percent.

It is noted that the Naniloa Volcanoes Hotel has been operating just 179 of its 325 total rooms. As the largest hotel in the area, the closure of portions of the Naniloa has implications for occupancy at other hotels in Hilo. One hotel operator in the area noted that when the Naniloa removed rooms from its inventory in 2006, other hotels in the area saw an increase in their occupancy rates as they were able to gain business from people who may have otherwise stayed at the Naniloa. When the renovation of the Naniloa is complete and the 146 remaining hotel rooms are added back to the inventory, this hotel operator expects that other hotels in Hilo will see a decrease in occupancy.

The question as to whether the market can support a new hotel depends on how many more visitors Hilo can attract. In general, increased demand for a new hotel will be dependent on this factor. This is based on the assumption that there is no change in the percentage of people staying at hotels (versus other types of accommodation). In other words, hotels will not draw people away from B&Bs, vacation rentals, and other types of lodging. This is a conservative assumption as a newer and/or nicer hotel may draw a higher proportion of visitors to stay in hotels rather than other types of accommodation, further increasing the demand for hotels.

An increase in the number of people coming to Hilo can be the result of two (2) factors.

1. More visitors come to the State of Hawaii as a whole, thereby increasing the

number of people who come to Hilo; AND/OR

2. A higher percentage of visitors to the State come to Hilo (a higher capture rate).

The State Department of Business, Economic Development, and Tourism has provided a forecast of visitor arrivals to the State through 2016. DBEDT projects that 8.7 million visitors will come to Hawaii by air in 2016. Using this as a baseline, this analysis estimates the potential demand for new hotel rooms in Hilo under different capture rate scenarios described below:

- Baseline: 6.7 percent of visitors to the State go to Hilo (no increase in Hilo capture rate)
- 7 percent capture rate
- 8 percent capture rate
- 9 percent capture rate

Table 24 presents the analysis of demand for new hotel rooms in 2016 under these four (4) scenarios. Assuming 8.7 million visitors to the State in 2016, and utilizing the various capture rates in each scenario, the analysis estimates the increase in hotel nights per year. The increase in hotel nights is then translated into number of hotel rooms (by dividing number of hotel nights by 365 days). An occupancy rate of 75 percent is conservatively applied, based on the State's average hotel occupancy rate between 2000 and 2012 and the average occupancy rate reported by Hilo hotels surveyed for this report. If a lower occupancy rate were assumed, the demand for new hotel rooms would be greater. The final step in the analysis is to subtract the rooms that will be added back into the inventory with the completion of the Naniloa Volcanoes Resort renovation.

For example, in the scenario where Hilo captures 7 percent of visitors to the State, the number of visitors to Hilo in 2016 would be 608,090 visitors, an increase of 81,655 from 2012. Of these visitors, it is assumed that 29 percent, or 176,954 visitors, will stay in hotels. This translates to 237,549 hotel nights, based on 2.2 persons per room and visitors staying an average of 2.9 nights. Under the 7 percent capture rate scenario, there would be an increase in 31,898 hotel nights per year in 2016 over 2012 conditions. These 31,898 hotel nights would be equal to 87 hotel rooms, if the rooms were 100 percent occupied throughout the year. As previously mentioned, however, this analysis assumes that hotels have an average occupancy rate of 75 percent. Thus, the 31,898 hotel nights would correspond to 117 hotel rooms at 75 percent occupancy. The analysis shows that with a 7 percent capture rate in 2016, there would be demand for 117 additional hotel rooms. However, the Naniloa renovation will be adding 146 hotel rooms back into the market.

Table 24. New Hotel Demand Analysis, 2016

		Assumes No Increase in Hilo Capture (6.7% of Visitors go to Hilo)		**Assumes 7% of Visitors go to Hilo**		**Assumes 8% of Visitors go to Hilo**		**Assumes 9% of Visitors go to Hilo**			
	2012	**2016**	**Net Change**	**2016**	**Net Change**	**2016**	**Net Change**	**2016**	**Net Change**	**Assumptions**	
Visitors to State	7,867,143	8,687,000	819,857	8,687,000	819,857	8,687,000	819,857	8,687,000	819,857		
Visitors to Hilo	526,435	581,296	54,861	608,090	81,655	694,960	168,525	781,830	255,395		
Visitors staying in hotel	153,193	169,157	15,965	176,954	23,762	202,233	49,041	227,513	74,320	29%	of visitors to Hilo
Total Hotel Nights	205,651	227,082	21,431	237,549	31,898	271,485	65,834	305,421	99,770	Visitors Staying in hotel / average party size of 2.2 x average length of stay of 2.9 nights (3.9 days)	
Increase in Hotel Nights per Year			21,431		31,898		65,834		99,770		
Number of Hotel Rooms assuming 100% Occupancy			59		87		180		273	/365	
Number of Hotel Rooms assuming 75% Occupancy			78		117		240		364		
Less Naniloa Addition of Rooms Back into Market			-146		-146		-146		-146		
Demand for New Hotel Rooms			**-68**		**-29**		**94**		**218**		

Source: DBEDT, Tourism Forecast Arrivals; HTA, 2012 Visitor Research Report.

Prepared by: Munekiyo & Hiraga, Inc., 2014.

Once this has been factored in, the demand for hotel rooms is -29 rooms under these assumptions. This analysis is repeated for each of the scenarios outlined above.

Table 25 summarizes the analysis conducted in **Table 24** above. Assuming 8.7 million visitors to the State in 2016, there would not be demand for a new hotel in 2016 if Hilo's capture rate of visitors to the state remains level at 6.7 percent or marginally increases to 7 percent. If Hilo's capture rate increases to 8 percent or 9 percent of visitors to the State, the market could support a new hotel to accommodate the increased number of visitors to the area.

Table 25. Summary of New Hotel Demand Analysis, 2016

Capture Rate	Demand for New Hotel Rooms	Can Market Support New Hotel?
6.7 percent (2012 level)	-68	No
7 percent	-29	No
8 percent	94	Yes
9 percent	218	Yes
Prepared by: Munekiyo & Hiraga, Inc., 2014.		

This analysis indicates that in order for the market to support a new hotel in the year 2016, Hilo would need to attract a larger percentage of visitors to the State than it currently does. Specifically, Hilo would need to capture an estimated 8 to 9 percent of visitors to the State to create demand for new hotel room inventory. Historically, Hilo has achieved these capture rates in the past. Between 2005 and 2007, Hilo's capture rates ranged from 8.0 percent to 9.7 percent. Refer to **Figure 5**.

D. WOULD A NEW HOTEL ATTRACT A HIGHER PROPORTION OF VISITORS TO HILO?

If Hilo must achieve a capture rate of at least 8 percent of visitors to the State to support a new hotel in 2016, the question that remains is, can Hilo achieve this higher capture rate? Would a new hotel in and of itself attract a higher proportion of visitors to Hilo? In other words, does the theory of "if you build it, they will come" apply?

The analysis of Hilo's lower capture rate compared to other major markets in the State presented earlier identifies a number of different factors that contribute to this pattern. Lack of diversity in hotel price class and older infrastructure are just two (2) components contributing to Hilo's lower capture rate. Other factors include weather, geography resulting in fewer opportunities for beach and ocean recreation, the small town character limiting opportunities for entertainment and cultural experiences, and the lack of major resort destinations and critical mass of tourism activities.

Hotels represent just one component of tourism infrastructure. The challenge that Hilo faces is that while other destinations across the state have been constantly improving and upgrading its infrastructure to keep up with global tourism trends, Hilo's infrastructure has stagnated or diminished, resulting in a disadvantage that becomes increasingly difficult to overcome. Discussions with those in the visitor industry suggest that a new and/or higher-end hotel would help to attract visitors who are less inclined to visit Hilo due to the budget-nature of the current hotel inventory and could help to attract more conferences and events. However, the area would still be at a competitive disadvantage when compared to other destinations which have received regular reinvestment in infrastructure over time.

Due to the variety of factors contributing to Hilo's lower visitor capture rate, it is not anticipated that a new hotel alone would result in a substantial increase proportion of visitors to the area. However, the currently planned renovation to the Naniloa Volcanoes Resort provides an excellent test case. The proposed $20 million renovation and rebranding to a 3.5 to 4 star hotel would represent a significant improvement over current conditions. The impact of this renovation and rebranding to the overall tourism patterns in the area would be indicative of potential impacts of a new hotel to the area and its ability to attract larger proportions of visitors to Hilo.

It is also noted that hotels in Hilo are independent hotels not affiliated with national chains or brands. A brand name or chain hotel may provide name recognition that is associated with a certain standard of quality that may attract visitors who are wary of staying at the independent hotels that are found in Hilo (many of which have mixed reviews on travel websites). This may have been more true in the past, but in today's world of online travel resources, having name recognition for a hotel may be less important for travelers as they are able to see photos, read guest reviews, and get other information on the hotel online. For older travelers who may be less technologically savvy and international visitors, brand recognition may provide more of an added benefit. Chain hotels also have the ability to attract visitors who are using reward travel (such as free nights or room upgrades).

There are external factors that can also influence Hilo's capture rate. Specifically, the capacity of other destinations in Hawaii to accommodate more tourists will influence where visitors travel. While visitor arrivals have increased over the past two (2) decades, growth in the number of visitor units (hotels, condotels, time-share rooms, etc.) have not kept pace. As a result, the capacity for accommodating more tourists is reaching its limit on Oahu in particular. Economists and industry professionals note that limited hotel capacity on Oahu is driving hotel rates up and softening demand.[3] Recall that in 2012, hotel occupancy on Oahu was 85 percent, much higher than the statewide average (77 percent) and the next highest markets of Maui (73 percent) and Kauai (69 percent). Thus, as overall visitor arrivals to the state grow in the future, it is anticipated that neighbor islands will need to accommodate a larger share of this growth due to the saturation of Oahu's hotel inventory. However, the capacity limits on Oahu hotels does not automatically mean that more visitors will choose to travel to Hilo. Other neighbor island destinations still have capacity and room to grow in terms of hotel occupancy. As such, Hilo must still compete with Kona and other neighbor island markets to increase its capture rate of visitors to Hawaii. In addition, visitors also may choose to travel to vacation destinations outside of Hawaii, such as the Caribbean or Mexico.

E. CONCLUSION

This report has presented information on tourism trends in the State and Hilo and provided analysis of the lodging market in Hilo. Based on the current hotel inventory in Hilo and forecasted visitor arrivals in the future, it is estimated that Hilo would need to capture an estimated 8 to 9 percent of visitors to the State to create new demand for hotel room inventory. The analysis presented herein suggests that there are a variety of factors contributing to Hilo's lower capture rate of visitors to Hawaii. While Hilo and the surrounding area offer visitors unique experiences and sightseeing opportunities, the tourism infrastructure is dated. A new hotel alone is not anticipated to substantially increase the proportion of statewide visitors who come to Hilo. Hotels are just one component of the visitor experience. Visitors to Hawaii have options on where to travel to within the State, with other destinations offering newer and higher quality hotels, golf courses, and other visitor amenities and attractions such as dining, entertainment, and shopping. Hilo's small-town character is valued and unique, and is not expected to change. In fact, its small-town charm is an appealing factor to those looking to experience a different kind of Hawaii. Opportunities for improving the overall tourism infrastructure in Hilo and the Banyan Drive area in particular, including the other hotels and golf course, may help to recreate a sense of place around Banyan Drive and restore Hilo as a more prominent visitor destination within the State. Other factors such as increased flight capacity and marketing efforts may also increase Hilo's capture rate of visitors. In particular, there may be marketing opportunities that leverage Hilo's unique character, differentiating it from other destinations within Hawaii. Collectively, overall

[3] Schaefers, Allison. "Hawaii tourism growth leading to crisis in hotel capacity", skift.com, March 11, 2013. http://skift.com/2013/03/11/hawaii-tourism-growth-leading-to-crisis-in-hotel-capacity/

improvements to the tourism infrastructure, increased flight capacity, and marketing efforts may increase the proportion of visitors to the State who travel to Hilo such that there would be sufficient demand for a new hotel. Absent other actions aimed at improving the tourism infrastructure in Hilo and attracting more visitors to the area, a new hotel alone is not anticipated to substantially increase the number of visitors to the region.

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VI. REFERENCES

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APPENDICES.

Detailed Data Tables

Appendix Table 1. Visitor Arrivals by Island and Origin, 2012

	US West	US East	US Domestic Total	Canada	Japan	China	Korea	Other Asia	Europe	Australia & NZ	Latin America	Other	International Total	TOTAL
Total Visitors	3,178,824	1,699,625	4,878,449	499,144	1,465,654	116,866	153,338	19,773	129,252	273,039	25,519	306,110	2,988,694	7,867,143
Oahu	43.8%	59.8%	49.4%	41.9%	96.2%	93.9%	95.9%	88.6%	69.1%	95.3%	76.5%	76.0%	83.5%	62.3%
Maui	34.9%	36.6%	35.5%	51.2%	4.6%	13.1%	28.3%	18.8%	41.4%	18.5%	36.4%	25.3%	19.3%	29.4%
Molokai	0.7%	0.9%	0.8%	0.8%	0.1%	1.3%	0.2%	0.2%	1.6%	1.4%	1.1%	1.1%	0.6%	0.7%
Lanai	0.9%	1.5%	1.1%	0.9%	0.2%	0.5%	0.2%	0.8%	1.1%	1.6%	1.4%	1.4%	0.6%	0.9%
Kauai	17.4%	19.9%	18.3%	13.3%	1.9%	3.3%	1.6%	4.1%	22.3%	8.4%	13.2%	11.9%	6.4%	13.8%
Big Island	18.1%	22.4%	19.6%	19.3%	13.9%	15.3%	8.7%	20.6%	31.5%	16.8%	21.6%	17.1%	16.0%	18.2%
Hilo	**5.0%**	**9.2%**	**6.5%**	**6.5%**	**5.9%**	**7.3%**	**5.3%**	**12.8%**	**14.5%**	**10.2%**	**9.5%**	**8.0%**	**7.1%**	**6.7%**
Kona	16.0%	19.0%	17.0%	17.5%	9.3%	11.3%	5.0%	13.6%	25.8%	12.6%	17.3%	13.4%	12.1%	15.1%

Source: HTA, Arrivals by Country and Island, 2012

Prepared by: Munekiyo & Hiraga, Inc., 2014

Appendix Table 2. Total Seats to Hawaii by Port of Entry and Origin, 2012

	State	Honolulu	Kahului	Kona	Hilo	Lihue
Total Seats	10,322,464	7,258,979	1,782,041	630,776	58,577	592,091
Scheduled Seats	10,206,731	7,143,246	1,782,041	630,776	58,577	589,933
Charter seats	115,733	115,733				
Domestic Seats	7,073,037	4,215,824	1,613,642	609,337	58,577	575,657
Scheduled Seats	7,008,177	4,150,964	1,613,642	609,337	58,577	575,657
Charter seats	64,860	64,860				
US West	6,237,480	3,472,176	1,521,733	609,337	58,577	575,657
...Anchorage	63,114	51,182	10,676	1,256		
…Bellingham	63,240	55,874	7,366			
…Boise						
…Denver	127,456	81,601	25,292	11,215		9,348
...Eugene	2,007	2,007				
...Fresno	7,582	7,582				
…Las Vegas	304,120	281,240	22,880			
…Los Angeles	2,233,061	1,160,275	521,084	232,062	53,553	266,087
…Oakland	356,298	126,522	125,842	51,182		52,752
…Orange County	7,440	7,192	248			
…Phoenix	476,528	249,174	103,834	61,567		61,953
...Phoenix Mesa						
…Portland	255,800	153,039	83,607	13,973		5,181
…Sacramento	162,984	95,160	67,824			
…Salt Lake City	93,684	93,684				
…San Diego	229,272	157,994	71,278			
…San Francisco	881,429	515,570	175,734	117,177	5,024	67,924
…San Jose	341,478	123,662	113,882	52,752		51,182
...Santa Maria	2,007	2,007				
…Seattle	627,973	306,404	192,186	68,153		61,230
...Spokane						
...Stockton	2,007	2,007				
US East	770,697	678,788	91,909			
…Atlanta	109,391	109,391				
…Chicago	131,743	121,359	10,384			
…Dallas	244,575	163,050	81,525			
…Houston	90,304	90,304				
...New York JFK	61,740	61,740				
…Newark	87,354	87,354				
…Washington D.C.	45,590	45,590				

	State	Honolulu	Kahului	Kona	Hilo	Lihue
International Seats	3,249,427	3,043,155	168,399	21,439	0	16,434
Scheduled Seats	3,198,554	2,992,282	168,399	21,439	0	14,276
Charter seats	50,873	50,873				
Japan	1,871,915	1,871,915				
…Fukuoka	122,494	122,494				
…Nagoya	164,399	164,399				
…Osaka	332,921	332,921				
…Sapporo	7,020	7,020				
…Tokyo-HND	328,956	328,956				
…Tokyo-NRT	916,125	916,125				
Canada	362,878	156,606	168,399	21,439		16,434
…Calgary	48,624	12,572	36,052			
…Edmonton	8,694		8,694			
…Vancouver	302,432	140,906	123,653	21,439		16,434
…Victoria	3,128	3,128				
Other Asia	388,674	388,674				
…Seoul	360,704	360,704				
…Shanghai	27,970	27,970				
…Taipei						
Oceania	286,624	286,624				
...Auckland	32,800	32,800				
…Brisbane	7,722	7,722				
…Melbourne	5,337	5,337				
…Sydney	240,765	240,765				
Other	288,463	288,463				
…Apia	9,224	9,224				
…Christmas	5,960	5,960				
…Guam	99,912	99,912				
…Majuro	24,649	24,649				
…Manila	96,798	96,798				
…Nadi	9,540	9,540				
…Pago Pago	28,600	28,600				
…Papeete	13,780	13,780				

Source: Hawaii Tourism Authority, Final Seats Report for 2012

Prepared by: Munekiyo & Hiraga, Inc., 2014

Appendix Table 3. Visitor Activity Participation by Island

	State	Oahu	Maui	Kauai	Hilo	Kona	Molokai	Lanai
ALL SIGHTSEEING	93.5%	90.6%	93.1%	95.9%	91.5%	90.2%	88.6%	74.9%
Self-guided/DriveAroundIsland	84.7%	75.1%	82.9%	85.9%	68.3%	76.8%	64.9%	42.1%
Helicoptor/Airplane Tour	8.1%	1.5%	4.7%	19.8%	7.7%	6.8%	3.4%	0.4%
Boat/Submarine Tour, WhaleWatching	24.1%	11.8%	31.5%	25.7%	1.7%	18.0%	6.0%	12.8%
Visit Communities	29.7%	31.9%	23.3%	25.9%	12.3%	15.4%	23.2%	11.8%
Limo, Van/Bus Tour	11.2%	14.3%	8.1%	5.9%	15.6%	10.6%	20.5%	20.7%
ScenicViews/NaturalLandmarks	62.0%	53.9%	58.3%	73.9%	64.2%	57.6%	55.7%	35.4%
Movie/TV film location	4.0%	5.6%	0.5%	6.0%	1.5%	0.8%	0.6%	1.9%
ALL RECREATION	94.7%	88.2%	94.6%	93.2%	74.3%	89.9%	73.5%	73.6%
Beach/sunbathing/swimming	86.9%	79.9%	86.5%	80.9%	29.9%	74.7%	55.0%	60.7%
Surfing/bodyboarding/paddleboarding	25.2%	20.1%	24.2%	22.6%	2.6%	20.8%	8.3%	6.7%
Canoeing/kayaking	11.8%	6.7%	8.2%	18.4%	2.7%	12.5%	12.3%	1.3%
Snorkeling/scuba diving	45.6%	28.9%	49.0%	45.7%	15.9%	50.9%	26.2%	24.5%
Jet skiing/parasailing/windsurfing	3.4%	2.4%	4.1%	1.6%	1.3%	4.2%	3.0%	2.6%
Golf	10.7%	5.6%	12.5%	12.0%	3.2%	10.7%	3.5%	18.7%
Running/jogging/fitness walking	37.7%	32.0%	38.5%	36.2%	14.9%	29.4%	24.1%	25.9%
Spa	11.2%	6.4%	13.8%	9.2%	2.0%	10.7%	0.9%	14.3%
Backpacking/hiking/camping	21.9%	17.7%	16.5%	29.5%	21.0%	15.6%	23.5%	11.2%
Agritourism	9.5%	6.6%	7.6%	9.9%	5.5%	10.8%	17.2%	5.3%
Sports event/tournament	3.4%	5.4%	0.8%	0.9%	1.0%	2.1%	1.4%	2.2%
StateParks/BotanicalGardens	43.1%	32.8%	37.8%	46.5%	55.4%	44.5%	26.7%	7.8%
ALL ENTERTAINMENT	98.5%	96.8%	95.8%	94.1%	71.1%	90.5%	82.0%	79.2%
Lunch/sunset/dinner/evening cruise	25.1%	22.5%	26.3%	23.9%	11.4%	17.1%	13.2%	14.3%
Live music/stage show	32.1%	28.7%	30.8%	26.1%	6.1%	21.9%	25.7%	12.3%
Nightclub/dancing/bar/karaoke	10.9%	12.2%	8.8%	6.9%	2.5%	7.9%	4.2%	4.1%
Fine dining	60.4%	51.1%	63.2%	60.0%	16.1%	49.7%	5.5%	57.9%
Family restaurant/diner	72.2%	67.5%	66.6%	66.7%	45.6%	60.1%	46.6%	29.6%
Fast Food	40.9%	45.7%	30.9%	30.7%	20.6%	27.5%	15.2%	4.4%
Cafe/Coffee House	41.7%	39.1%	37.1%	33.9%	19.3%	31.9%	24.3%	14.3%
Ethnic dining	32.6%	34.6%	24.0%	27.5%	20.7%	22.9%	7.7%	6.3%
Prepared own meal	56.7%	39.1%	57.2%	61.1%	32.6%	49.3%	56.1%	13.4%

	State	Oahu	Maui	Kauai	Hilo	Kona	Molokai	Lanai
ALL SHOPPING	96.6%	94.2%	95.1%	90.9%	69.6%	88.6%	76.0%	67.3%
Mall/Department stores	52.3%	56.3%	47.9%	31.8%	20.1%	32.4%	1.3%	3.3%
Designer boutiques	24.9%	18.8%	27.9%	22.1%	3.5%	17.8%	0.9%	5.1%
Hotel stores	35.7%	38.0%	33.8%	20.5%	2.9%	26.1%	4.5%	33.2%
Swap meet/Flea market	25.7%	28.5%	15.9%	15.8%	15.9%	22.2%	9.3%	0.5%
Discount/outlet stores	23.6%	21.7%	21.0%	18.7%	12.1%	20.0%	3.0%	2.8%
Supermarkets	62.9%	44.3%	68.0%	63.5%	32.7%	54.2%	35.5%	19.9%
Farmers Market	33.0%	18.9%	26.8%	37.7%	32.0%	41.9%	31.8%	1.9%
Convenience Stores	47.1%	48.3%	44.3%	36.7%	19.3%	35.0%	19.3%	7.9%
Duty Free stores	3.5%	5.2%	2.0%	1.2%	0.5%	1.2%	0.0%	0.2%
Local shops/artisans	67.4%	53.8%	70.1%	72.4%	43.7%	59.8%	58.5%	44.1%
ALL CULTURE	69.4%	70.8%	64.0%	57.2%	34.1%	51.8%	53.0%	28.4%
Historic military site	28.0%	51.7%	3.2%	4.6%	3.6%	4.3%	5.7%	0.7%
Other historic site	27.1%	24.4%	21.0%	24.1%	20.3%	30.0%	40.2%	11.5%
Museum/art gallery	21.2%	16.2%	22.5%	16.9%	13.2%	13.9%	12.1%	14.1%
Luau	30.9%	25.9%	30.4%	25.3%	4.0%	20.1%	4.4%	5.1%
Polynesian show/hula	20.6%	23.8%	14.8%	12.0%	3.5%	12.1%	9.0%	3.2%
Lessons, Hula/Canoeing	3.3%	3.2%	3.0%	1.7%	1.0%	2.0%	1.8%	0.6%
Ukulele Lessons	1.4%	1.7%	0.3%	1.0%	0.4%	1.1%	0.8%	0.4%
Play/concert/theatre	4.4%	4.8%	4.5%	2.6%	1.4%	1.8%	1.5%	0.8%
Art/craft fair	12.5%	7.1%	16.4%	13.1%	7.0%	5.7%	6.6%	3.2%
Festivals	3.8%	3.7%	1.8%	3.4%	2.0%	2.6%	2.4%	1.3%
ALL TRANSPORTATION	91.3%	86.7%	92.3%	90.6%	77.3%	88.6%	78.1%	78.1%
Airport Shuttle	31.7%	36.4%	21.5%	23.8%	3.3%	18.2%	5.4%	36.8%
Trolley	6.1%	9.2%	3.0%	0.9%	0.3%	1.5%	0.0%	1.4%
Public Bus	9.4%	14.6%	4.7%	1.0%	0.7%	1.2%	0.4%	4.9%
Tour Bus/Tour Van	15.3%	20.1%	10.1%	9.5%	20.7%	12.0%	24.0%	32.8%
MEETING	7.5%	10.8%	4.0%	2.8%	2.2%	3.2%	3.4%	6.0%
CONVENTION	4.5%	5.9%	2.3%	1.2%	1.0%	3.7%	0.9%	2.4%

Source: Hawaii Tourism Authority, Visitor Satisfaction and Activity Report

Prepared by: Munekiyo & Hiraga, Inc., 2014

Appendix Table 4. Accommodations by Origin, Hilo, 2012

	US-West	US-East	Canada	Japan	Europe	Australia & NZ	TOTAL
Hotel	**20%**	**25%**	**23%**	**62%**	**42%**	**27%**	**29%**
Condo	3%	2%	4%	3%	5%	3%	3%
Bed & Breakfast	8%	10%	13%	4%	23%	13%	13%
Timeshare	3%	3%	3%	7%	1%	1%	2%
Friends' or Family's Home	34%	16%	6%	6%	3%	6%	14%
Home I Own	3%	0%	1%	3%	1%	1%	1%
Cruise Ship	3%	23%	26%	11%	9%	43%	17%
Vacation Rental Property	19%	14%	17%		7%	2%	13%
Other	9%	8%	9%	3%	10%	5%	8%

Source: HTA, Vistor Satisfaction and Activity Reprot, 2012.

Prepared by: Munekiyo & Hiraga, Inc., 2014

Appendix Table 5. Percent Change in Annual Visitor Arrival by Major Market Area, 2002-2016

	US West	US East	Japan	Canada	Europe	Australia & NZ	China	Korea	Other	Total
2002	4.8%	-0.4%	-3.0%	-12.5%	-11.7%	34.1%	35.8%	9.1%	6.7%	1.4%
2003	4.9%	4.5%	-9.6%	8.0%	-0.2%	-12.2%	-34.6%	0.7%	-14.1%	-0.1%
2004	6.1%	9.2%	10.6%	5.9%	3.5%	38.3%	34.5%	-20.8%	9.6%	8.3%
2005	9.6%	6.9%	2.4%	14.5%	-2.2%	7.8%	24.3%	-8.8%	11.5%	7.3%
2006	6.2%	1.2%	-10.2%	13.0%	-5.6%	-4.6%	29.2%	8.3%	5.6%	1.5%
2007	0.8%	-2.7%	-4.9%	18.7%	1.9%	20.9%	3.0%	11.2%	-7.0%	-0.4%
2008	-14.7%	-11.5%	-9.4%	7.9%	6.6%	-5.3%	-4.2%	-9.6%	3.8%	-10.4%
2009	-1.8%	-7.2%	-0.6%	-3.6%	-9.4%	-12.1%	-22.7%	34.7%	-19.9%	-4.4%
2010	7.6%	3.1%	6.1%	16.9%	8.0%	17.8%	46.6%	59.2%	10.2%	7.7%
2011	2.4%	2.0%	0.2%	17.9%	6.3%	30.4%	33.0%	37.7%	-8.3%	3.7%
2012	6.1%	3.5%	18.0%	4.5%	7.9%	30.0%	43.0%	36.2%	19.6%	9.7%
2013	*1.1%*	*1.0%*	*2.8%*	*2.5%*	*10.0%*	*28.8%*	*16.8%*	*21.4%*	*-8.3%*	*2.8%*
2014	*1.6%*	*1.6%*	*2.5%*	*2.5%*	*2.0%*	*5.0%*	*31.6%*	*10.0%*	*2.0%*	*2.7%*
2015	*1.9%*	*1.4%*	*1.8%*	*1.5%*	*2.0%*	*1.5%*	*20.0%*	*10.0%*	*2.0%*	*2.3%*
2016	*1.8%*	*1.3%*	*1.8%*	*1.4%*	*2.0%*	*1.3%*	*15.0%*	*7.0%*	*2.0%*	*2.2%*

Source: DBEDT, Tourism Forecast Arrivals

Prepared by: Munekiyo & Hiraga, Inc., 2014