Fewer Economy Hotel Rooms Mean Waikīkī Visitor Industry Is Changing

By Dr. Chuck Kelley

There are many well-known and oft-cited reasons why things are so expensive in Hawai‘i, and we all bemoan them every day because they make it hard for so many local residents to make ends meet. In the hotel business, the high cost of doing business ultimately translates into the fact that upscale hotels, with higher room rates, simply make better business sense—i.e., are more profitable—than economy hotels. In fact, economy hotels are often no longer financially feasible at all! This has forced many economy and budget hotels to change strategy. Some have been converted to condominiums; others have invested millions of dollars and moved into the higher-end market. Either way, there are now fewer economy hotels in Waikīkī.

In our own portfolio, a few years back we had 15 OHANA Hotels specifically offering clean, simple, fun and affordable rooms. Today we have only three. I am proud of what we have accomplished and it has been a great strategy for us, but what about the long-term strategy for the destination as a whole? What is the impact of Waikīkī turning into a more upscale destination?

Right now we are all delighted to see the Waikīkī visitor industry doing well. Market demand for a Hawai‘i vacation is way up, driving record room rates and occupancies. Most hotel properties have climbed out of the global financial crisis that began in 2008 and are now generating the profits needed to catch up on deferred expenses that weren’t affordable a couple of years back. Waikīkī is looking beautiful, the hotel rooms are upgraded and clean, and our visitors are having wonderful vacations.

On the other hand, an economy vacation in Waikīkī is at risk of becoming a thing of the past, and the national news has recently highlighted this reality.

A survey conducted by TripAdvisor put Honolulu at the top of its “most expensive” list and found that one night at a four-star hotel, with cocktails, dinner, wine and taxi, would cost $504.94. That’s even more than New York City!

A recent CheapHotels.org survey found that during the recent Presidents’ Day weekend, our visitors were faced with spending a minimum of $294 per night for a three-star hotel room within a mile of the beach. Ouch!

This is a serious issue since there are many competing destinations that would love to undercut Waikīkī’s prices and steal our business. We may be pricing ourselves out of the economy market altogether. We would be well advised to remember that Waikīkī grew into the popular destination it is today thanks in large part to the presence of many hotels catering to the needs of “Mr. and Mrs. Middle America,” something that my grandparents, Outrigger founders Roy and Estelle Kelley, played a major role in creating.

As a concrete example of the lack of economy-priced hotel rooms, last year Hawai‘i was selected as the location for the 2013 U.S. Youth Soccer Region IV (West) Championships. This tournament draws teams from 14 states, and based on past experience, the organizers anticipated a Hawai‘i attendance of 4,500 players and 15,000 spectators. In creating their hotel room blocks, they reserved enough space to accommodate 232 visiting teams.

Over the course of the year, youth soccer teams across the western United States competed to qualify for the tournament. But when the winning teams went to book their reservations, many were shocked to find
they just could not afford the trip, including airfare, hotel accommodations and food. Some teams abandoned the hotel industry and found housing in private homes, condo vacation rentals and university dormitories. Eighteen teams gave up altogether, canceling their plans and declining the invitation to play. Imagine the disappointment of those players and families who worked so hard and were so looking forward to a trip to Hawai‘i and the championship tournament! Worse, imagine the impression that must have made on thousands of friends and family members who have also been dreaming of vacationing here one day – and have now learned that Hawai‘i’s high prices have very likely put that dream out of reach.

Middle-class American leisure travelers are the largest segment of the market and they have always served us well. To lose this business today will make the next downturn even more painful. And it is guaranteed that that in our cyclical economy, there will be a downturn.

There are no easy answers, and we are going to need ideas from everyone to keep Waikiki’s visitor industry diversified and able to accommodate a wide range of travelers. In the long run, each market segment is important, and we neglect any of those segments at our peril. The high cost of doing business contributed to the decline of agriculture in Hawai‘i. We cannot let it erode the foundation of our visitor industry – the engine of our entire economy – as well.