KLONINGER & SIMS
CONSULTING LLC

July 2020

Mr. Steve Shur
President
TravelTech
3030 Wilson Blvd., Suite 700
Arlington, VA 22201

Dear Mr. Shur,

The COVID-19 pandemic has disproportionately impacted the global travel industry and the meaningful economic activity it generates for communities around the world. With travel and hospitality being the main economic drivers in Hawai‘i, Travel Tech has asked Kloninger & Sims Consulting to analyze the state's short-term rental market and the role it can play in meeting new consumer trends and supporting the state's post-COVID-19 economic recovery.

This report provides a snapshot of the economic activity short-term rentals generate for the state by analyzing 2019 visitor spending in Hawai‘i, in particular the amount of visitor spending associated with vacation rentals. This report also provides insight into consumer travel trends and the implications for Hawai‘i's visitor industry. This letter summarizes our findings and analysis.

Hawaii's Visitor Industry

The visitor industry in Hawai‘i continued to grow in 2019. Expanded air service and an increase in the supply of accommodations contributed to a record 10.4 million visitors in 2019 – the eighth consecutive year of record visitor arrivals and a 5.4% increase from 2018, according to Hawai‘i Tourism Authority ("HTA") data. Some highlights of the record-setting year include:

- State visitor spending reached $17.8 billion in 2019, up 1.4% from 2018
- Airlift to Honolulu International Airport increased 1.7% to 8.4 million seats

According to the Hawai‘i Department of Business, Economic Development & Tourism ("DBEDT"), tourism is Hawai‘i's largest export sector, with visitor spending representing 16.2% of the state's GDP, rising to over 23% when indirect spending is included[1]. In fiscal year 2019, tourism generated between 30% and 35% of the $2.6 billion of state tax revenues, according to data from the Hawai‘i Department of Taxation.

[1] We note these figures include inter-island air travel but not the cost of traveling to the state.

While vacation rentals have played an important role in the state's visitor industry for decades, in more recent years, they have helped the state accommodate the increasing number of visitors. This analysis of vacation rental visitors' spending provides context about the role vacation rentals have played in supporting Hawai'i's visitor industry and overall economy.

Understanding how vacation rentals support the state's visitor industry is critical given the impacts of COVID-19. In response to the pandemic, Hawai'i Governor David Ige issued an emergency proclamation, effective March 26, 2020, that implemented a mandatory 14-day quarantine for all visitors arriving in the state. The quarantine, in effect, shutdown Hawai'i's tourism industry, with visitor arrivals in April and May down 99.2% compared to the prior year.[2] Hawai'i's unemployment rate spiked to 23.5% in April, compared to the pre-COVID level of 2.4%, and nearly 240,000 residents have filed unemployment claims. The mandatory 14-day quarantine for out-of-state visitors was extended through the end of August, after which air travelers who have tested negative for COVID-19 will be allowed to enter the state without quarantining, effectively reopening Hawai'i to tourism.

In addition, the governor's 'Stay at Home' order designated hotels and motels as essential businesses and allowed for their continued operation, but denied vacation rentals a similar designation despite representing about one third of the accommodation market in the state. Vacation rentals have been required to cease operation unless they provide accommodation to holdover visitors or essential workers. As of July 1, vacation rentals on the Neighbor Islands have been allowed to reopen for intrastate travelers, but the City & County of Honolulu has not announced a reopening date for Oahu vacation rentals.

Current DBEDT forecasts estimate it will take six years for Hawai'i's visitor arrivals to return to 2019 levels. Given their substantial market share, Hawai'i's vacation rentals will be an important component of the state's tourism recovery in the coming months and years.

To assess their impact, this report analyzes recent research on consumer travel trends, the 2019 vacation rental market, vacation rental visitor spending on both the basis of per accommodation type and per person per day (PPPD), and total spending per visitor party.

2019 Hawaii Vacation Rental Visitor Arrivals

In 2019, visitors staying in vacation rentals[3] represented a substantial portion of Hawai'i's visitor market, ranging from 16.9% of the market on Oahu to 35.5% of the market on Hawai'i Island. While Oahu welcomed the largest number of Vacation Rental visitors, over one million, it corresponded to the lowest share of total visitor arrivals relative to the Neighbor Islands. Vacation Rentals comprise a larger share of the visitor market on the Neighbor

[2] June data have not been released by HTA, but June visitor arrivals are expected to be only marginally higher than April and May visitor arrivals.

[3] For the purpose of this study, Vacation Rental visitors are defined as Hawai'i visitors staying in a Bed & Breakfast, Rental House, Private Room in a Private Home, Shared Room in a Private Home and an allocation of visitors staying in a Condominium.

Islands, ranging between 30.4% in Maui County to 35.5% in Hawaiʻi County. In total, vacation rentals accommodated about 2.5 million visitors to Hawaiʻi last year representing a year-over-year increase of 5.2%.

Table 1
2019 State of Hawaiʻi Visitor Arrivals,
Vacation Rental Visitor Arrivals by County &
Share of Vacation Rental Market

County	Total Visitor Arrivals	Vacation Rental Visitor Arrivals	Vacation Rental Visitors Percent of Total
Oahu	6,193,027	1,048,591	16.9%
Maui	2,897,624	881,865	30.4%
Kauai	1,373,618	460,568	33.5%
Hawaiʻi Island	1,708,957	605,832	35.5%
State*	**10,424,995**	**2,515,993**	**24.1%**

*Note: Island figures do not sum to the state total due to multi-island travel.
Source: Kloninger & Sims analysis of HTA data

Considerations as Hawaii Tourism Reopens & Trends to Monitor

The heightened health and safety concerns associated with the COVID-19 pandemic are changing traveler trends and preferences. We reviewed various research reports on current US consumer sentiment regarding travel in the COVID-19 era, including:

- Destination Analyst's *"Coronavirus Travel Sentiment Survey"*
- Longwoods International/Miles Partnership's *"COVID-19 Travel Sentiment Study-Wave 12"*
- U.S. Travel Association and MMGY Travel Intelligence's *"Travel Intentions Pulse Survey (Tips) Impact of COVID-19, Wave IV"*

The data indicate that Hawai‘i, a long-haul beach destination, will face challenges once the 14-day quarantine is lifted and the state re-opens tourism.

- 62.2% of US consumers consider air travel “somewhat unsafe” or “very unsafe” according to Destination Analysts (“DA”).
- 68% of consumers feel safer taking a drive trip for their next vacation according to MMGY Travel Intelligence (“MMGY”).
- 75% of travelers who were planning a trip in the next six months will change their plans due to COVID-19 according to Longwoods International/Miles Partnership (“LI”).
- 46.6% of consumers expect to spend less on leisure travel in the next 12 months than they did in the previous 12 months, while 41.0% expect to spend about the same amount, according to DA.
- Consumers expect to take fewer leisure trips to cities, beach destinations and theme parks in the next 12 months. Alternate destinations with expected increases in leisure travel include mountain destinations, desert destinations, National Parks and state parks, according to DA.

The recent consumer research also indicates that vacation rentals will likely continue as the preferred accommodation of some travelers.

- Consumers appear to perceive accommodations as a relatively safe component of travel, according to DA, with air travel and ground transportation being viewed as much riskier. When asked to name the three most unsafe components of a trip, 55.9% of consumers listed air travel in the top three, while public transport was cited by 60.3% and a taxi/Uber/Lyft by 26.7%. By comparison, 13.7% of consumers included hotels in the top three, and only 11.0% included staying in an Airbnb.
- Likely due to the ongoing economic uncertainty caused by the pandemic and stay-at-home orders, consumers are looking to spend less on their next vacation. Pre-COVID-19, US consumers reported expecting to spend $3,882 on their next vacation, according to DA. By May, the expected vacation budget had fallen to $2,361, a 39.2% decrease. This will likely make vacation rentals an attractive option for some consumers, due to the lower accommodation costs associated with vacation rentals and the ability to prepare meals.
- According to MMGY, 23% of consumers who had booked a vacation rental prior to COVID-19 intend to continue as planned with their booking as of May, compared with 10% of consumers who had booked a hotel stay.
- Millennials appear to be less concerned than older consumers about the risks associated with travel, according to DA. Close to 40% of Millennials plan on making vacations a priority in their personal budget, about double the rate of Baby Boomers. Tech-savvy and adventurous, Millennials will likely be considering staying in vacation rentals on their next vacation.

2019 Hawai‘i Visitor Spending by Accommodation Type

In 2019, visitors to the State of Hawai‘i spent an estimated $17.8 billion, according to HTA data. We broke down the data by accommodation type, using the visitor characteristics and daily spending data for each accommodation type. Visitors staying in Hotels spent an estimated $9.8 billion or 55.1% of all visitor spending for the year, as shown in Table 2. **Vacation Rental visitors spent an estimated $4.4 billion and represented nearly 25% of the total**. Timeshare, Condominium Hotel and Other visitors collectively contributed $3.5 billion during the year. We note that the economic multiplier for visitor spending in Hawai‘i has been estimated by DBEDT to 1.8, meaning that every dollar of visitor spending represents $1.80 of economic impact in the state.

Table 2
2019 Hawai‘i Visitor Spending & Share
by Accommodation Type

Accommodation Type	2019 Visitor Spending	Percent of Total
Hotel	$9.8 Billion	55.1%
Vacation Rental	$4.4 Billion	24.7%
Timeshare	$1.1 Billion	6.5%
Condo Hotel	$1.0 Billion	5.6%
Other	$1.4 Billion	8.1%
Total	**$17.8 Billion**	**100.0%**

Source: Kloninger & Sims analysis of HTA data

Excluding lodging expenses, Hawai‘i visitors spent $10.1 billion during 2019, as shown in Table 3. Visitors staying in hotels spent a total of $5.3 billion on non-lodging expenses, followed by vacation rental visitors with $2.4 billion in non-lodging spending.

Table 3
2019 Hawaiʻi Visitor Non-Lodging Spending & Share
by Accommodation Type

Accommodation Type	2019 Non-Lodging Visitor Spending	Percent of Total
Hotel	$5.3 Billion	52.8%
Vacation Rental	$2.4 Billion	23.6%
Timeshare	$0.8 Billion	7.9%
Condo Hotel	$0.5 Billion	5.1%
Other	$1.1 Billion	10.5%
Total	**$10.1 Billion**	**100.0%**

Source: Kloninger & Sims analysis of HTA data

2019 Hawaiʻi Visitor Spending by Category and County

Collectively, Vacation Rental visitors spent about $2.4 billion in island economies in addition to the cost of their accommodations in 2019. This includes an estimated $939 million on Food & Beverage spending in local restaurants and grocery stores, another $554 million on Transportation, $423 million Shopping and $416 million on Entertainment.

Maui County Vacation Rental visitors generated the largest amount of visitor spending among the counties in 2019, at $1.5 billion, as shown in Table 3 below. Of this amount, about $775 million represented Non-Lodging spending, led by about $321 million in Food & Beverage spending by Maui Vacation Rental visitors. Oahu Vacation Rental visitors spent and estimated $1.3 billion in 2019, of which $743 million was spent in categories other than Lodging. Hawaiʻi Island Vacation Rental visitors spent about $908 million, including about $514 million in the local economy in Non-Lodging expenditures. Kauai Vacation Rental visitors spent about $700 million in 2019, of which about $354 million was Non-Lodging spending.

Table 4
2019 Vacation Rental Visitor Spending by Category
And County

	Oahu	Maui	Kauai	Hawai‘i Island	**State of Hawai‘i**
Lodging	$522,000,000	$741,800,000	$345,300,000	$394,100,000	**$2,003,200,000**
Food & Beverage	$276,900,000	$321,200,000	$144,900,000	$195,600,000	**$938,600,000**
Entertainment	$128,100,000	$128,300,000	$72,200,000	$87,400,000	**$416,000,000**
Transportation	$142,500,000	$176,800,000	$84,200,000	$150,600,000	**$554,100,000**
Shopping	$177,900,000	$129,900,000	$45,400,000	$69,300,000	**$422,500,000**
Other	$17,800,000	$18,400,000	$7,500,000	$11,100,000	**$54,800,000**
Total	**$1,265,200,000**	**$1,516,300,000**	**$699,500,000**	**$908,000,000**	**$4,389,000,000**
Non-Lodging	***$743,200,000***	***$774,500,000***	***$354,200,000***	***$513,900,000***	***$2,385,800,000***

Source: Kloninger & Sims analysis of HTA data

2019 Visitor Spending Per Visitor Party by Accommodation Type

We analyzed 2019 visitor spending per visitor party by accommodation type. Visitor spending is typically reported on the basis of spending per person per day (“PPPD”). An alternate way of looking at visitor spending is to consider the total spending of a visitor party over the course of their visit to Hawai‘i. On a PPPD basis, Hotel visitors are the highest spending segment. **On the basis of total spending per visitor party, however, Vacation Rentals and Condominium Hotels yield greater total spending because of the larger party size and longer length of stay, as shown in Table 5.**

According to our analysis, the average Hotel visitor party spent about $2,900 and stayed an average of 6.13 days while visiting Hawai‘i in 2019. Vacation Rental visitor parties spent about $3,400 in the state during their vacation and stayed an average 8.50 days, while

Condominium Hotel visitors spent about $3,800 and stayed an average of 8.81 days. **This indicates vacation rental and condominium hotel visitors stay longer and spend more when visiting Hawaii.**

The same holds true when analyzing non-loding spending. Condominium Hotel visitor parties spent an average of $2,000 on non-lodging items while visiting the state, followed by Timeshare visitor parties at $1,900 per trip and Vacation Rental visitor parties at $1,800 per trip. Hotel visitor parties generated an average of $1,600 in non-lodging spending per trip, driven by the smaller party size and shorter length of stay.

Table 5
2019 Spending per Visitor Party and Visitor Characteristics
By Accommodation Type

	2019 Total Spending Per Visitor Party	2019 Total Non-Lodging Spending Per Visitor Party	Average Visitor Party Size	Average Length of Stay (Days)
Hotel	$2,900	$1,600	2.27	6.13
Vacation Rental	$3,400	$1,800	2.32	8.50
Timeshare	$2,700	$1,900	2.38	8.40
Condo Hotel	$3,800	$2,000	2.45	8.81
Other	$1,600	$1,100	1.72	9.37

Source: Kloninger & Sims analysis of HTA data

Conclusion

The current outlook indicates that tourism, Hawai‘i’s economic engine, faces a slow and lengthy recovery. With many consumers reluctant to travel and concerned about their personal economic situation, the pool of potential Hawai‘i visitors in the coming months and years is expected to be smaller than pre-COVID-19. Offering consumers the complete mix of accommodations they seek -- including hotels, timeshares, and vacation rentals -- can allow the recovery to proceed as demand returns. The visitor spending associated with vacation rentals will be an important component of Hawai‘i’s economic recovery, supporting local jobs in the restaurant, retail, transportation and entertainment sectors that have been lost during the tourism shutdown.

Methodology

The spending analyses were based on visitor arrival, characteristic and spending data provided by HTA. For the category of Vacation Rental, we aggregated the data for visitors staying in Bed & Breakfasts, Rental Houses, Private Room in Private Home, Shared Room in Private Home and a percentage of visitors staying in a Condominium. The inflight survey, which is the data source for visitor arrival and visitor characteristic data, does not distinguish between Condominium Hotels and Vacation Rental Condominiums. The Visitor Plant Inventory ("VPI") does distinguish between the two types of condominium accommodations. We applied the VPI data to allocate a share of the Condominium visitors to the Vacation Rental segment. Our analysis focused on the most popular types of visitor accommodations, excluding the categories of Hostel, Friends & Family, Camp Site and Other.

Thank you for providing us the opportunity to undertake this analysis. Please reach out if you have any follow up questions.

Regards,

Erik Kloninger
Partner
Kloninger & Sims Consulting

About Kloninger & Sims Consulting

Kloninger & Sims Consulting is a Honolulu-based consulting firm specializing in lodging and tourism. We provide research and analysis for public-sector clients such as the Hawaii Tourism Authority, in addition to various private-sector clients. The principals of Kloninger & Sims have over 30 years experience providing advisory services in the Hawaii market.