

## Revolving door

Sky-high real estate prices and increasing demand for home-based vacation options are turning owners into hoteliers

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On their third trip to Hawaii, Texans Kathleen and John Turbenson discovered the charm of booking a vacation rental in someone's home.

"If you've been in one hotel room, you've been in them all," said Kathleen Turbenson, who relied on TripAdvisor reviews to select three Hawaii island bed-and-breakfasts to visit in January. "Seeking out vacation rentals is something that we are doing more often because they are more

interesting and you get more for your money."

## ROGUE RENTALS

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The Turbensons are representative of a growing pool of vacationers who are increasingly forgoing traditional visitor accommodations for neighborhood homes and condominiums where they can experience the destination in a more authentic and personal way.

Visitor industry experts say demand for home-based vacation rental units is growing at an unprecedented rate, with Hawaii among the destinations that are leading the pack.

According to a recent study from the Hawaii Tourism Authority, as many as 22,238 individually owned houses and condominiums statewide were advertised late last year and in 2014 as short-term rentals. The HTA's estimate of 25 percent of lodging units being home-based rentals could be understating the reality. That's because home-based rentals tend to be larger than a hotel room and can accommodate more

people per unit. The 22,238 home-based rental units have 43,499 rooms that can hold 117,607 visitors per night, according to HTA's survey. The number of rooms is comparable to the size of the state's entire hotel industry, which was estimated at 43,570 units, and most hotel units consist of one room.

The high cost of a Hawaii vacation and the large percentage of repeat visitors looking for something new are driving this trend, as are family travelers, who need greater space and value.

Hawaii's challenging cost of living and expensive real estate prices, which hit a median sales price of \$719,500 for a single-family home on Oahu in November, also are pushing residents and investors to consider getting into the short-term rental business.

Whether this trend is good or bad for Hawaii depends on whom you ask.

Proponents say it adds needed capacity to Hawaii's tight accommodations market, generates taxes and visitor spending, and creates a cottage industry with jobs like cleaning services and property management. It also allows some homeowners the flexibility to rent out units so they can better afford their homes.

Critics say it's bad for tourism because it makes it harder to monitor the quality of the tourist experience, protect visitors from scams, and ensure that hotel workers keep good-paying union jobs and benefits.



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Paul Brewbaker  
Principal of  
TZ Economics



Communities throughout Hawaii are complaining that illegal operations have turned their neighborhoods into resort districts with increased noise and traffic, and reduced safety. And, they argue, the vacation rental market increases home prices by encouraging homebuyers to overpay for properties or buy more house than they can afford with the knowledge they can offset their high mortgages. Opponents also say the allure of the short-term rental market contributes to Hawaii's affordable-housing shortages because owners with rental units can get much higher returns renting to vacationers rather than locals.

## ROOM FOR GROWTH

Regardless of where people stand on the issue, Hawaii vacation rentals likely will grow in accordance with nationwide trends. HomeAway.com, the nation's largest online vacation rental booking site, expects their industry to log a billion stays this year.

"Since 2009, vacation rental inquiries have grown nearly 74 percent while listings have only grown by 47 percent," said Matt Curtis, HomeAway's director of government relations. "If anybody thinks they can put the cat back in the box, you can't. It's here to stay."

Hawaii ranks 18th among the most popular destinations searched on HomeAway.com, which has listings in 190 countries. Curtis said that's a positive development for Hawaii because these travelers have strong demographics and can boost local economies.

Stacey Larson of Springfield, Ill., who last fall stayed at two Hawaii island bed-and-breakfasts and a Hauula rental house, said the money saved from those lodgings was spent elsewhere in the state.

"We spent about half what it would have cost for us to stay in a resort, where we probably would have been looking at the dumpster. Because of our savings, we were able to upgrade our rental car and visit multiple islands," Larson said.

The enthusiasm of these types of travelers is spurring changes to visitor accommodations in Hawaii.

"Probably the biggest change that we've seen in the market is the reduction in traditional hotel rooms," said Joseph Toy, president and CEO of Hospitality Advisors LLC. "We lost 8,000 rooms statewide, 5,000 of which were in Waikiki in the last decade or so."

Toy said the reductions have been caused by conversions into time-shares and condominiums, the decision to make units larger during renovations, and by demand from some visitors who "are looking for things that are a little off the beaten path."

William Pink, who opened the Haleakala Bed & Breakfast in Kona on Hawaii island about three years ago, said the trend helped him to transition from federal law enforcement to vacation rental operator. While it took Pink nearly four months to navigate Hawaii island's licensing requirements, it's been smooth sailing since.

"I'm booked solid into the first two months of next year," said Pink, who markets his rental on the Airbnb and TripAdvisor websites. "There's only four or five nights a month that I don't rent."

Economist Paul Brewbaker said the economic benefits of expanding



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island



vacation rentals, which have been successfully utilized in foreign markets for years, should be considered as a means of growing Hawaii's tourism.

"Joseph and Mary couldn't find any room at the inn — I'm pretty sure that this market segment has been going on that long," said Brewbaker, principal of TZ Economics. "Given Hawaii's capacity issues, we should turn what has become a black market into an above-ground activity."

Brewbaker said he's not suggesting that operators who have violated zoning ordinances suddenly become legitimized. However, he said, Hawaii should provide adequate enforcement to capitalize on what is already occurring.

"We didn't pay attention to the fact that our room count wasn't changing as fast as they were flying airplanes here," said Brewbaker, who has consulted for Hawaiian Airlines. "Hawaii's visitor industry won't grow much past this year's ... unless it adds thousands of rooms. We've kind of hit a wall."

## OVERSIGHT NEEDS

Honolulu Mayor Kirk Caldwell said vacation rental owners need to be brought into compliance, but he considers their units important to the visitor industry. "We have folks that come to stay in a high-rise hotel in Waikiki or a permitted campsite on a beach or rent a home for 30 days or more, and those that come to a vacation rental. We need to satisfy those needs," he said.

But further vacation rental growth will likely meet with resistance from neighborhoods across the islands. Last year, the Kailua Neighborhood Board made global headlines with its resolution asking tourism officials to stop marketing the region.

"It's not appropriate anywhere on Oahu," said Larry Bartley, director of Save Oahu's Neighborhoods. "Vacation rentals are a nonconforming use that over time should be eradicated from Oahu's land use."

Many rural advocates objected to the planned expansion of the North Shore's Turtle Bay Resort, which they say would increase traffic by 38 percent, said Boyd Ready, a longtime Pupukea resident. But Ready estimates the spread of illegal vacation rentals has quietly added a comparable mass.

"So what's happened? You have say 1,500 hotel rooms with no special security, no extra parking, no widened roads, no oversight on the cesspools. No community hearing as to whether or not there would be a hotel room here," he said.

Brewbaker urges the city and state to plan for appropriate visitor growth. He said there's still time to consider the role that visitors will play in developing Kakaako, which is adjacent to Waikiki. "No mention of tourism, hotels, and transient visitor accommodations ever comes up in Kakaako's development plan, but it should," he said.

Randy Rarick, executive director of the Vans Triple Crown of Surfing, said the North Shore should be included in the discussion.

"Unfortunately, we only have one hotel, Turtle Bay Resort. It's a great hotel, but it only has so many rooms and you have all of these people that come seasonally both in the summertime for the beaches and in the winter for the surf. We really need legitimate vacation rental accommodations," said Rarick, who has lived on the North Shore for 45 years.

"We have an influx of 15,000 to 20,000 people per day during the surf season and you have to put them somewhere," said Rarick. "There's a need for vacation rentals on the North Shore and there's a tax base that they are missing."

## **A LOOK BACK THROUGH THE YEARS**

*The number of accommodations available for visitors fluctuates annually. The visitor industry uses these numbers to calculate the destination's capacity, which in recent years has been threatening to constrain the state's future tourism growth.*

### **YEARUNITS**

1966 14,827

1967 17,217

1968 18,657

1969 22,801

1970 26,923

1971 32,289

1972 35,797

1973 36,608

1974 38,675

1975 39,632

1976 42,648

1977 44,986

1978 47,070

### **YEARUNITS**

1979 49,832

1980 54,246

1981 56,769

1982 57,968

1983 58,765

1984 62,448

1985 65,919

1986 66,308

1987 65,318  
1988 69,012  
1989 67,734  
1990 71,266  
1991 72,275

**YEARUNITS**

1992 73,089  
1993 69,502  
1994 70,463  
1995 \*

1996 70,288  
1997 71,025  
1998 71,480  
1999 71,157  
2000 71,506  
2001 72,204  
2002 70,783  
2003 70,579  
2004 72,176

**YEARUNITS**

2005 72,307  
2006 72,274  
2007 73,220  
2008 74,177  
2009 75,188  
2010 74,988  
2011 77,731  
2012 74,650  
2013 73,893  
2014 87,235\*\*

\* Hawaii Tourism Authority did not do a visitor plant survey

\*\* Hawaii Tourism Authority identified 15,295 more vacation rental units were being advertised than the 6,943 they thought there were

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