The Goose That Laid the Golden Time Bombs:
How Hawaii's Changed Hotel Industry Threatens our Futures

"If a man has an apartment stacked to the ceiling with newspapers, we call him crazy.
If a woman has a trailer house full of cats, we call her nuts.
But when people pathologically hoard so much cash that they impoverish the entire nation,
we put them on the cover of Fortune magazine and pretend that they are role models."

-B. Lester

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Executive Summary

Tourism is one of the state's top industries – in 2010, it comprised 22% of the state's GDP.[1] Although the growth of the industry has come at a cost, it has produced tens of thousands of jobs for Hawaii's people in return.[2] Workers have struggled for years – successfully - to turn many of these service industry jobs into good jobs with dignity, respect and a good middle class standard of living, and which provide a solid tax base for the state.

Over the last several years, however, the industry has been shedding jobs. Non-supervisory jobs in the hotel industry nationwide have dropped from 72.2 workers per 100 rooms in 1986 to just 51.6 workers per 100 rooms in 2011.[3] In Hawaii, this study found that a cross-section of the most significant unionized hotels lost a total of 940 workers between December 2005 and January 2012, an average of over 13% of the non-supervisory workforce.[4] This decline occurred in each of those years, despite the fact that the industry suffered just two years of RevPAR declines during the recession.[5]

The current economic, political and regulatory environment has allowed new trends to flourish which have led to short-term investment strategies in Hawaii's assets. These same new trends impacting the industry have had a significant negative impact on workers and threaten its long-term sustainability while providing short-term gain for investors and developers. This report examines two of those trends: 1) the growing influence of short-term, high-return ownership models such as private equity in the hotel industry; and 2) the shift in lodging product from full-service hotels to models like condotels and timeshares, which provide short-term return while limiting long-term accountability for developers, as well as products such as limited-service hotels, which limit guest services and employment.

- **Changing Ownership in the Hotel Industry:** Real estate acquisitions in recent years have shifted control of many of the most significant hotels in the state to private equity firms and real estate speculators, rather than traditional hotel companies. Three of the top five hotel owners by room count are now controlled by private equity interests. Only one of the top ten owners is based in Hawaii. The short-term, high-yield business strategy of private equity and similar investment vehicles allows a select few to maximize profits quickly. While this may increase efficiency of certain companies, it allows investors to stave off the downsides of their short-term model until after they sell out their interests. From the Japanese investment boom of the 1980s to the private equity boom of the late 2000s and today, Hawaii's working people have been subject to one bubble after another, and are the hardest hit each time the bubble bursts.

- **The Changing Lodging Product:** The lodging industry used to be dominated by hotels, but by 2011, condotels, timeshares and Individual Vacation Units made up a combined 42.8% of the total lodging inventory statewide,[6] up from just 26.3% in 2000[7] due to development focused on these models and conversion of existing hotels to condotels and timeshares. These strategies may prove to be lucrative for individual developers and short-term owners, but they have had a permanent, direct and negative effect on employment. Other development is focused on the construction of limited-service hotels, which create significantly fewer jobs than full-service hotels.[8] Even current full-service hotels have begun limiting services - and cutting jobs – as they gravitate toward this model, which may yield a higher profit margin in the short term but may impact visitors' impressions of Hawaii long-term.

Hawaii's residents are working harder and harder to try to make a decent living even as costs keep rising and the work keeps getting harder. Over half of the state's renters and half the state's mortgaged homeowners spend 30% or more of their income on housing.[9] The cost of food and rent have increased by over 50% since 1990, while the cost of electricity, gas and medical care have all more than doubled over the same time period.[10] Union jobs, which helped create the middle class, are on the decline nationwide. A smaller percentage of workers, are unionized today than at any time in the past 60 years.

While workers have suffered, investors and developers have donated heavily to political campaigns, and have received numerous favors from state and county political bodies and regulatory agencies. The Public Land Development Corporation, for instance, created through State legislation in 2011, gives an appointed State board the power to allow all kinds of developments on public land. On top of that, this same board has the power to grant developers exemptions to the permitting process meant to protect Hawaii's citizens, further benefitting those developers.

It is up to the citizens of Hawaii to create the home we want for ourselves. The current system rewards short-term investment and development strategies even as they hurt Hawaii's people. If we are to build a more sustainable state, we need to recognize the problems we face, organize as a common group to move Hawaii's political leaders to take appropriate action to regulate the industry to protect and support working families statewide and the viability of tourism. Some will caution that we must not "kill the goose that lays the golden eggs," but the reality is that the goose is laying golden time bombs – developments and conversions that could more than negate the industry's benefits, and ultimately threaten its sustainability. We need to give the goose the right regulatory medicine to nurse it back to the business of laying golden eggs.

Introduction: More Tourists, Less Jobs

Star Advertiser

July revenue for isle hotels hit new highs

Convention and wedding/honeymoon bookings contribute to industry gains

September 4, 2012

"It's just been an incredible summer," said Hospitality Advisors CEO Joe Toy, who released the hotel report with Smith Travel Research today. "I can't find anyone in Waikiki that's unhappy now."

Star Advertiser

Hawaii jobless rate dips to 6.1% as thousands give up searching

Losing 3,850 people from the labor force is "not a good sign," an economist says

September 21, 2012

Including the August decline, Hawaii's unemployment rate has fallen by just 1 percentage point since the peak of 7.1 percent in the summer of 2009.

The hotel industry has had a good year so far in 2012 by standard measures, but workers in the state's key industry are struggling. Tourist spending in the first nine months of 2012 was $9.59 billion, 20% more than in the same period last year, according to the *Wall Street Journal*.[11] Meanwhile, Hawaii's residents are working harder and harder to try to make a decent living even as costs keep rising and the work keeps getting harder.

This paper is an attempt to explain how the ownership model of the hotel industry has changed and how the new trends in the industry and in the investment community in general allow investors to profit off of our work even as working people themselves struggle.

Tourism is one of the state's top industries – what happens to the tourist industry affects the entire community statewide. Now two trends impacting the industry are having a significant negative impact on workers and perhaps on the sustainability of the entire industry in coming years.

One trend is the change in the ownership model to the domination of private equity firms. The short-term, high-yield business strategy has allowed a select few to maximize profits quickly. While this may increase efficiency of certain companies, it allows investors to stave off the downsides of their short-term model until after they sell out their interests. From the Japanese investment boom of the 1980s to the private equity boom of the late 2000s and today, Hawaii's working people have been subject to one bubble after another, and are the hardest hit each time the bubble bursts.

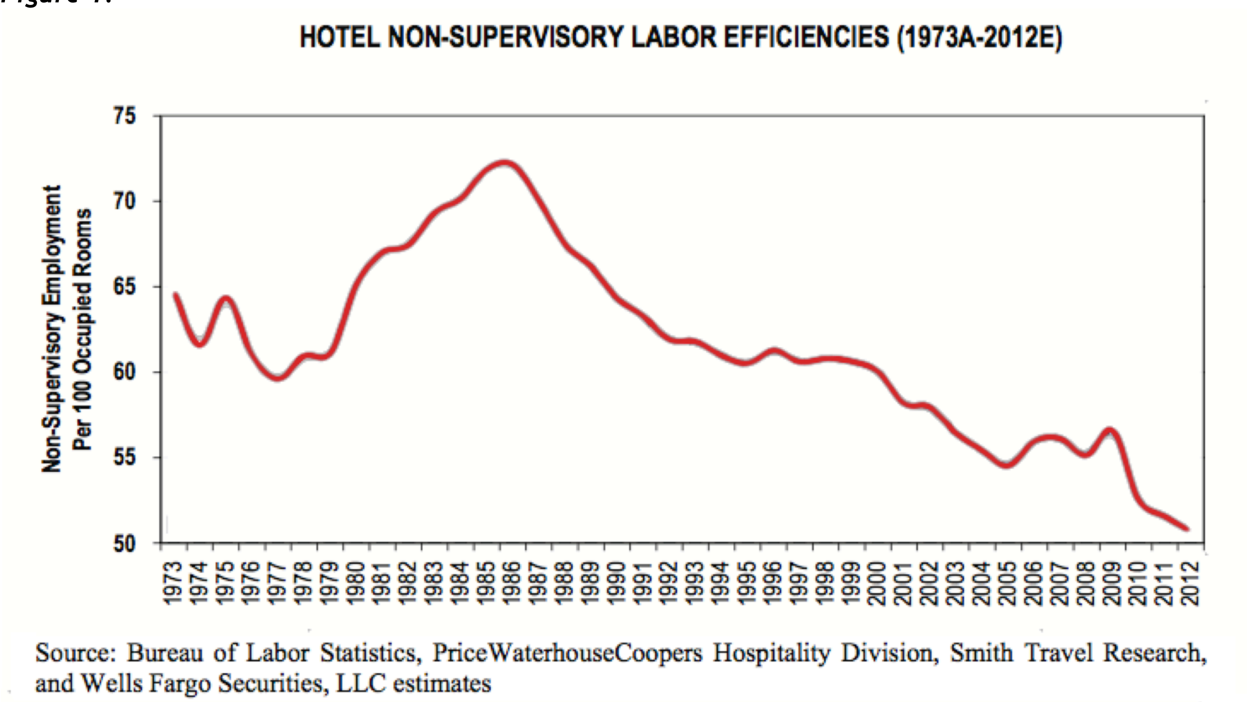
The other major change in the industry is a move from traditional hotels to condotels, timeshares and resort condominiums, and the reduction of service standards at both current and new hotels. Each of these may prove to be lucrative for developers and short-term owners, but their impacts include direct negative effects on employment.

It is up to the citizens of Hawaii to create the future we want for ourselves. If we are to build a more sustainable state, we need to recognize the problems we face and organize to stand together to overcome them.

The Shrinking Hospitality Workforce: A Troubling Trend

Tourism has long been considered one of the state's main economic drivers. In 2010, tourism's direct and indirect expenditures made up 22% of the state GDP,[12] according to UHERO (the University of Hawaii Economic Research Organization). Visitors spent over $11 billion in this state in 2010,[13] generating over $214 million in Transient Accommodations Taxes.[14] Tourism jobs are vital to the state's economic well-being. However, the following data from an analysis by Wells Fargo (Figure 1) present a troubling trend: non-supervisory jobs in the hotel industry have dropped dramatically all across the nation.[15] In 1986, there were 72.2 non-supervisory personnel per 100 rooms, but in 2011 that number dropped to just 51.6 per 100 rooms. Wells Fargo's report specifically cites the decline of union employees as one of the reasons for the decline of non-supervisory jobs.

Figure 1:

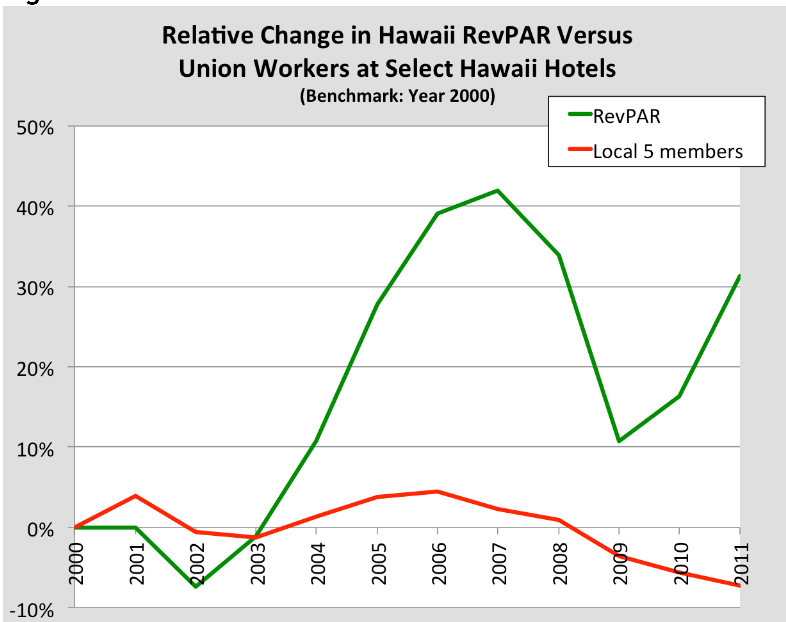


Source: Wells Fargo Securities

Isolating the discussion to the hotel industry in Hawaii, workers fare no better. RevPAR (a benchmark of hotel performance) in hotels statewide has nearly returned to peak levels seen in 2006, but the number of workers at these hotels has fallen and has not recovered along with RevPAR increases. In fact, job loss examined at major hotels in the state started in 2006 even as the hotel industry was at a peak (Figure 2).

As a state dependent on tourism jobs, we ought to be concerned about the causes of this trend and the extent to which it may undermine the sustainability of our industry.

Figure 2:



Selected hotels (Local 5 properties for which continuous comparable data exists) include: Hilton Hawaiian Village, Hyatt Regency Waikiki, Waikiki Beach Marriott Resort, Sheraton Waikiki, Royal Hawaiian Hotel, Westin Moana Surfrider, Sheraton Princess Kaiulani, Ala Moana Hotel, Ilikai, Royal Kona Resort, Waikoloa Beach Marriott Resort, Queen Kapiolani Hotel, Best Western Plaza Hotel, Kahala Resort, Sheraton Kauai and Sheraton Maui.

The Hotel Industry Is Increasingly Focused on Real Estate

Over 8% of the state GDP over the last 10 years was attributable to "Accommodation and Food Services" (Figure 3), according to the Bureau of Economic Analysis.[16] However, "Real Estate and Rental and Leasing" was twice that size. Among other things, that category includes sales of timeshares and condotels, both of which are growing trends in the local hospitality industry.

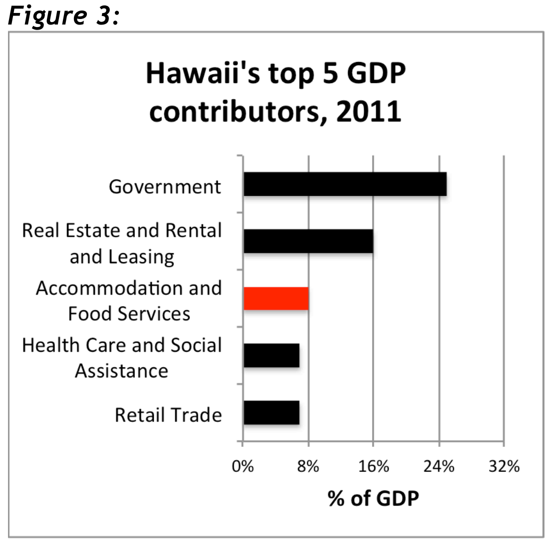
In terms of the commercial real estate market, the pace of buying and selling is expected to pick up by the end of the year. According to a report by real estate firm Colliers International, in the first half of 2012, over $940 million dollars worth of commercial real estate transactions were conducted in Hawaii. 78% of these transactions were made by local investors, but those account for only 16% of the sales volume in dollars. This means that non-local transactions made up 84% of the sales volume.

Anecdotally, you need look no further than the recent purchase of the island of Lanai by Oracle CEO Larry Ellison, the fifth richest person in the world,[17] to see the extent of non-resident investment in local properties.

The report states "By year end 2012, Hawaii Investment transaction volume should reach near $2.0 billion as additional distressed hotel sales get resolved and several large multifamily portfolios are projected to close." [18]

It is therefore appropriate to explore the extent to which the hotel industry has over time become an industry of real estate speculation as opposed to an industry focused on accommodations and food services.

Figure 3:



Source: US Dept. of Commerce, Bureau of Economic Analysis

Changing Ownership in the Hotel Industry

Hawaii's hotel industry began when the Moana Hotel opened in 1901. Throughout its 111-year history, the industry has largely been controlled by major corporate interests – the Big Five, Japanese investors, wealthy industrialists such as Henry J. Kaiser, hotel companies like Sheraton and others have all held pieces of the growing industry throughout the years. The most recent shift in the industry has resulted from Japanese owners selling off their interests in Waikiki following the collapse of the real estate bubble in Japan.[19] This shift did not happen overnight – the Japanese bubble burst in 1994, and the sell-off of Hawaii real estate has been going on for over 18 years since, with Japanese investors still controlling several major properties.

The industry is now seeing the introduction of a new set of players. Many of them are private equity funds and banks, investor-owners who perhaps have similar goals and strategies as those Japanese investors, but who come to the market under very different economic and regulatory circumstances. The influence of this new group has spread beyond the hotels they directly control, and changed the face of the industry (and other industries, as we will see later).

Figure 4 shows the top ten hotel owners by the number of rooms they own among their hotels. Five of the top ten hotel owners are private equity funds or are partially owned by private equity firms, including the top two. It is also noteworthy that three of the top ten companies have a significant timeshare business. Only one of the ten, Outrigger, is based in Hawaii.[20]

Geographically, 40 of the 50 largest hotels[21] in the state are owned by companies based over 2500 miles away, and 25 of those are owned by companies based over 4000 miles away.

Figure 4:

Top 10 Hawaii hotel owners by room count	
Owner	**Rooms**
The Blackstone Group	5738
Cerberus Capital Management / Kyo-ya Hotels & Resorts	4826
Outrigger Hotels & Resorts	3360
Goldman Sachs Whitehall Fund	2576
Starwood Hotels / Starwood Vacation Ownership (SVO)	2552
MVCI (Marriott Vacation Club Int'l)	2134
Host Hotels & Resorts	1265
Seibu Holdings Co. / Cerberus Capital Management	1130
Pleasant Travel Service	1032
MSD Capital	854

Japanese sell-off

Hotels sold by Japanese companies or lost through bankruptcy or foreclosure:

- Ala Moana Hotel
- Hyatt Regency Waikiki
- Turtle Bay Resort
- Mauna Kea Beach Hotel
- Makena Beach & Golf Resort
- Kahala Hotel & Resort
- Four Seasons Resort Maui
- Keauhou Beach Hotel
- Maui Marriott
- Kona Lagoon
- Four Seasons Resort Hualalai
- Princeville Resort
- Queen Kapiolani Hotel
- Hyatt Place Waikiki

Hotels owned by companies where Japanese control was diluted by new investors:

- Royal Hawaiian Hotel
- Moana Surfrider
- Sheraton Princess Kaiulani
- Sheraton Waikiki
- Sheraton Maui
- Hawaii Prince Hotel
- Hapuna Beach Prince Hotel
- Mauna Kea Beach Hotel

What is Private Equity?

Things have changed, both in the ownership of hotels and in all other industries. According to one author, private equity firms own companies employing one out of every ten Americans in the private sector.[22] Unite, the largest union in Britain and Ireland, says this about these investors:[23]

> *"Private equity firms can produce up to a 40 percent return on deals. They buy companies with the expressed purpose of selling them again; making as much profit they can on the purchase and the sale—and extracting value while they own them. This can mean selling off assets or laying off workers. The buyout firms focus on making money over a short time from the companies they buy. This often leads to decisions that are bad for workers, communities, and even consumers."*

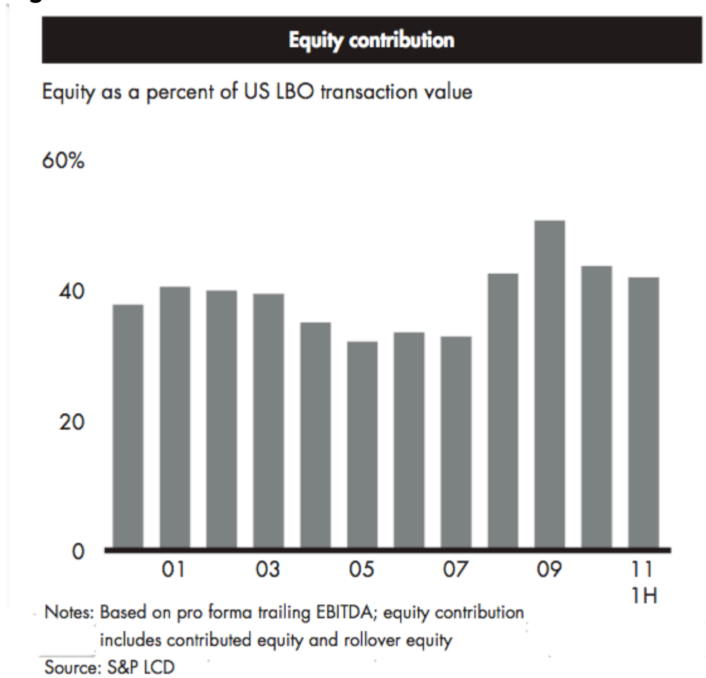
Leveraged Buyouts

Private equity acquisitions are structured as "leveraged buyouts," meaning the private equity firm makes the purchases by combining the investment money it raises (from pension funds, endowments, hedge funds, sovereign wealth funds and wealthy individuals) with a significant amount of debt.

Instead of taking out loans to fund these buyouts, private equity firms force the companies they are buying to take out the loans to fund their own acquisitions. The Center for Economic Policy and Research compares the process to buying a home with a mortgage: "A critical difference, however, is that homeowners pay their own mortgages, whereas private equity funds require the firms they buy for their portfolios to take out these loans – thus making them, not the private equity investors, responsible for the loans."[24]

This behavior has the effect of loading up the acquired companies with debt. A recent industry analysis by Bain Capital, itself a private equity group formerly run by presidential candidate Mitt Romney, shows that U.S. leveraged buyouts have been conducted with an average of more than 50% debt over the last 10 years (Figure 5).

Figure 5:



Source: Bain & Company, Global Private Equity Report 2012.

This is clearly true of the largest private equity buyouts in the Hawaii hotel industry.

- **Cerberus Capital Management** bought a controlling 65% stake in Kyo-ya Hotels & Resorts in 2004. Two years later, it loaded the company up with over $1.9 billion worth of debt from Wachovia Bank[25] (Wachovia was later acquired by Wells Fargo).[26]
- **The Blackstone Group** bought the Hilton corporation in 2007, paying $26 billion. Over $20 billion of the purchase price came from loans.[27]
- **MSD Capital**, the investment vehicle for the personal wealth of computer mogul Michael S. Dell, purchased the Four Seasons Maui resort in 2004, refinancing its loan in 2007 for $145 million more than the purchase price.[28] Dell also purchased the Four Seasons Resort Hualalai[29]

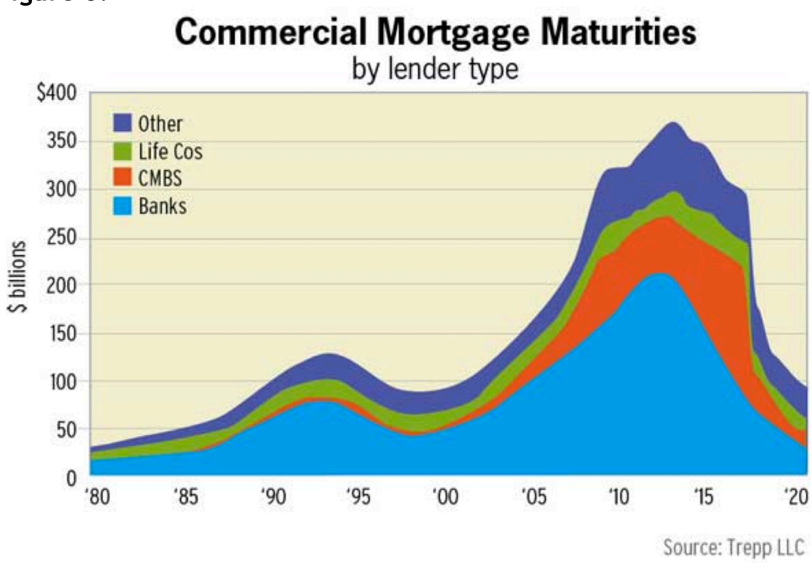
in 2006 and the Kona Village Resort in 2007,[30] partnering with Rockpoint Capital on both transactions.

> *"The enormous wave of debt-funded private takeovers is fueling the spread of high-risk, low-grade corporate bonds to an extent which threatens the viability of the financial system as a whole. A major default or the collapse of one of the funds could trigger a financial crisis destroying masses of jobs and workers' pension funds - both public and private."*
>
> \- A Workers' Guide to Private Equity Buyouts, IUF, 2007

- **Oaktree Capital Management** purchased Turtle Bay Resort along with local developer Bill Mills in 1998, buying out Mills' interest in the resort in 2000. In 2005, Oaktree took out $400 million worth of loans for the property. Instead of paying back the loans, Oaktree relinquished the hotel after lenders initiated a foreclosure action in 2010.

One of the problems with the amount of loan money used for these transactions became apparent as the most recent financial crisis unfolded - eventually loans mature and need to be repaid or refinanced.

Figure 6:



If the loans were irresponsible to begin with – based on unrealistic property valuations, given to unqualified borrowers or given without appropriate safeguards for the lender - it is less likely the borrowers will have the ability to refinance them. It will be crucial to watch what happens to the market over the next few years, as many of the loans made in the boom years prior to the recession will come due (Figure 6). In 2012 alone, research firm Trepp estimates that $362 billion in commercial real estate debt will mature.[31]

> **Political Priorities**
>
> The key players in the Hawaii hotel industry are also key players in national politics; the three big private equity firms spend a significant amount of money lobbying Congress for their interests across various industries, such as "Securities and Investment". The more traditional hotel companies are also spending money lobbying, mostly within the "Lodging and Tourism" industry (see Appendix C).

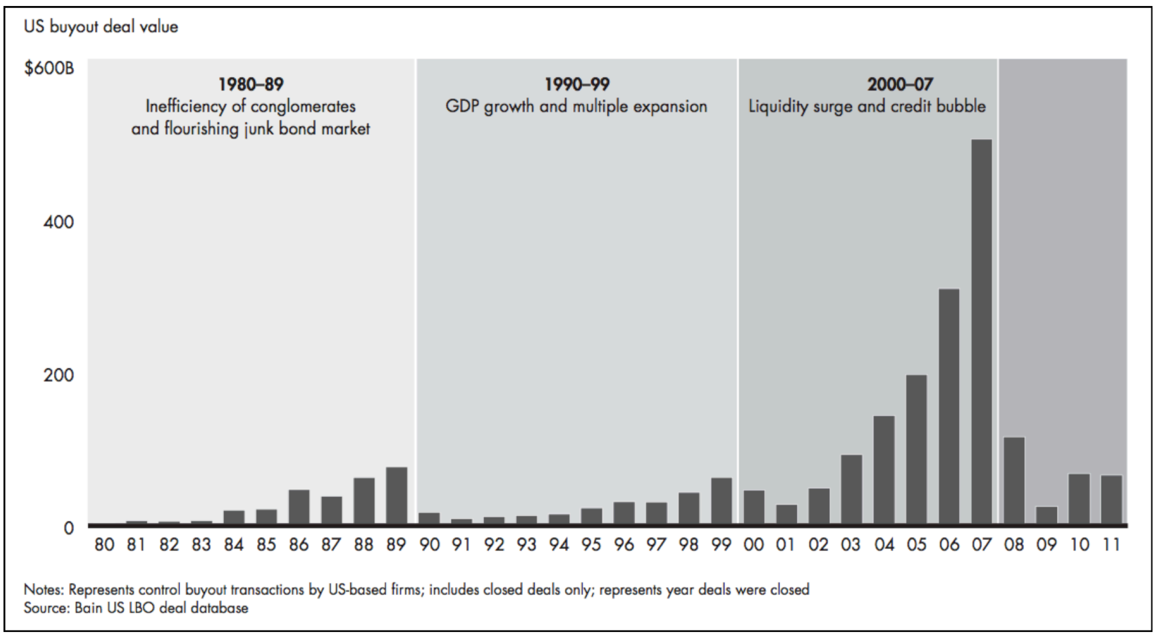
Exit Strategy

The key problem for people working at companies acquired by private equity and for communities in which those companies operate is what happens after the acquisition. After buying a target asset, private equity investors enact a strategy of "unlocking value" from the company, and exiting the investment in a way that will provide returns for investors. The focus on the exit strategy is a big part of what makes private equity investment more short-sighted and unsustainable than other types of investments. As Kosman explains, "Once the buyout is completed, the private equity guys start swinging the meat axe, aggressively cutting costs wherever they can – so that the company can start paying off its new debt – by laying off workers and cutting capital costs. This process often boosts operating profit without a significant hit to the business, but only in the short term; in the long run, the austerity approach makes it difficult for companies to stay competitive, not least because money that would otherwise have been invested in expansion or product development – which might increase revenue down the line – is used to pay off the company's debt."[32]

The Growth of Private Equity

Bain & Company's analysis (Figure 7) provides a sense of just how big the private equity buyout market became in the mid-2000s. Buyouts fell sharply during the recession, as banks stopped providing the loans on which private equity firms rely. However, Colliers reports that "By year end 2012, Hawaii Investment transaction volume should reach near $2.0 billion as additional distressed hotel sales get resolved and several large multifamily portfolios are projected to close."[33]

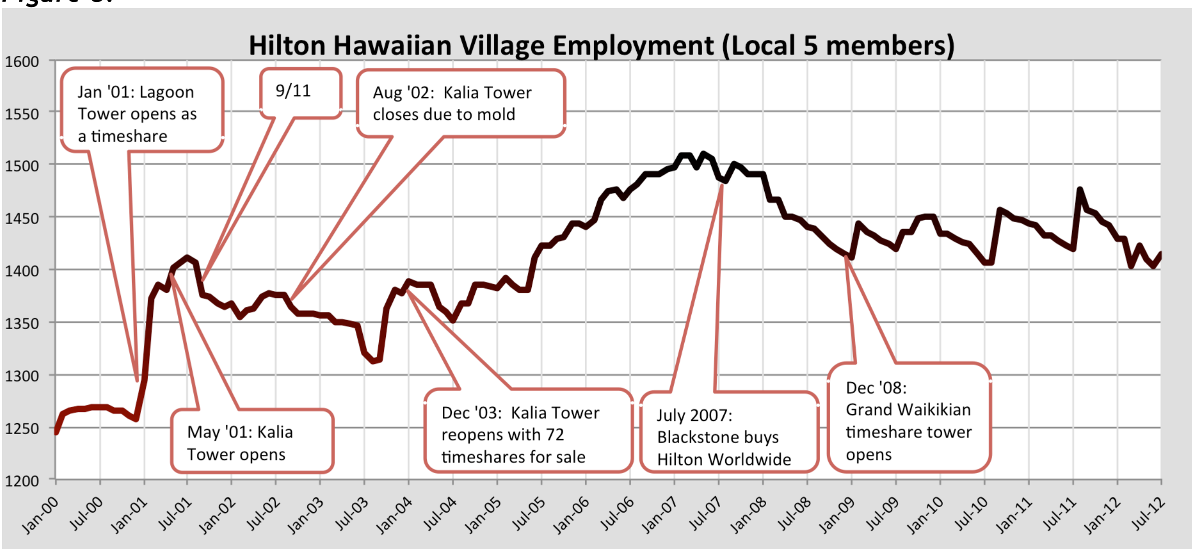
Figure 7:



New Owners: The Impact on Workers

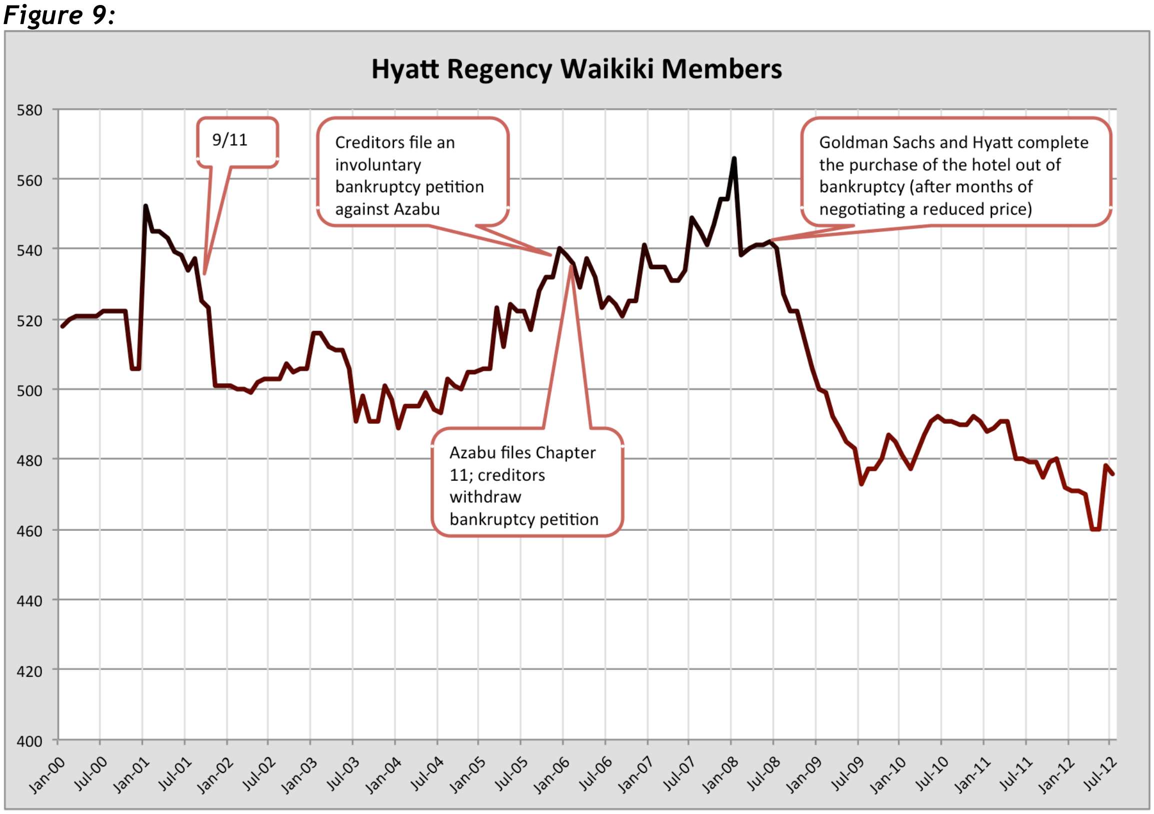
Along with these ownership changes, workers have seen changes in overall employment at their hotels. At the Hilton Hawaiian Village, the largest union hotel in Hawaii, there have never been as many workers as there were before Blackstone's buyout of Hilton. This is true despite the fact that Hilton opened a 331-unit timeshare tower in December 2008. In October 2012, the company stopped offering room service at the hotel, cutting the hotel's standards and employment.

Figure 8:



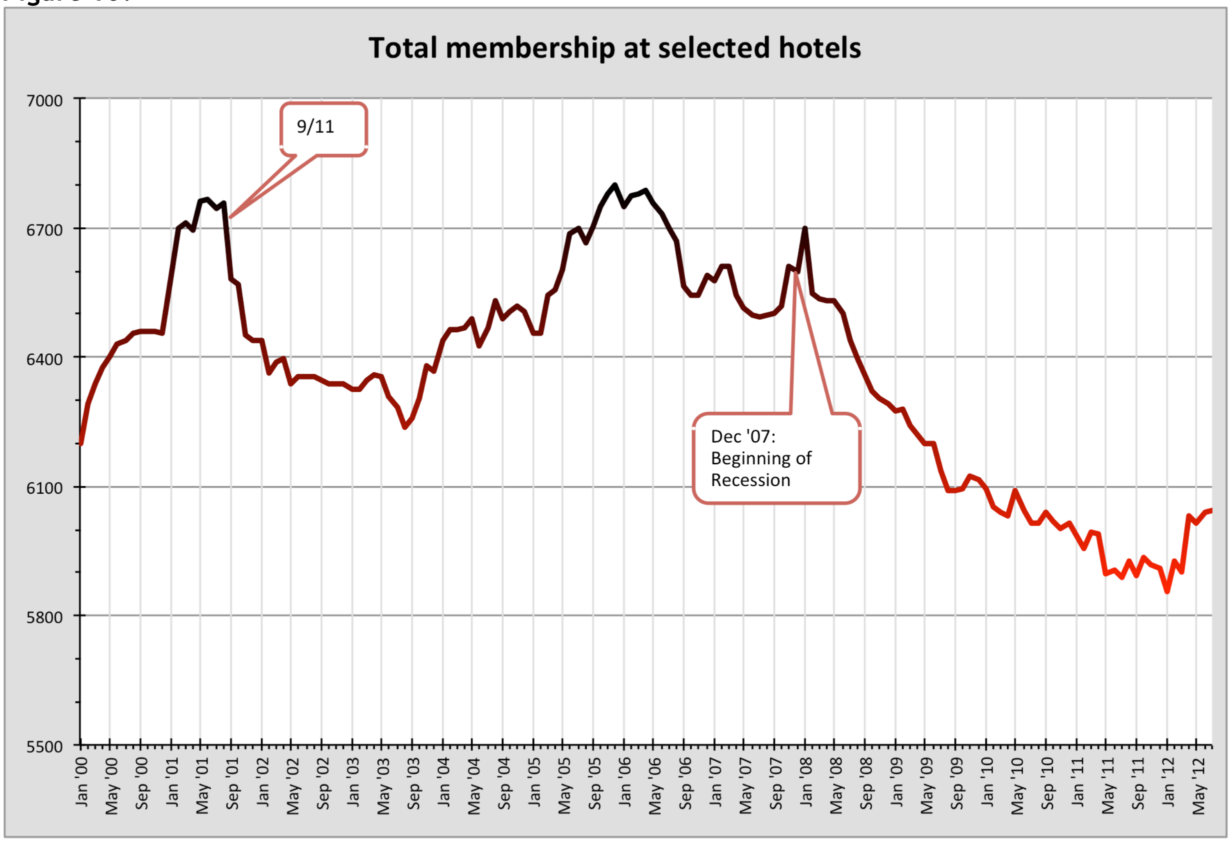
The Hyatt Regency Waikiki also saw a drop in employment after Goldman Sachs finalized its purchase of the hotel out of bankruptcy.

Figure 9:



Some of this decrease in employment is surely attributable to the global recession which began in December 2007. Taking the aggregate number of workers at the major hotels statewide represented by Local 5 (Figure 10), it is arguable that job cuts began as early as May 2006.

Figure 10:



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To help understand whether the new players dominating the industry and those who follow their lead have enacted a strategy of workforce reductions, we can look at an example of how private equity has operated in other industries.

Case Study: Cerberus and Chrysler

Cerberus Capital Management's acquisition of auto manufacturer Chrysler provides an example of how this has worked in practice. Although this deal was considered by some a massive failure, it did not end as badly as one might think for Cerberus.

In May 2007, Cerberus paid $7.4 billion to buy an 80.1% stake in then-failing automaker Chrysler and its lending arm, Chrysler Financial. Chrysler filed for bankruptcy in 2009.[34] That same year, the federal government bailed out Chrysler with a $12.5 billion loan,[35] even while Cerberus refused to commit more funds to the struggling automaker. Fiat then purchased the auto manufacturing arm, the Chrysler Group, along with the healthcare trust of the United Auto Workers. The bailout loans were repaid ahead of schedule, leaving the U.S. government with a $1.3 billion non-recoverable loss.[36]

Cerberus held onto Chrysler Financial until December 2010, when Toronto-Dominion Bank purchased it for $6.3 billion. The sale did not include all of Chrysler Financial – according to *CNN Money*, Cerberus kept the company's foreclosure unit and another group involved in auto insurance.[37] Those two pieces of the company were valued at $940 million. If that is the case, Cerberus would be left with a total loss of just $70 million on the deal, while taxpayers have lost $1.3 billion and workers were stuck investing their own pension fund money into a company in financial turmoil.[38]

The Changing Lodging Product: Condotels, Timeshares, Limited Service & Resort Condos

Along with the changes in ownership in Hawaii's hotels, the industry has changed in another significant way over the last several years – the product. The goal of making money in the short term without concern for long-term consequences favors the development of products that can be sold quickly for a lot of money, and products that are cheap to build and operate.

Developers in Hawaii have largely turned from building hotels to building A) resort condominiums, condo hotels and timeshares, in which individual consumers pay developers up front for an ownership stake; and B) limited service hotels, with small workforces, lower standards and low overhead. On top of the new developments, a number of former hotels have been converted to these models over the past ten years, including the Ilikai Hotel, where conversion of hotel units to condotels and timeshares has had a significant negative impact on the people working at the hotel.

What are these products?

- **Condotel** – a condominium project in which condo owners rent out their rooms as hotel rooms. Owners can contract with a hotel operator (usually there is one main operator at the property) to rent out their rooms as part of its "rental pool," or they can rent out the rooms themselves or through an different company. The word "condotel" can also refer to a mixed-use property with some hotel rooms and some residential condos.
- **Timeshare** - A resort in which buyers pre-pay for the right to stay in one room for one week each year in perpetuity. A timeshare company manages the resort like a hotel. Timeshares are considered real estate in Hawaii. Often, timeshares, or "vacation ownership interests" are sold in conjunction with "points," a proprietary currency whose value, use and exchange rules are regulated by a timeshare company.
- **Resort Condominium** – Condos in resort areas or with hotel-style amenities.
- **Limited-service hotel** – a hotel without restaurants and typically with fewer amenities, but with lower room rates.

Condotels: Good for Developers

Condotels are potentially very lucrative for the developers who construct and sell them: they can start selling units or points even before construction is complete. For example, at the Trump Tower in Waikiki, developers pre-sold the units at the height of the market. They sold all 464 units in just one day, before construction even started on the project.[39] Once a condotel project is built and sold, developers may not have any further interest in the project. Thus there is no built-in incentive to think about the long-term consequences of a condotel project, or even if it is a good idea.

Timeshares: Good for Developers

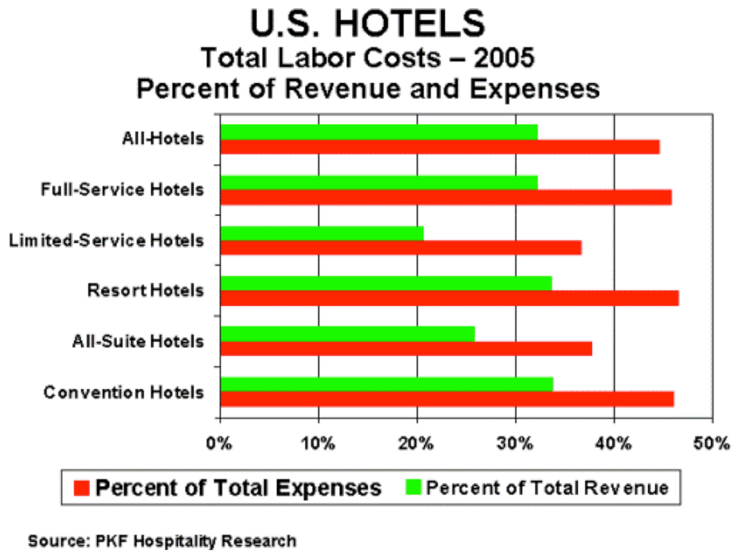
There are a few ways timeshare companies make money:

- Sales: Timeshare sales themselves can be very lucrative. For example, Hilton Grand Vacations Club opened the Grand Waikikian timeshare in December 2008. By June 2010, the company claimed to have generated over one billion dollars in revenue after selling half of the timeshares there.[40]
- Financing: Some companies, such as Starwood, provide financing for the timeshares they sell.
- Re-sales: If owners fall behind on their loans, the companies can foreclose on the units and then re-sell them to new buyers. In addition, they can exert some control over competition from buyers wishing to re-sell their timeshares: timeshares as real estate can be sold and bought, but "points" are proprietary, and companies can use them to control access to resort amenities and privileges to trade vacation "weeks" at one resort for weeks at a different resort. Companies can also control whether points can be transferred between individuals.
- Additional sales: A key market for timeshare salespeople is consumers who already own timeshares. For instance, Marriott Vacations Worldwide Corp reported that in 2011, 61% of its sales came from its existing owners.[41] In addition to selling additional weeks, companies may also push to sell supplemental "points" not tied to real estate.

Limited service: Good for Developers

Unlike condotels and timeshares, limited service hotels do not make their money upfront. Instead, they achieve higher operating margins through reduced expenses – without restaurants and with lower service standards in other departments, limited service hotels can employ fewer workers. While full-service hotels in 2011 made 31.5 cents on every dollar spent by customers, limited service hotels made 48.8 cents per dollar spent in gross operating profit. Limited service hotels have lower labor costs per dollar of revenue than other models (Figure 11).

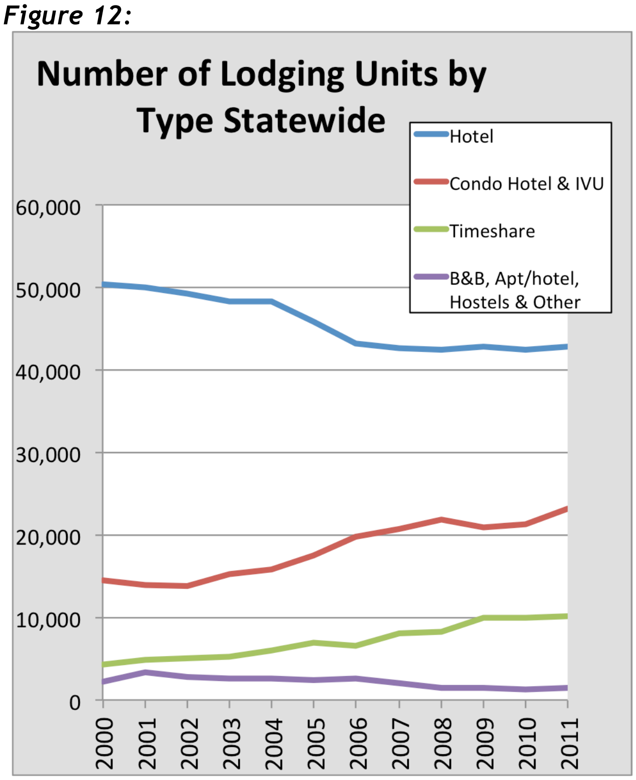
Figure 11:



Prevalence of the New Products

Developers have largely adopted these models. Over the past 10 years, the number of hotel units in Hawaii has shrunk significantly. There has, however, been a significant growth in the number of timeshare and condotel units statewide (Figure 12 - Condotel units were combined with "Individual Vacation Units", or IVUs, in Figure 12 because the Hawaii Tourism Authority classifies condotel units as IVUs in cases where owners have chosen not to be part of the rental pool. Figure 13 parses the two. We will explain later why this is important).

Figure 12:



Source: State of Hawaii Visitor Plant Inventory, 2011

These trends are also reflected in the makeup of the recently completed and currently planned lodging developments statewide (Figure 14).

Figure 13:

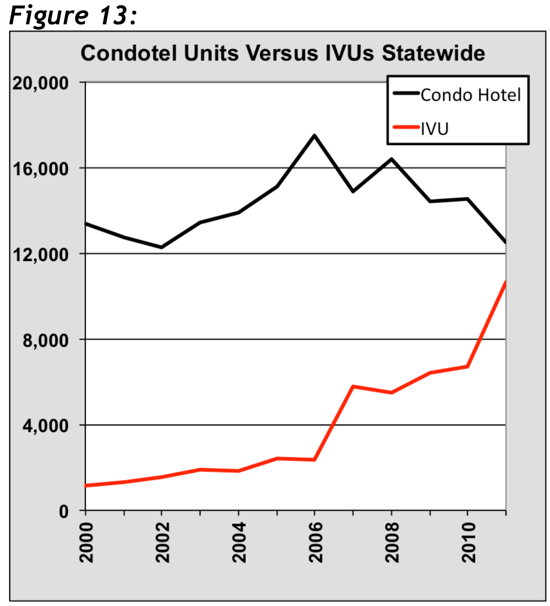


Figure 14:

Significant New Lodging Developments in Hawaii

Name	Type	Estimated Rooms*
Westin Kaanapali Ocean Resort & Westin Kaanapali Ocean Resort North	Timeshare	1021
Marriott Ko Olina Beach Club	Timeshare	596
Hilton Hawaiian Village - Village Master Plan	Timeshare	562
Sheraton Kauai Poipu Beach Villas	Timeshare	382
Hilton Grand Waikikian Tower	Timeshare	331
Hilton Grand Vacations Club - Beach Walk tower	Timeshare	285
Wyndham at Waikiki Beach Walk	Timeshare	195
Hyatt Regency Maui timeshare tower	Timeshare	121
Disney Aulani	Timeshare & Hotel	810
Ko Olina Master Planned Development – remaining parcels	Timeshare, Hotel / Condotel	6,466
Turtle Bay Resort expansion	Timeshare, Hotel & Resort Condominium	Last proposed: 1250 hotel / timeshare / condo
Sheraton Princess Kaiulani & Westin Moana Surfrider redevelopment	Timeshare, Hotel & Resort Condominium	720 hotel rooms, 200+ timeshare, up to 200 condos
Honua Kai	Condotel	700
Trump Tower Waikiki	Condotel	464
2121 Kuhio	Condotel	459
Ka Makana Ali'i	Limited Service Hotels	500
Laie Inn	Limited Service Hotel	220
Koa Ridge	Limited Service Hotel	150
Courtyard By Marriott Kahului Airport	Limited Service Hotel	138
Kaloko Makai	Limited Service Hotel	120
Live, Work, Play 'Aiea	Limited Service Hotel / Senior Living	150
Embassy Suites Waikiki Beach Walk	Hotel	369
The Modern Honolulu	Hotel	360
Andaz Wailea Resort & Residences	Hotel & Resort Condo	290
Hoakalei Resort at Ocean Pointe	Possible Hotel	900
Coco Palms reconstruction	Possible Hotel	248
Kukui'ula	Resort Condo, Hotel, Timeshare, Single-family, Multi-family	500

* This chart is based on information from various news sources, press releases, Environmental Impact Statements and the State of Hawaii Visitor Plant Inventory. The authors of this report made every attempt to provide accurate information, but room counts and intended usages often change, projects are sometimes put on hold or cancelled, etc. Some of this information may therefore be inaccurate.

While condotels, timeshares and limited service hotels may be effective ways of generating profits for developers, their impacts on workers and our communities have been almost entirely negative, especially as existing hotel inventory is converted to other uses.

Condotels: The Impact on Workers

When a building's rooms are sold as condotel units, owners cannot compel the buyers to join the rental pool (unless the company registers the units as securities with the SEC, which is rare). Owners who do not join the rental pool may not have their rooms cleaned to the same standards or at the same wages. Owners may even clean the units themselves to avoid paying cleaning costs. This can result in a reduction of work for housekeepers.

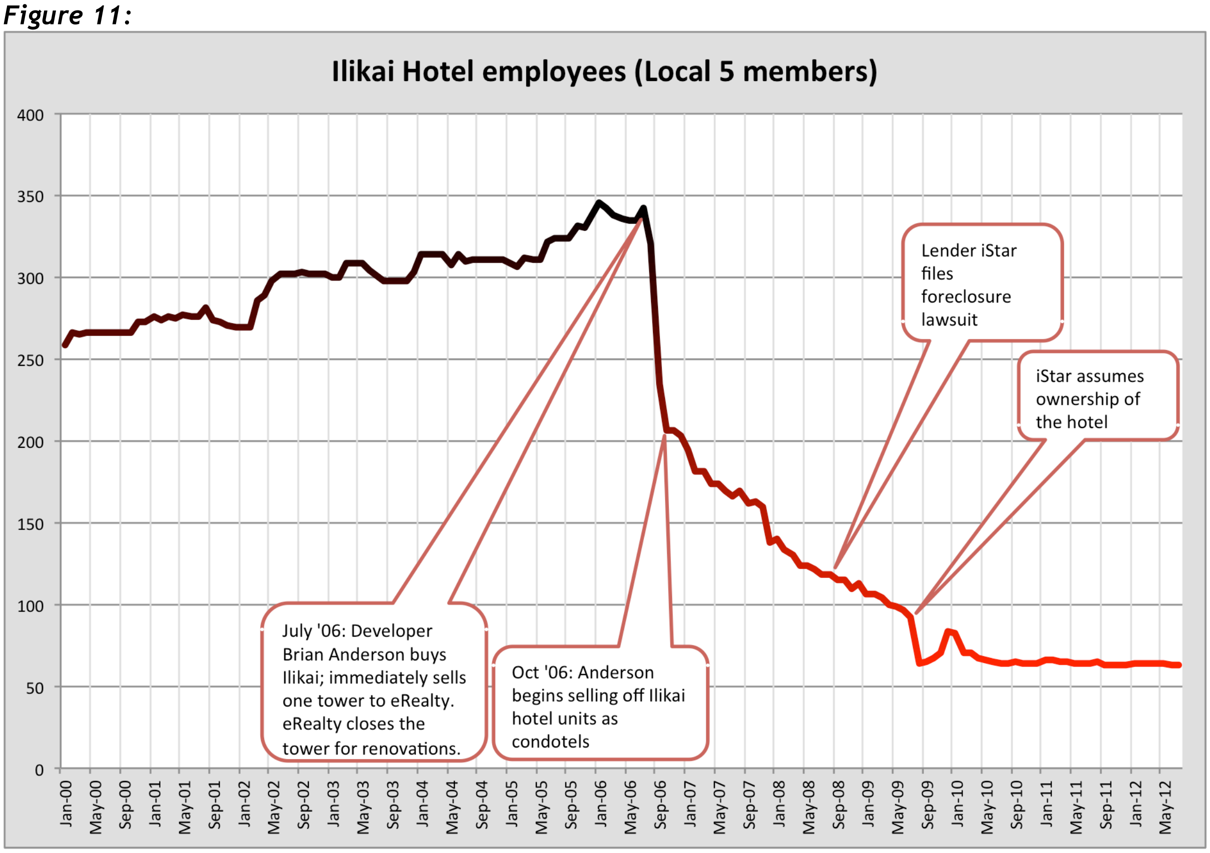
Owners can also choose to leave their rental pools. As the HTA states, "Since 2008, the number of condo hotel units generally decreased, **indicating lower participation in condo hotel rental pools**. This trend was reflected by an increase in the overall number of lodging operations in the State, **as former condo hotel units were now operated as separate IVUs**."[42]

Condotel owners can live in their units for some period of time each year. During that time, they may choose not to have their rooms cleaned by any outside party, resulting once again in a reduction of work for housekeepers.

Case Study: The Ilikai Hotel

The Ilikai was developed by Chinn Ho in 1964. After selling some units as condos, the developer decided to operate the rest as a hotel. The hotel was unionized, and like many hotel workers in Waikiki, Ilikai workers became members of UNITE HERE Local 5, earning decent wages and benefits. Local 5 members serviced all the hotel rooms owned by the developer and any other rooms which happened to remain in the rental pool.

Figure 11:



Everything changed in July 2006, when local developer Brian Anderson, hailed in the press as a "condotel king,"[43] bought the property. Anderson immediately sold the Ilikai's Yacht Harbor Tower to a company called eRealty, splitting the property in two. eRealty shut down the tower for renovations, and the jobs for roughly 200 workers were eliminated overnight. Because they were Local 5 members, they were able to choose between severance pay or the right to be recalled later. Nonetheless, the jobs disappeared for four years while the tower was closed.

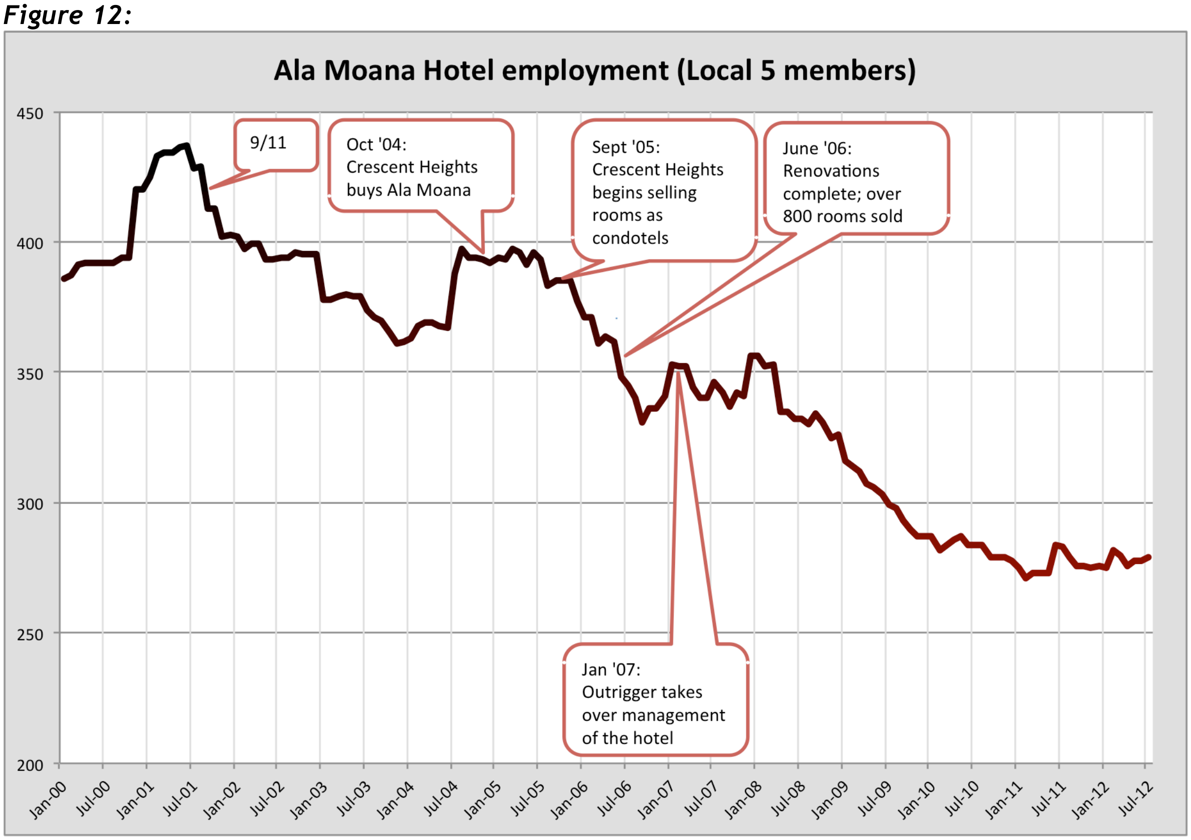
Anderson sold off hotel units to condotel buyers, even selling a block of units to a timeshare company that was already doing business at the hotel. The vast majority of buyers did not opt to join the rental pool, and so employment at the hotel sank steadily until Anderson was foreclosed upon in 2009 by lender iStar. Today, there are just 63 workers[44] at the hotel.

While the Yacht Harbor Tower reopened and added back some of the lost jobs, workers there are still fighting for a first contract. Seven workers have been unfairly fired, and the owner and operator have not agreed to a fair contract. It is noteworthy that the tower, now known as the Modern Honolulu, has only 360 rooms but employs more than three times as many workers as the 1000+ room Ilikai.

Case Study: Ala Moana Hotel

Ala Moana was once a true hotel, owned by Azabu USA. Azabu sold the property to developer Crescent Heights in October 2004. Crescent Heights started selling the rooms as condotels a year later, and employment at the Ala Moana started to drop. Although Crescent Heights was more successful than Brian Anderson at getting owners to join the rental pool, roughly 100 of the 1164 rooms at the property are no longer managed by the hotel operator (which is now Outrigger).

Figure 12:



Timeshares: The Impact on Workers

- Normal hotel rooms are cleaned every day they are occupied. Timeshares are usually only cleaned twice a week. Even though the rooms may get dirtier during that time than they would if cleaned day-to-day, housekeepers may be under the same amount of pressure to clean the rooms quickly. This results in a reduced workforce compared to standard hotels.
- Because buyers stay in their units for a week at a time, the units are often constructed and sold with full kitchens. If owners make the easy choice to cook their own food instead of eating out, this can result in a reduction in restaurant-related jobs.
- A 2005 report from local industry analyst Hospitality Advisors estimated that between 2004 and 2010, about 3,225 Waikiki hotel rooms would be lost to conversion to condominiums or timeshares, although the number of rooms estimated to be permanently lost was only about 1,500 because the report's authors calculated that roughly 90 percent of condo hotel units would be returned to hotel rental pools.[45] Still, based on the Wells Fargo report's calculations of non-supervisory workers per room, those 1,500 lost rooms would represent over 750 lost jobs.[46]

Limited Service: The Impact on Workers

As described above, limited service hotels achieve cost savings by employing fewer workers. With less amenities, these hotels will not have any servers, hosts, cooks and pantry workers; they may not have valets, bellpersons or room service workers. All of these positions, which have created a robust industry and helped thousands of people support their families, are not part of this industry model.

According to a 2011 report by Hospitality Advisors, there are significant pay and/or workload differences between workers in full-service hotels and workers in limited service hotels. An examination of the "Rooms" department (including housekeeping as well as front desk, bell staff, reservations and/or laundry workers) reveals that payroll costs per room in limited service hotels averaged about 66% of those costs for the same departments in full-service hotels.[47] There are a few possible explanations for this, but none of them are good for hotel workers. The numbers imply one of the following:

A) Housekeepers at limited service hotels were paid, on average, 66% of what housekeepers in full-service hotels were making (between wages and benefits);
B) Housekeepers were cleaning 50% more rooms per day at limited-service properties;
C) Housekeepers were not cleaning rooms at limited service properties as often;
D) Front desk, bell staff, reservations, and/or laundry workers were paid less, doing more work or there were no workers in one or more of those classifications; or
E) Some combination of the above.

While this sounds bad for the rooms department, it fared much better than any other department at a limited service hotel. Overall, per-room labor costs at limited-service hotels were only 29% of what they were in full-service hotels, while the profit margin for hotel owners is larger. Limited service hotels provided significantly less benefit to Hawai'i's working people than full-service hotels.

[Note: Condotels did even worse than limited-service in many departments, but had somewhat higher payroll costs than limited-service hotels, mostly as a result of having food and beverage operations and some other departments which limited-service hotels generally lack. Condotels overall provided 31% of the payroll of hotels on a per-room basis.[48]}

There are at least five limited service hotels in planning, construction or which have recently opened in Hawaii, and some of them will be in proximity to existing full-service hotels. Hotel owners running full-service hotels will have to compete with companies that have lower standards and lower costs.

Compounding the problem, some existing hotels are starting to limit services. For years, hotels across the industry have been shutting down their restaurants and bars or subcontracting them out to non-union companies. In October 2012, the Hilton Hawaiian Village – the largest hotel in the state - shut down its room service department.

Resort Condominiums: The Impact on Workers

The impact of condominium conversions on workers is the most apparent: while these properties may generate some maintenance jobs, and some jobs at whatever amenities they provide, generally residential condominiums have very few workers.

It is evident that condotels, timeshares, limited-service hotels and resort condominiums each act as mechanisms for developers to keep a greater portion of the industry's revenues for themselves. The fact that the majority of new lodging developments being proposed fall into one of these categories, and that none of them are full-service paints a troubling picture for workers if we do nothing. This, in addition to some of the other unique features of these development models, has an impact on the broader community, which is explored in the next section.

Condotels, Timeshares, Limited Service & Resort Condos: The Impact on Hawaii's Communities

Industry analysis shows that limited service hotels, condotels and timeshares employ fewer people and/or pay substantially less on average than unionized full service hotels. As an increasing number of them attempt to capture the same markets to which the state's full-service hotels currently cater, such competition could encourage hoteliers to make cuts to staffing or increases to workloads to remain competitive. If those were the only impacts, they would be significant enough to warrant extreme caution on the part of those who allow such developments and conversions to take place. However, far more is at stake – these new investment models impact state and local tax revenue; reduced employment has a ripple effect throughout the State economy; and any associated increases in unemployment come at a significant social cost.

Taxes

In Hawaii, the county and state governments provide a number of significant services for residents – they fund schools, keep roads in repair, provide public safety, etc. In order to provide these essential services, the counties and the state (as well as the federal government) rely on tax revenue. Some of the key revenue-generating taxes in Hawaii are the General Excise Tax, the Transient Accommodations Tax, income tax and property taxes. Property conversions and changes in hotel employment can affect the tax income generated through each of these taxes, some directly, some indirectly.

The Current State of Taxation in Hawaii

In Fiscal Year 2010,[49] over 29% of the State's revenue came from individual income taxes.[50] When the hotel industry sheds jobs, the state loses individual income taxes.

Over 45%, or $2.32 billion of the State's FY 2010 revenue came from General Excise Tax ("GET")and Use tax.[51] Some of this came from visitor spending, and some of it came from residents spending their income in-state. In order to determine the relative size of GET sources,

The Hawaii Tourism Authority put visitor spending at nearly $10 billion in 2009 and $11.2 billion in 2010.[52] Averaging the two leads to an estimate of visitor spending for FY 2010 of $10.6 billion.[53] If one then assumes that all visitor spending items were taxed at a rate of 4%,[54] that would create $424 million in GET, an amount equal to about 18.3% of the state's overall GET and use tax revenues.

It would not be unreasonable to assume that a significant portion of the remaining 81.7% of GET revenues came from spending by Hawaii residents.

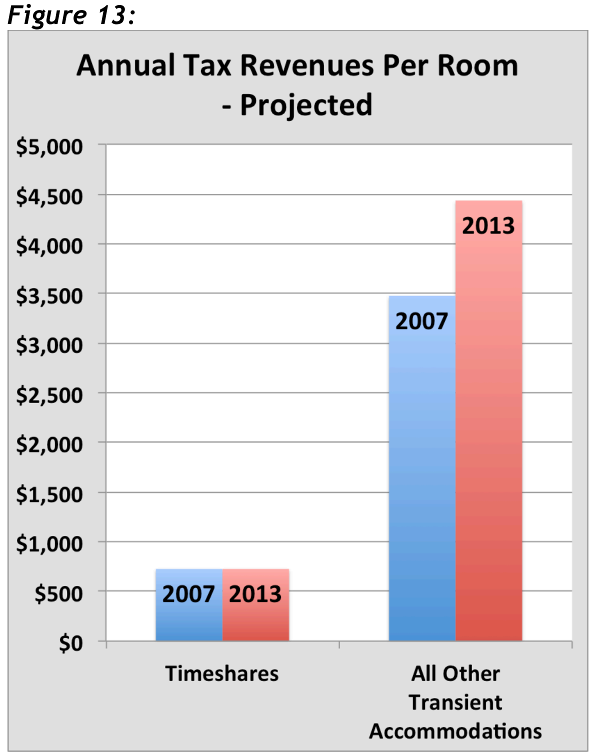
Transient Accommodations Tax and General Excise Tax

Transient Accommodations Taxes (TAT) amounted to over $224 million in FY 2010.[55] Act 61, passed in 2009, set the tax rate at 8.25% on July 1, 2009. This implies a tax base somewhere in the range of $2.7 billion in visitor spending on accommodations for FY 2010. However, lodging expenditures for the same period actually amounted to roughly $3.9 billion.[56] There is a $1.2 billion discrepancy in spending, leading to a $98.6 million discrepancy in tax revenues.

In part, this can be explained by the fact that the tax on timeshare accommodations is lower than the tax on hotel rooms. There are at least three ways timeshare occupancy generate less tax revenues than hotels:

- Because timeshare guests buy their ownership interest upfront, they do not pay a nightly occupancy fee. TATs for timeshares are, therefore, not calculated based on nightly rates. Instead, timeshare occupants pay 7.25% of the "Fair market rental value," which is an amount equal to half the gross daily maintenance fees paid by the timeshare interval owner.[57] A 2008 study by the University of Hawaii Economic Research Organization found that "operating costs are a poor proxy for a timeshare unit's fair market rental value"[58] and calculated that in 2007, tax collections per available timeshare unit were $726 versus $3,476 for all other types of transient accommodations. While this does not include tax revenues from renting timeshare units on the open market (as hotel rooms), UHERO researchers found that those additional amounts were not likely to be significant.
- As mentioned above, in 2009 the Hawaii Legislature passed a bill increasing the TAT from 7.25% to 8.25% in 2009 and to 9.25% from 2010 to 2015. In 2013, the Legislature made the 9.25% tax rate permanent. However, that increase does not apply to timeshares, which still pay the 7.25% rate.
- Because there are no nightly rental fees (except when timeshares are rented like hotel rooms), there are no General Excise Tax ("GET") charges for timeshare occupancy, and there is no equivalent tax.

Figure 13:



Based on 2007 room rates and maintenance fees, the gap between TAT revenues for timeshares and all other forms of transient accommodations is significant, and has grown with new legislation.

While the legislature increased taxes for hotel rooms to 8.25% in 2009 and again to 9.25% in 2010, the rate for timeshares remained at 7.25%.[59] About 10.6% of the visitor accommodations for the period were in timeshares,[60] so the lower rate cost the state roughly $5.2 million. While significant, that still fails to explain the remaining $103 million discrepancy.

As an example, average daily room rates (ADR) for hotel rooms Hawaii in 2011 were $189.62 and occupancy was 73.4%.[61] Assuming the ADR for timeshares would have been similar if rented on the open market, the TAT that could have been generated from available timeshare units (10,201)[62] if they were taxed like hotels is $47.9 million, and the GET revenue would have been $20.7 million (before including the 0.5% Honolulu county surcharge). Based on an average timeshare maintenance fee for a one-week ownership of $660,[63] the same units as timeshares would have generated $9,340,832 in TAT revenues and $0 in GET revenues. By these estimates, the state would have lost over $59 million in one year because of timeshares.

Not only do timeshares generate less taxes on occupancy, but they generate less tax dollars elsewhere.

Conveyance Taxes

Some might argue that while timeshare occupants do not pay General Excise Tax, they do pay a significant conveyance tax when purchasing the timeshares. In order for this to be a valid claim, we would need evidence that the conveyance taxes provided greater revenue than GET, and that timeshares would be likely to have either a higher conveyance tax rate or a higher rate of turnover than hotels, or both, in amounts significant enough to bridge the gap.

The State of Hawaii charges a tax on real estate transactions like home sales and timeshare sales. In 2011, the average cost of a timeshare “week” was estimated by U.S. News at $19,000. Hawaii timeshares tend to be more desirable and tend to have a higher value on exchange networks, thus the average price is likely significantly higher, perhaps two to three times as much.[64]

Example: A 200-unit timeshare resort where each interval sold for $50,000 would have commanded $520,000 in conveyance taxes once all intervals were sold.[65] If $50,000 reflected the true value of a unit, then each unit would be valued at $2.6 million. At that price, if the 200 units were sold as condotels instead of timeshares, the State would collect $2,600,000 in taxes for the entire resort. If the same property were constructed as a full-service hotel and sold just once, the state would collect $5,200,000 in conveyance taxes, ten times the revenue commanded by timeshares.

It is certainly possible, if not likely, that the value of a given timeshare unit is lower than the developer’s selling price – this would mean that the projected value of the units as condotel or hotel units is an overestimate. Even so, unless the units as hotel would be worth less than one-tenth of the price at which they are sold as timeshares, they would still provide less money in conveyance taxes.

Further, timeshares often do not fare well on the resale market. According to the Federal Trade Commission, “Because so many timeshares and vacation interval plans are available, the resale value of yours is likely to be a good deal lower than what you paid.”[66] Hotels, on the other hand, tend to appreciate in value like most other real estate. Thus, the conveyance tax gap for a single property is likely to grow significantly after the initial sale.

Property Tax Revenues

While timeshares and condotels generate property taxes, so do hotels. All things being equal, a 200-unit timeshare should have the same property value as a 200-unit hotel or a 200-unit condotel. All of these are taxed at the same rate, except in Maui County, where timeshares are taxed at a significantly higher rate than hotels.[67]

Oddly, a report by Hospitality Advisors and Smith Travel Research shows that per room, condotels paid only 11.4% of the property tax hotels paid in 2010. Because this calculation is per room, it is already adjusted for the size of each property. This may be partially explained by the fact that hotels control much of the prime beachfront property in the state, but the difference is striking.

Limited-service hotels paid only 33.3% of the property tax that full-service properties paid per room, but limited-service hotel developers tend to seek out cheaper real estate so they can operate at lower room rates.

The Impact of Lost Jobs

The loss of jobs in the hotel industry has a ripple effect throughout the islands' economy. For example, when a hotel worker gets a paycheck, some of that money might go to buy food. The food retailer uses some of this money to pay its employees, and they can go out and buy food, and so on. In fact, there is a standard for measuring these indirect effects which is often used by developers to highlight the economic potential of their projects. This practice is questionable, as developers are rarely asked to defend these projections in the permitting process, and it is even more rare for anyone to check later on as to whether or not the projections came true. However, this is an accepted standard, and it is worth applying to the scenario of tourism job loss.

By using this standard, we can project the impact of reduced employment in our communities. Once the ripple effect is taken into account, each job lost in the accommodations industry actually translates to 2.27 total jobs lost.[68] That means that the 940 jobs lost in hotels studied between 2005 and 2012 amount to an actual loss of 2,134 jobs in our state. It is important to note that the hotels studied to derive the count of 940 jobs lost only comprise 18.7% of all the lodging rooms in the state.[69]

Similarly, the full impact of Hilton Hawaiian Village's October 2012 decision to eliminate its entire Room Service department can be measured as follows:

Direct Jobs Lost: 21
Accommodations Job Multiplier: 2.27
Total direct, indirect and induced jobs lost: 21 x 2.27 ≈ 47 jobs (inclusive of the 21 room service jobs)

One of the major impacts our communities feel from timeshares, condotels, limited-service hotels and condo conversions is due to the loss of jobs. In order to understand the full impact of the losses discussed earlier in this paper, as well as the impacts the State may face if we do not change, we need to explore several factors:

- The effect of lost income on our communities;
- The indirect and induced loss of jobs resulting from these cuts;
- The loss of tax revenues to the city, state and federal governments; and
- The social costs of unemployment.

Lost Income Taxes, Lost Community Income

In 2011, the average wage for Hawaii workers was $42,454.[70] The average wage for a hotel worker was $40,828, and for a food industry worker, it was $18,577 (not including tips). Using these numbers over the six-and-a-half year period after the decrease in jobs from key Hawaii hotels began in January 2006, the total loss in direct wages is estimated to be over $130 million, or roughly $20 million per year. This is $130 million that was not spent in our communities; not there to support our families; not there to help pay the mortgage. That "disappeared" money was also not taxed.

According to the Institute on Taxation and Economic Policy (ITEP),[71] state and county tax revenue represented 12% of Hawaii residents' personal incomes in 2010.[72] The Tax Foundation, a conservative-leaning think-tank, put the number for Hawaii slightly lower, at 10.1% for the same year.[73] Either way, the lost jobs from 2006 to mid-2012 would have resulted in over $13 million of lost tax revenues; $2 to $2.4 million per year for county and state coffers, schools, and roads. This is money that the owners and operators of hotel properties, many of whom remained profitable through the depths of the recent depression, retained for themselves. The money may have been taxed as corporate income, but the top income tax rate for corporations is only 6.4% in Hawaii.[74] In 2010, corporate income tax accounted for just 1.15% of Hawaii's total tax revenues, with an additional 0.4% from taxes on banks and financial corporations.[75] This compares with individual income tax, which made up 29.76% of State tax revenues.[76] While corporations and their highest-compensated executives in theory pay taxes on the money they retain for themselves (except for "costs of business" like salaries and perks), the Tax Justice Network released a report in 2012 estimating that between $21 and $32 trillion of global private wealth is stored in offshore tax havens.[77]

Indirect and Induced Job Loss

Once the indirect and induced effects are factored in, the total loss in wages for Hawaii's workers from just that portion of the unionized sector of hospitality jobs amounts to a staggering $313 million – roughly $224 for every woman, man and child in the entire state.

Job loss has an impact on other parts of the tax system too. Although it is harder to quantify, a great deal of an individual's income is spent on goods and services subject to the GET.

As reduced income may encourage families to live with more people in each household, property tax revenues feel an impact as well. In 2011, 9.3% of occupied housing units in Hawaii had more than one occupant per room,[78] 2.8 times the national average.[79]

As Honolulu Civil Beat points out, "Today, the state relies almost exclusively on tourism and government spending to support its economy."[80] Hotel wages are a central part of that equation. According to the State DLIR's Research and Statistics Office, the Accommodation and Food Services industry was the number two employment generator in the state after Government in 2011.[81] Given that Government is funded through tax dollars, both of these employment generators are impacted by these trends directly, while all of the others are impacted indirectly to a greater or lesser extent.

The Social Costs of Reduced-quality Jobs

Cutting labor costs by cutting workers or increasing workloads could, in fact, hurt tourism. According to Princeton economist and current Chairman of the White House Council of Economic Advisers Alan Krueger, workers' wages and benefits have been shown to directly affect quality of customer service.[82] Lowering those standards not only impoverishes local workers - it undermines the reputation that Hawaii has spent decades trying to build, a reputation which has attracted guests from around the world. Coupled with this trend toward low-wage workers are poor job performance, perpetually high turnover among employees and lost productivity.[83] This is a point further supported by Krueger's 1992 research into wages in the fast food industry.[84]

The Social Costs of Unemployment

The costs of conversion-related job cuts can be measured in two interrelated ways: its economic impact and its social impact to the state of Hawaii. Socially, the job losses associated with widespread condotel and timeshare conversion could be detrimental. They could harm families and deteriorate family relationships.[85] Such job losses have been tied to increases in divorce rates, teen pregnancy, domestic violence, and single parent households living in poverty, according to labor expert Beth Shulman.

Studies have shown that small businesses are substantially reliant on the spending of low-wage workers and thrive or deteriorate, because of them. Job cuts reduce the money coming into these communities, impair the purchase of consumer goods by families, and therefore reduce economic growth.[86] While there is not research specific to Hawaii, a 2002 sociology study in California examined the economic ripple effects if Santa Rosa's population of 5,000 low-wage workers earned an additional $400 a month instead of the less than $8 an hour that they were regularly paid. The findings indicated that those workers could infuse as much as $23 million in their communities and small businesses, if they were given the wages to do so. The study concluded that that injection of disposable income invigorates local economies and improves the lives of individual citizens[87] However, staffing cuts throughout the tourism industry threaten that vision and replace it with one of impoverished neighborhoods and struggling families.

Federal Reserve reports have tied sudden increases in unemployment to spikes in property crime, such as theft, burglary, and larceny.[88] High levels of unemployment are also associated with elevated instances of stress and mental health problems in a community, including but not limited to depression, alcoholism, and drug abuse.[89] [90] Industry-wide trends toward reducing staffing could worsen existing problems in Hawaii, such as homelessness, and they represent an affront to hard working people in the state.

With state resources already spread too thin to address Hawaii's problems and with significant state budget issues to overcome,[91] condotels, timeshares and limited service hotels represent a losing choice for Hawaii's communities.

Long-Term Pain vs. Long-Term Gain

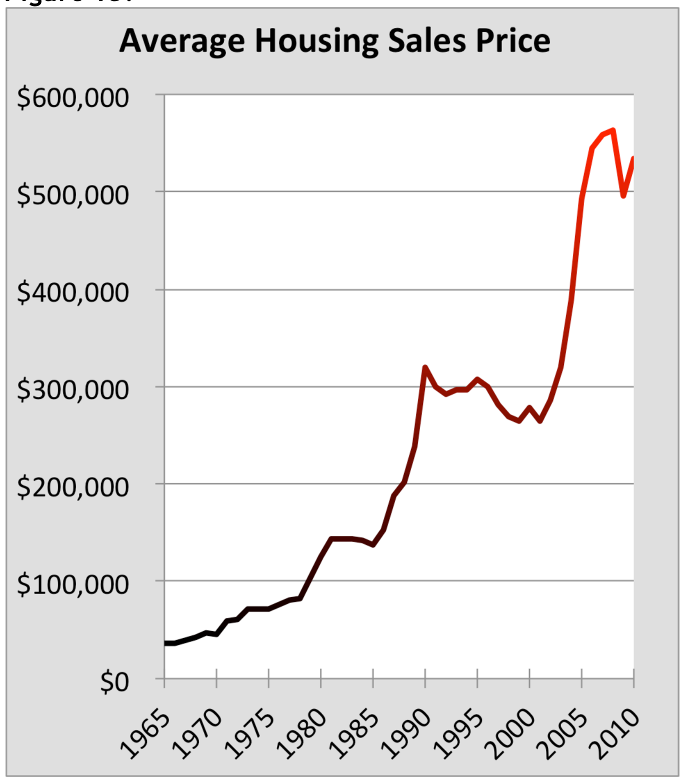
Long-Term Pain: Hawaii's Working Families are Hurting

Everyone knows life in Hawaii is expensive, but to get a real sense of what working families are facing, there are some important statistics to consider:[92]

Increasing costs: Homeownership

- Our state has the highest cost of living in the nation and the lowest average adjusted income.
- Honolulu is the second most expensive city after New York City[93].
- Hawaii had the highest rent in the country. In 2010 our median rent was 50 percent above the nation's at $1,291 a month.
- We have the highest home prices in the nation. The median price for a home was over half a million dollars at $589,000, three times the US price of $178,000.
- 56 percent of renters pay 30 percent or more of their income towards rent, fourth highest in nation.
- Half of mortgaged homeowners pay 30 percent or more of their income towards housing, the second highest rate in the nation.
- The homeownership rate in Hawaii is 58 percent, the fourth lowest in the nation.

Figure 13:



Source: State of Hawaii Data Book, 2011 - DBEDT

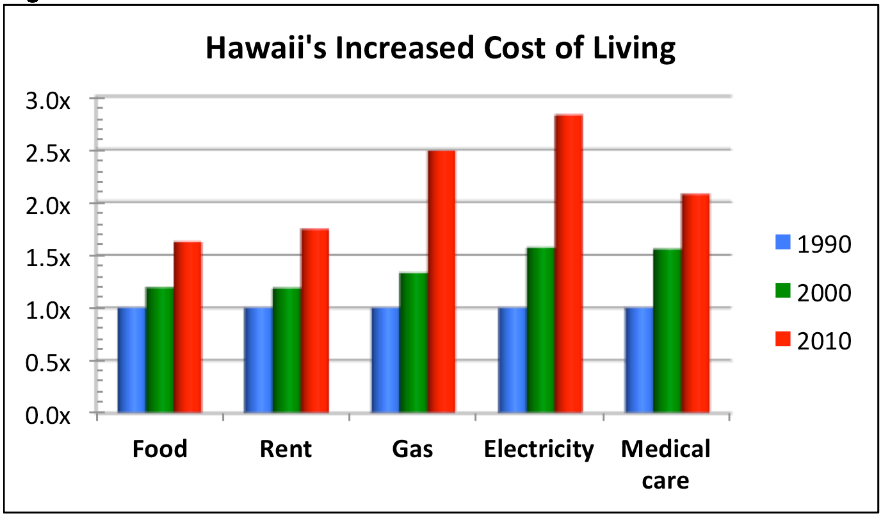
Housing supply is limited by the physical constraints of our island state, driving up costs. However, between 2000 and 2010, the housing supply increased as fast as the population – so why did the costs increase so much? The Federal Reserve Bank of San Francisco ("FRBSF") explains that "in most years from 1975 to 2008, house prices in Hawaii were driven almost entirely by demand from the U.S. mainland"[94] except for a decade from the mid-1980s to the mid-1990s when the price of housing was driven almost entirely by demand from Japan. "For Japanese and U.S. mainland buyers," FRBSF notes, "[houses in Hawaii] constitute a specialized second-home market rather than a primary residence market."[95]

Increasing costs: Goods and Services

The US Center for Nutrition Policy and Promotion estimates that in order for a family of four in Hawaii to enjoy a nutritious diet, it would cost $1,016 a month. Using this low end estimate, in 2011 an average household in Hawaii would spend over 10 percent of their annual income on food alone.[96] Truth is, costs are increasing across the board (Figure 14).

Increasing costs: Medical care

Figure 14



Source: State of Hawaii Data Book, 2011 - DBEDT

Another rapidly increasing cost is health care. Healthcare inflation has continued to be an economic burden for workers. Family premiums increased 53 percent between 2003 and 2010. Insurance costs are outpacing income growth in every state across the country. Due to Hawaii's healthcare laws ensuring employer coverage, Hawaii is ranked third lowest in the nation for family plan premiums, but that is small consolation when you look at the actual $12,062 price tag. Family health insurance premiums amounts to almost 18 percent of household income, of which the average island family pays $3,155 out of pocket. Also, the state's health care law only provides for single coverage. Employers are not required to contribute to their employee's family coverage. [97]

Wages vs. Inflation

A few facts about working in Hawaii: [98]

- Between 1980 and 2010 as U.S. real average wages increased 27 percent to about $37,000 (0.8 percent annual increase). Hawaii's average wage during that time increased only 14.5 percent to $32,600 (a 0.5 percent annual increase).[99]
- Real wage growth over the last twenty years has been led by jobs defined as "Management of Companies & Enterprises" or "Finance and Insurance", at 2.8 and 1.0 percent annually, respectively.[100]
- Inflation is always there to take away at whatever gains we make. Although Hawaii household income increased 30 percent to $64,700 between 2000 and 2008, a 3.3 percent annual increase, the cost of everything else increased over that time. Honolulu's rate of inflation for the same time period averaged 3 percent annually, virtually negating any increase in purchasing power the growth may have provided[101].
- From 1990 to 2010, Hawaii only managed to a net gain of 45,046 jobs. Meanwhile, the population increased by 250,000 over the same period. That is a job gain of 7% in contrast to a 22% increase in population over the same period. In comparison, there was a 17% increase in job gains in the US as population increased by 24% over this period.

Wages & Benefits: The Money That Stays in Hawaii

When already rich "foreign" companies come in and buy up Hawaii assets, those profits do not stay in Hawaii, but return to Wall Street to satisfy the demand for shareholder return on investments. It is through the struggle of local residents to keep some of the industry's profits within the community that we can achieve a better future for our families.

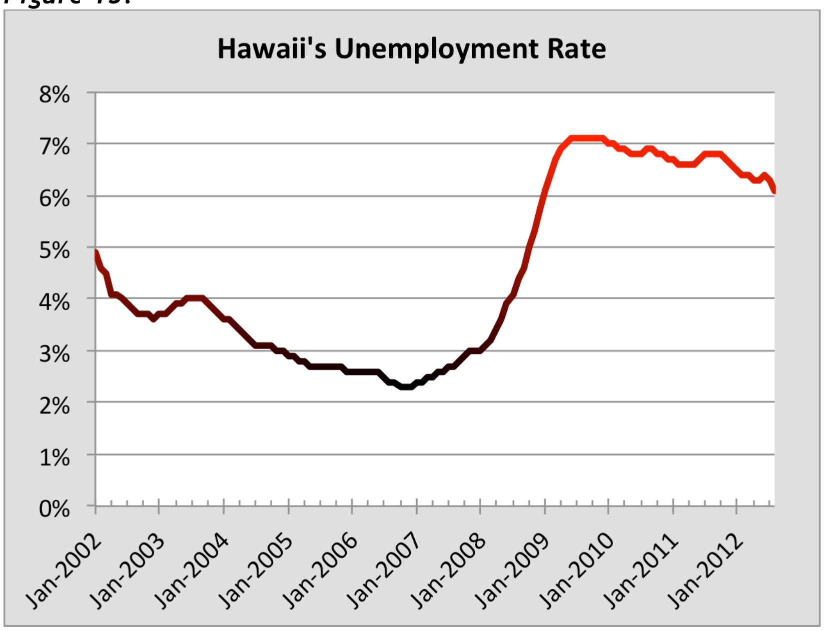
A Jobless Recovery

The Wells Fargo report cited at the beginning of this paper (Figure 1) pointed out that hotels appeared to have reduced staffing during recessionary periods, and maintained staff reductions even as the industry rebounded. The report[102] points to some examples:

> *Case in point, during the real estate construction boom in the 1980s, staff per 100 rooms increased 18%. As the cycle turned against hotels and real estate, staff per 100 rooms declined 10% from their mid-1980s peak and held firm at this reduced level through 2000. The events of September 11, 2001, necessitated service levels be addressed again and staffing was promptly reduced and declined through 2005 (Figure 1).*
> - Wells Fargo Securities

If companies were to employ a strategy of preserving "labor efficiencies" in the post-recession world, as suggested in the Wells Fargo report, refusing to hire even as business came back, one would expect to see signs of a jobless recovery. This phenomenon has indeed been observed, both nationally and locally.

Figure 15:



Source: Bureau of Labor Statistics

While the unemployment rate has come down from its peak in 2009, the *Star-Advertiser* reports[103] that the numbers may be somewhat misleading:

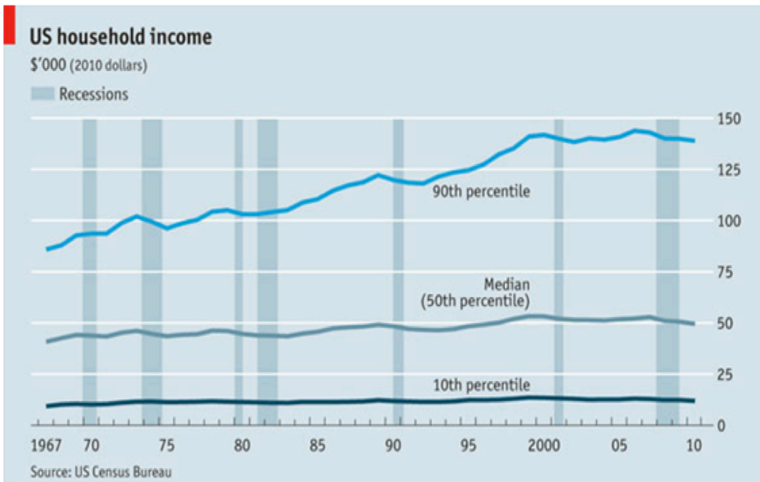
> "While Hawaii is several percentage points below the national average using the standard definition of unemployment, it doesn't compare as favorably under a broader measure that takes into account those who have dropped out of the workforce and people who are working part time but would rather be working full time. Hawaii's rate is 14.8 percent when the underemployed and discouraged are counted, only slightly below the national average of 15.3 percent."

Long-Term Gain: Not Everyone is Hurting

Despite the most severe economic recession since the Great Depression, the number of millionaire households in Hawaii has actually *increased* more than 18% in the past three years.[104]

Hawaii's problem with wage stagnation and income inequality is part of a larger American problem. Income and wealth distribution in this country has regressed to levels unseen since the 1920s. Adjusted for inflation, income growth for the middle class and the lower class has been flat while the richest Americans receive a disproportionate share of the wealth (see Figure 20).[105]

Figure 20:



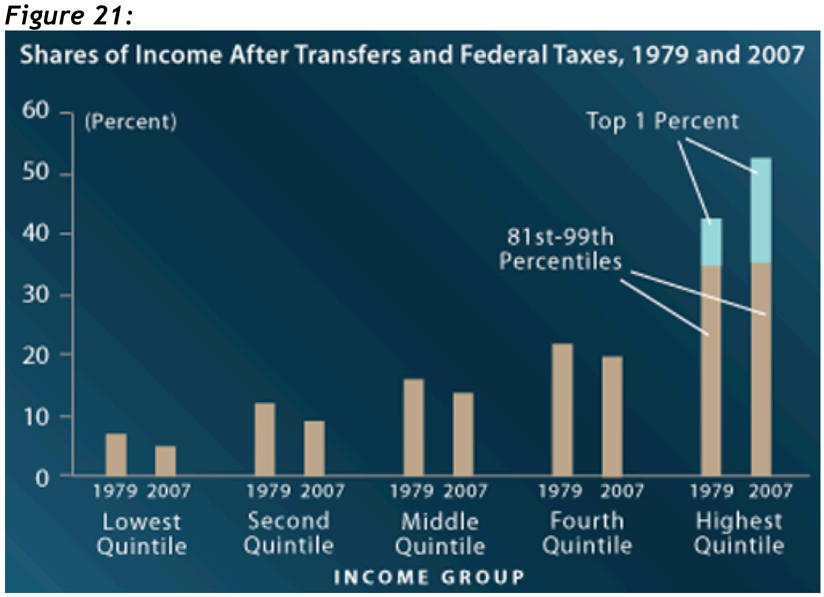
Source:

According to Professor William Domhoff of UC Santa Cruz, The richest one percent own 35% of the net worth in America, based on data from a 2007 study.[106] The top twenty percent collectively own 85%, while the bottom 80% hold a mere 15% of the net worth. If the value of houses is excluded, the difference is even more significant (see Appendix D for more information on wealth distribution).[107] A lot of working class people have their net worth invested in their homes. The collapse of the housing market – caused by the irresponsible actions of banks and investors who make up the 1% hit working families the hardest and only served to increase the wealth gap even more.

The Congressional Budget Office issued a report in 2011 about income inequality in America. Between 1979 and 2007, income grew:[108]

- 275 percent for the top 1 percent of households
- 65 percent for the next 19 percent
- Just under 40 percent for the next 60 percent
- 18 percent for the bottom 20 percent

Figure 21:



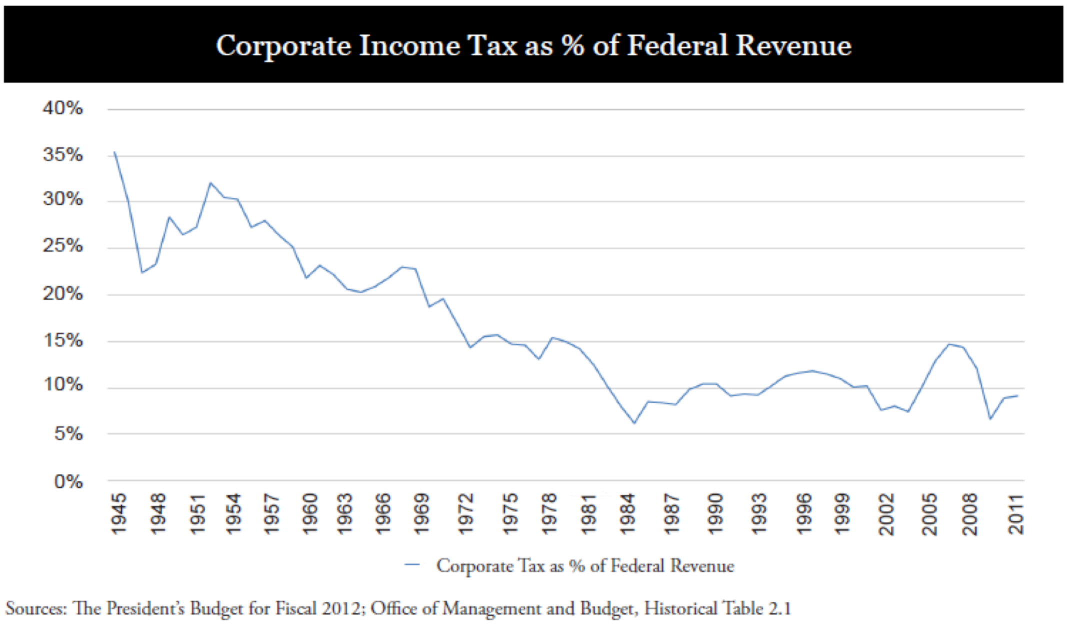
Source: Congressional Budget Office

In fact, the CBO report points out that between 2005 and 2007, the top 20% of income-earners took home more than the remaining 80% in after-tax income,[109] and that "The rapid growth in average real household market income for the top 1 percent of the population with the

highest income was a major factor contributing to the growing inequality in the distribution of household income between 1979 and 2007."[110]
CEO Pay

The Institute of Policy Studies reported that in 2010 top CEO pay was 325 times the average worker's pay and 25 of the 100 highest paid CEOs took home more money in pay than what their companies paid in federal income tax (interestingly, 16 of those 25 CEO's attended a public university). So, as our wages have remained flat, CEOs get richer and corporations are giving back less and less to the country and its citizens; corporate income tax as a percentage of revenue has fallen steadily since 1945:[111]

Figure 22:



Source: Congressional Budget Office

In a study by Citizens for Tax Justice, it was found that between 2008-2010 "twelve companies reported $175 billion in pretax U.S. profits. But as a group, their federal income taxes were negative $2.4 billion."[112]

Another study released in July 2012, this one by the Tax Justice Network, found that the world's super rich had **$21 trillion** stashed in offshore accounts by the end of 2010 – possibly even more.[113]

Long-term Gain: Political Favors for Developers

In exploring how things got so bad for working people and so good for banks and developers, it is important to look at the relationship between real estate owners & developers and politicians & legislation in Hawaii. The Real Estate industry is the largest campaign contributor in the state. Real Estate industry donors have been the number one segment of campaign contributors in four of the past six years. Lodging and Tourism had significant contributions as well, but they did not reach anywhere near the level of Real Estate contributions.[114]

Ranking of Contributions to Hawaii Elections by Industry

Year	Real Estate	Lodging and Tourism
2002	1	10
2004	1	10
2006	1	7
2008	3	10
2010	2	10
2012*	1	8

*as of 9/27/12

At the same time, developers and hotel companies have had a close relationship with many politicians. Upon close examination, one could uncover myriad examples of state and county political bodies and regulatory agencies doing favors for developers – mostly in the form of exemptions and variances from established land use regulations, but also in financial forms such as tax breaks. The following are just a few notable examples indicative of the range of these practices:

Beach Walk

Outrigger Hotels in the early 2000's acquired land with help from the City and County of Honolulu via eminent domain. For a 7.9 acre, 300 million dollar commercial development presented as a Waikiki renewal project, the City threatened five private land owners with condemnation until they eventually settled with the developer. Outrigger representative Mel Kaneshige explained:[115]

> It was only after reaching a negotiating impasse that we began exploring an option that could provide a win-win solution for everyone — Outrigger, the landowners, the City and County, and the general public, which has an enormous stake in the revitalization of Waikiki. Regrettably, this option has an unpleasant, lawyerly sounding name: "condemnation" through "eminent domain."

This process with its unpleasant, lawyerly sounding name essentially allowed Outrigger, through the power of the City, to cap the price at which the landowners could sell their own property, so that Outrigger could then buy their land and develop its project there. Later, Outrigger negotiated reduced parking requirements for the project.

Kaka'ako

The Kaka'ako area was originally slated for affordable housing. While "affordable housing" itself is a questionable term under current City & County standards (see Appendix E for further discussion), some developers had different plans for the area. In August 2012, the Hawaii Community Development Authority ("HCDA") allowed developer Kamehameha Schools to convert part of the Pagoda Hotel into affordable housing to fulfill part of its housing requirements for its master plan to build 2,750 housing units in Kaka'ako. Rather than having to sell affordable units in the same buildings as higher-priced units, the developer put them a mile away in a former hotel property which a condo conversion company was already in the process of renovating. While the units will be cheaper, the *Star-Advertiser* reports that some will be dramatically smaller and 40 of them will not come with parking.[116]

PLDC

In 2011, legislation was passed creating a new state body called the Public Land Development Corporation (PLDC). This entity was created to generate revenue for government departments by partnering with businesses to develop public land for private use. It will bypass many of the long established rules protecting community interests and input in land development, granting sweeping discretionary powers to the five people who sit on the board, and by extension to the Governor, who appoints three of them.

The PLDC will open up public lands for real estate development. One of the main sponsors of the bill creating the PLDC was Senator Donovan Dela Cruz. In 2010 and 2012, the top three industry contributors to Dela Cruz's election campaign were Real Estate, General Trade Union and Construction Services.[117] Although the bill was passed in both the House and Senate, it now faces public backlash.

The Union Difference

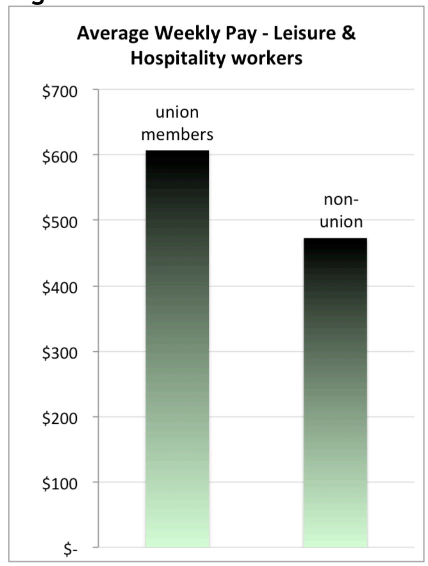
The profits of the hotel industry should be the foundation for Hawaii's families – the basis for providing opportunities to our children; a resource for those in need; a means of providing a safe, stable infrastructure for our communities and our lives. In order to make that happen, we need to keep money in the state. Strong unions have effectively done just that by providing higher paying jobs with reliable medical care and long-term benefits for workers.

Union members nationwide made over 28% more than non-union workers in 2011.[118] Within the leisure & hospitality industry, the number is exactly the same.

As far as other benefits, the AFL-CIO recently found that union workers were more likely to have health insurance, retirement plans, defined benefit plans and paid sick leave than their non-union counterparts (Figure 17).

Unfortunately, however, unions have been on the decline for years.

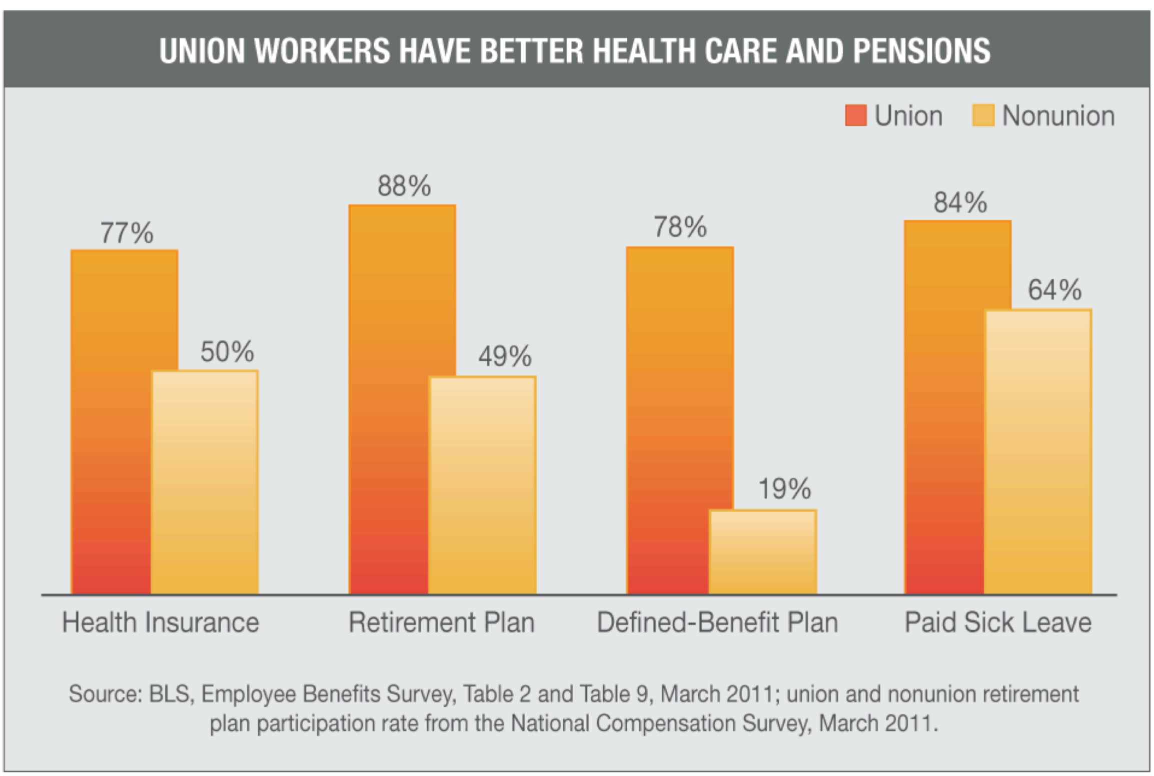
Figure 16:



Source: Bureau of Labor Statistics

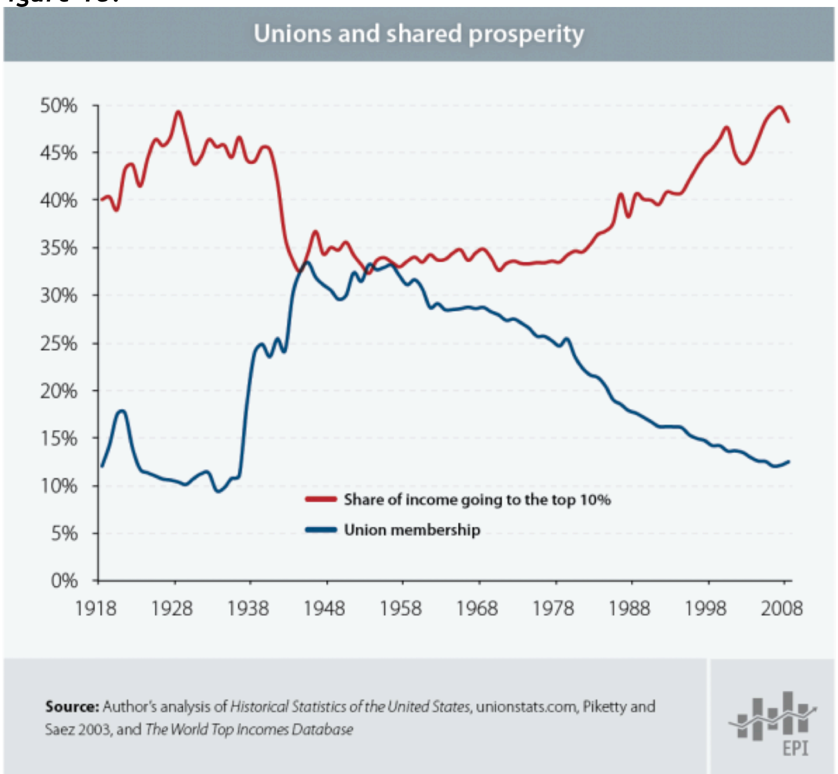
Coincident with this decline are both the decline in the middle class' share of income nationally and the increase in the share of income going to the top 10% (Figure 18).

Figure 17:



Source: AFL-CIO analysis of Bureau of Labor Statistics data

Figure 18:

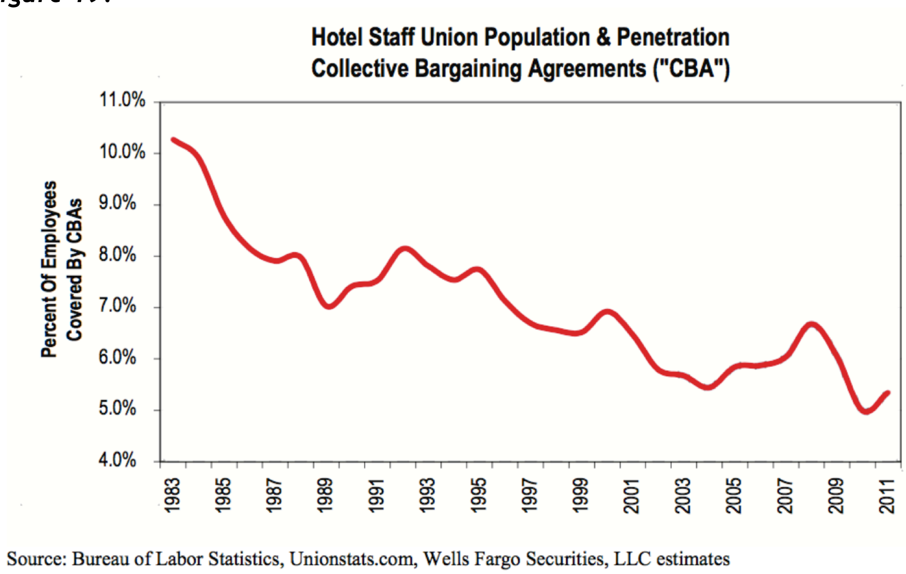


Source: Economic Policy Institute

The hotel industry has not been immune to this decline, nor are industry analysts unaware of it. A report recently released by Wells Fargo states, "The portion of hotel employees covered by collective bargaining agreements has declined from 10% in 1983 to 5-6% by 2011. The absolute level of membership at year-end 2011 was 500,000, on par with its 29-year average but down sharply from its 2008 peak of 623,000. The persistent declines in union penetration implies most new jobs in the industry are non-union."[119] The problem is not so much that unions are not growing - it is that the industry is growing even faster.

Beyond the economic impact to our communities, this change impacts workers in another way. Wells Fargo offers that the decline in union density within the hotel industry has allowed for "increased scheduling flexibility" and "job sharing." These practices can save employers money by allowing them to schedule fewer workers to do the same amount of work on schedules over which their employees have little say.

Figure 19:



Source: Wells Fargo Securities

How Can We Turn Things Around?

Community groups and working people from all around Hawaii came together on Saturday May 19, 2012 to address the challenges that Hawaii and its people face in all aspects of life. Through this convention, the Aikea movement was born. Conference attendees signed on to a platform of shared principles. With regard to jobs, the platform states:

> "We stand for healthy communities that are economically sustainable and put people before profit. A healthy community recognizes workers' rights to organize and bargain collectively. Workers earn a living wage under safe working conditions and have a collective voice in their workplaces in an environment free from threats, fear and violence.
>
> Mutual respect in the workplace fosters labor equity. Our unions empower workers, build generations of strong communities, sustain businesses, and strengthen local economies."[120]

Workers have lost power and our communities have suffered because of the decline of the union movement. Given the goals of the investment community, the only way we can be assured that the product of working people's labor will benefit working people in Hawaii is to direct the profits of the industry to its workers. This means building a stronger union movement. It means organizing the unorganized. It means holding our politicians accountable for their actions. Most of all, it means training leaders from within our communities who are willing to stand firmly on the side of working people.

Students perform spoken word at the Aikea Founding Convention, May 19, 2012

Appendix A: Top Hawaii Hotel Owners

Top Ten Hawaii hotel owners by room count		
Owner	**Rooms**	**Key Hotels**
The Blackstone Group	5738	Hilton Hawaiian Village Hilton Waikoloa Village Marriott Waikoloa Beach Resort Marriott Wailea Beach Resort
Cerberus Capital Management / Kyo-ya Hotels & Resorts	4826	Sheraton Waikiki Royal Hawaiian Hotel Westin Moana Surfrider Sheraton Princess Kaiulani Sheraton Maui Hotel
Outrigger Hotels & Resorts	3360	Outrigger Reef on the Beach Ohana Waikiki West Outrigger Waikiki on the Beach Holiday Inn Waikiki Beachcomber Hotel Ohana East Ohana Waikiki Malia Ohana Islander Waikiki
Goldman Sachs Whitehall Funds	2576	Hyatt Regency Waikiki Waikiki Beach Marriott Resort
Starwood Hotels / Starwood Vacation Ownership (SVO)	2552	Sheraton Kauai Westin Maui Westin Princeville Ocean Resort Villas Westin Kaanapali Ocean Resort Villas Westin Kaanapali Ocean Resort Villas North
MVCI (Marriott Vacation Club Int'l)	2134	Kauai Marriott Resort Maui Marriott Resort Marriott's Ko Olina Beach Club Marriott Waiohai Beach Club
Host Hotels & Resorts	1265	Hyatt Regency Maui Resort & Spa Fairmont Kea Lani
Pleasant Travel Service	1032	Royal Kona Resort Royal Lahaina Resort
Seibu Holdings Co. / Cerberus Capital Management	872	Hapuna Beach Prince Hotel Hawaii Prince Hotel Mauna Kea Beach Hotel
MSD Capital	854	Four Seasons Resort Maui Four Seasons Resort Hualalai Kona Village Resort

Appendix B: Top Hawaii Hotel Operators

Top Ten Hawaii Hotel Operators by Room Count	
Rooms	**Operator**
8004	Outrigger Hotels & Resorts
7630	Starwood Hotels & Resorts
5813	The Blackstone Group
4167	Interval Leisure Group
3741	Aqua Hotels & Resorts
3309	Marriott Hotels & Resorts
2838	Hyatt Corporation
2366	MVCI (Marriott Vacation Club Int'l)
1172	Wyndham Vacation Ownership
1130	Seibu Holdings Co. / Cerberus Capital Management

Appendix C: Lobbying

COMPANY	TOP ISSUES LOBBIED	AMOUNT SPENT LOBBYING	TOTAL
CERBERUS			**$1,350,000.00**
	Misc Defense	$660,000	
	Securities & Investment	$300,000	
	Hospitals/Nursing Homes	$870,000	
BLACKSTONE			**$17,570,535.00**
	Securities & Investment	$11,320,000	
	Health Services/HMOs	$1,580,000	
	Lodging/Tourism*	$4,240,535	
GOLDMAN SACHS			**$11,040,000**
	Securities & Investment	$11,040,000	
MARRIOTT			**$1,590,000**
	Lodging/Tourism	$1,590,000	
STARWOOD			**$1,160,000**
	Lodging/Tourism	$1,160,000	
INTERCONTINENTAL			**$820,000**
	Lodging/Tourism	$820,000	

*Hilton Worldwide's portion makes up 3,060,000 of this total

Source: Opensecrets.org

The Revolving Door at Goldman

- 44 out of 49 lobbyists who worked for Goldman Sachs worked in government.
- CEO Henry Paulson served as Sectary of Treasury under Bush.
- Board Member Robert Rubin served as Secretary of Treasury under Clinton.
- SEC chairman Arthur Levitt served as Policy Advisor to Goldman
- US House Majority Leader, Dick Gephardt, lobbied for Goldman

Source: opensecrets.org

Appendix D: U.S. Wealth Distribution

Distribution of net worth and financial wealth in the United States, 1983-2007

Total Net Worth

	Top 1 percent	Next 19 percent	Bottom 80 percent
1983	33.8%	47.5%	18.7%
1989	37.4%	46.2%	16.5%
1992	37.2%	46.6%	16.2%
1995	38.5%	45.4%	16.1%
1998	38.1%	45.3%	16.6%
2001	33.4%	51.0%	15.6%
2004	34.3%	50.3%	15.3%
2007	34.6%	50.5%	15.0%

Financial Wealth

	Top 1 percent	Next 19 percent	Bottom 80 percent
1983	42.9%	48.4%	8.7%
1989	46.9%	46.5%	6.6%
1992	45.6%	46.7%	7.7%
1995	47.2%	45.9%	7.0%
1998	47.3%	43.6%	9.1%
2001	39.7%	51.5%	8.7%
2004	42.2%	50.3%	7.5%
2007	42.7%	50.3%	7.0%

Total assets are defined as the sum of: (1) the gross value of owner-occupied housing; (2) other real estate owned by the household; (3) cash and demand deposits; (4) time and savings deposits, certificates of deposit, and money market accounts; (5) government bonds, corporate bonds, foreign bonds, and other financial securities; (6) the cash surrender value of life insurance plans; (7) the cash surrender value of pension plans, including IRAs, Keogh, and 401(k) plans; (8) corporate stock and mutual funds; (9) net equity in unincorporated businesses; and (10) equity in trust funds.

Total liabilities are the sum of: (1) mortgage debt; (2) consumer debt, including auto loans; and (3) other debt. From Wolff (2004, 2007, & 2010).

Appendix E: Affordable Housing

"Affordable housing" is one of the public benefits touted by developers and government officials for these private public partnerships but what is the definition of "affordable housing"? The US Department of Housing and Urban Development's definition of affordability is "for a household to pay no more than 30 percent of its annual income on housing"[121]. The state of Hawaii further defines affordable housing based on income groups

Very low income: earning 50% of area median income or below
Lower income: earning 50% to 80% of area median income
Moderate income: 80% to 120% of area median income
Above moderate income: 120% to 140% of area median income

The City Council of Honolulu, as part of conditions for development within its purview, requires that 30% of new development be affordable housing. Of that, 10 percent must be affordable to "lower to very low" income groups, another ten percent affordable to "moderate-income" households or below, and another 10% be affordable to "above-moderate income" or below.[122] Considering that household income in Honolulu County was $70,00 in 2010, affordable housing encompasses a household that earns as much as $98,000 a year.

End Notes

[1] Includes induced effects. See "The Direct and Indirect Contributions of Tourism to Regional GDP: Hawaii," by Eugene Tian, James Mak and PingSun Leung, July 28, 2011. Page 15.
[2] Over 90,000 people worked in Accommodation and Food Services in each year from 2004 to 2009, according to the Bureau of Labor Statistics.
[3] "Equity Research - Lodging: Holding Onto Labor Efficiencies," Wells Fargo Securities, July 26, 2012. Page
[4] Based on an analysis of union membership data at select hotels – the same data contained in Figure 10.
[5] Based on data from the Hawaii Tourism Authority's Annual Visitor Research Reports for years 2003 through 2011.
[6] Information compiled from "2011 Visitor Plant Inventory," Hawaii Tourism Authority, 2012. Page 1.
[7] Information compiled from "2000 Visitor Plant Inventory," State of Hawaii Department of Business, Economic Development and Tourism, 2001. Page 3.
[8] See Figure 11 – Data from PKF Hospitality Research
[9] DBEDT analysis of American Community Survey 2010. http://hawaii.gov/dbedt/info/census/acs/ACS2010/ACS2010_1_Year/Other_Files/ACS_2010_Analysis_DBEDT_final.pdf
[10] State of Hawaii Data Book, 2011 - DBEDT
[11] "Hawaii Tourism Rebounds in a Big Way," *Wall Street Journal*, October 1, 2012.
[12] Includes induced effects. See "The Direct and Indirect Contributions of Tourism to Regional GDP: Hawaii," by Eugene Tian, James Mak and PingSun Leung, July 28, 2011. Page 15.
[13] Source: Hawaii Tourism Authority
[14] "Hawaii Department of Taxation Annual Report, 2009-2010," 11/4/2011. Pg. 43.
[15] "Equity Research - Lodging: Holding Onto Labor Efficiencies," Wells Fargo Securities, July 26, 2012. Page
[16] Gross Domestic Product & Personal Income data from the US Department of Commerce, Bureau of Economic Analysis
[17] "The 20 Richest People in the World," *Forbes.com*, March 9, 2011. http://www.forbes.com/2011/03/09/billionaires-20-richest_slide_5.html
[18] "Hawaii Mid Year 2012 Market Investment Report," Colliers International. Page 5
[19] "Japanese selling off assets, reducing Hawaii presence," *Pacific Business News*, 12/12/2004. http://www.bizjournals.com/pacific/stories/2004/12/13/story1.html
"Japanese sell $430M worth of hotels," *Pacific Business News*, 2/12/06. http://www.bizjournals.com/pacific/stories/2006/02/13/story1.html?page=all
[20] Although Pleasant Travel Service only owns two hotels, both located in Hawaii, the company is based in California.
[21] not including timeshares with no hotel component or condotels
[22] "How Mitt Romney's Bain "harvested" Sealy mattress company," Josh Kosman, published in *Salon.com*, 10/2/2012.
http://www.salon.com/2012/10/02/how_mitt_romneys_bain_harvested_sealy_mattress_company/
[23] "Private Equity: barons get billions and workers get paycuts and layoffs," Unite. http://www.unitetheunion.org/campaigns/private_equity.aspx
[24] "A Primer on Private Equity at Work," Eileen Applebaum and Rosemary Batt, Center for Economic and Policy Research, February 2012. Page 1.
[25] Leasehold Mortgage, Assignment of Leases and Rents and Security Agreement Between Kyo-ya Hotels & Resorts and Wachovia Bank NA, July 7, 2006.
[26] http://www.marketwatch.com/story/wachovia-adopts-wells-fargo-name-internationally-2010-03-30
[27] "Hilton Debt Clogs Lenders' Balance Sheets," Commercial Mortgage Alert, 2/20/2009. http://www.cmalert.com/headlines.php?hid=139398
[28] "Mogul Digs Hotels Out of Debt, Disaster," *Wall Street Journal*, 6/29/2011. http://online.wsj.com/article/SB10001424052702303627104576412323052563178.html
[29] "MSD, Rockpoint buy Hualalai Resort," *Pacific Business News*, 6/2/2006. http://www.bizjournals.com/pacific/stories/2006/05/29/daily30.html
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[31] "Trepp Sees $362B in Loans Maturing in 2012," National Real Estate Investor, 3/28/12. http://www.trepp.com/2012/03/28/trepp-sees-362b-in-loans-maturing-in-2012/

[32] "Why Private Equity Firms Like Bain Really Are the Worst of Capitalism," *Rolling Stone* op-ed by Josh Kosman, May 23, 2012. http://www.rollingstone.com/politics/blogs/national-affairs/why-private-equity-firms-like-bain-really-are-the-worst-of-capitalism-20120523

[33] "Hawaii Mid Year 2012 Market Investment Report," Colliers International. Page 5

[34] http://www.nytimes.com/2009/08/09/business/09cerb.html?pagewanted=all

[35] "U.S. loses $1.3 billion in exiting Chrysler," *CNN Money*, 7/31/2011. http://money.cnn.com/2011/07/21/autos/chrysler_government_exit/index.htm

[36] "U.S. loses $1.3 billion in exiting Chrysler," *CNN Money*, 7/31/2011. http://money.cnn.com/2011/07/21/autos/chrysler_government_exit/index.htm

[37] "Cerberus saying goodbye to Chrysler Financial," *CNN Money*, 12/21/2010. http://finance.fortune.cnn.com/2010/12/21/cerberus-saying-goodbye-to-chrysler-financial/

[38] http://www.bloomberg.com/news/2012-07-03/fiat-to-raise-chrysler-stake-to-61-8-in-full-merger-push.html

[39] "A Room Of Your Own," *Forbes.com*, 12/25/2006.

[40] Statement of Jerry Gibson, Hilton Hawaii's area vice president made in early 2010: "Our latest addition, the Grand Waikikian, a timeshare tower which opened in December of 2008, recently passed the $1 billion mark in sales and was awarded most recently the top honor given by the American Resort Development Association."

[41] Marriott Vacations Worldwide Corp, SEC Form 10-K for 2011, filed 3/21/12. Pg. 7-8 (PDF pg 11 & 12)

[42] "2011 Visitor Plant Inventory," Hawaii Tourism Authority, 2012. Page 1.

[43] "Condotel king hits downcycle," *Honolulu Advertiser*, 2/1/2009.

[44] Non-supervisory workers.

[45] Hospitality Advisors LLC, "Analysis of Trends in Accommodations Supply, with Focus on Condominium and Timeshare Conversions," September 1, 2005, 9.

[46] "Lodging: Holding Onto Labor Efficiencies," Wells Fargo Securities, July 26, 2012.

[47] "2011 HOST Report: State of Hawai'i," Hospitality Advisors, LLC and Smith Travel Research. Page 7.

[48] "2011 HOST Report: State of Hawai'i," Hospitality Advisors, LLC and Smith Travel Research. Page 8.

[49] July 1, 2009 through June 30, 2010 per the State of Hawaii Department of Taxation, Annual Report 2009-2010

[50] Annual Report 2009-2010, State of Hawaii Department of Taxation, released 11/4/11. Pg. 49 (PDF pg. 53).

[51] Annual Report 2009-2010, Hawaii Department of Taxation, released 11/4/11. Pg. 49 (PDF pg. 53).

[52] 2010 Annual Visitor Research Report, State of Hawaii DBEDT, 2011. Table 67.

[53] Using an average between 2009 and 2010 expenditures as reported in the 2010 Annual Visitor Research Report, State of Hawaii DBEDT, 2011. Table 67.

[54] Not accounting for the Honolulu County surcharge of 0.5%,

[55] Annual Report 2009-2010, Hawaii Department of Taxation, released 11/4/11. Pg. 49 (PDF pg. 53).

[56] Using an average between 2009 and 2010 expenditures as reported in the 2010 Annual Visitor Research Report, State of Hawaii DBEDT, 2011. Table 67.

[57] Hawaii Revised Statutes, Section HRS §237D-1 and §237D-2

[58] "Taxing Timeshare Occupancy," by Sally Kwak and James Mak, UHERO, December 8, 2008. Pg. 13 (PDF pg. 14)

[59] Hawaii Revised Statutes, Section §237D-2 - http://www.capitol.hawaii.gov/hrscurrent/Vol04_Ch0201-0257/HRS0237D/HRS_0237D-0002.htm

[60] Using an average between 2009 and 2010 numbers as reported in the 2010 Annual Visitor Research Report, State of Hawaii DBEDT, 2011. Table 10.

[61] "STR Monthly Hotel Review: December 2011," Smith Travel Research, 1/18/12. Page 6.

[62] 2011 Visitor Plant Inventory, Hawaii Tourism Authority. Page 1 (PDF pg. 5)

[63] Figures from "Should you invest in a timeshare?" U.S. News, July 19, 2011. http://money.usnews.com/money/personal-finance/articles/2012/07/19/should-you-invest-in-a-timeshare

[64] "Timeshare in Hawaii: Build it and They Will Come," Hawaii Business magazine, April 2011. http://www.hawaiibusiness.com/Hawaii-Business/April-2011/Timeshare-in-Hawaii-Build-it-and-They-Will-Come/

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