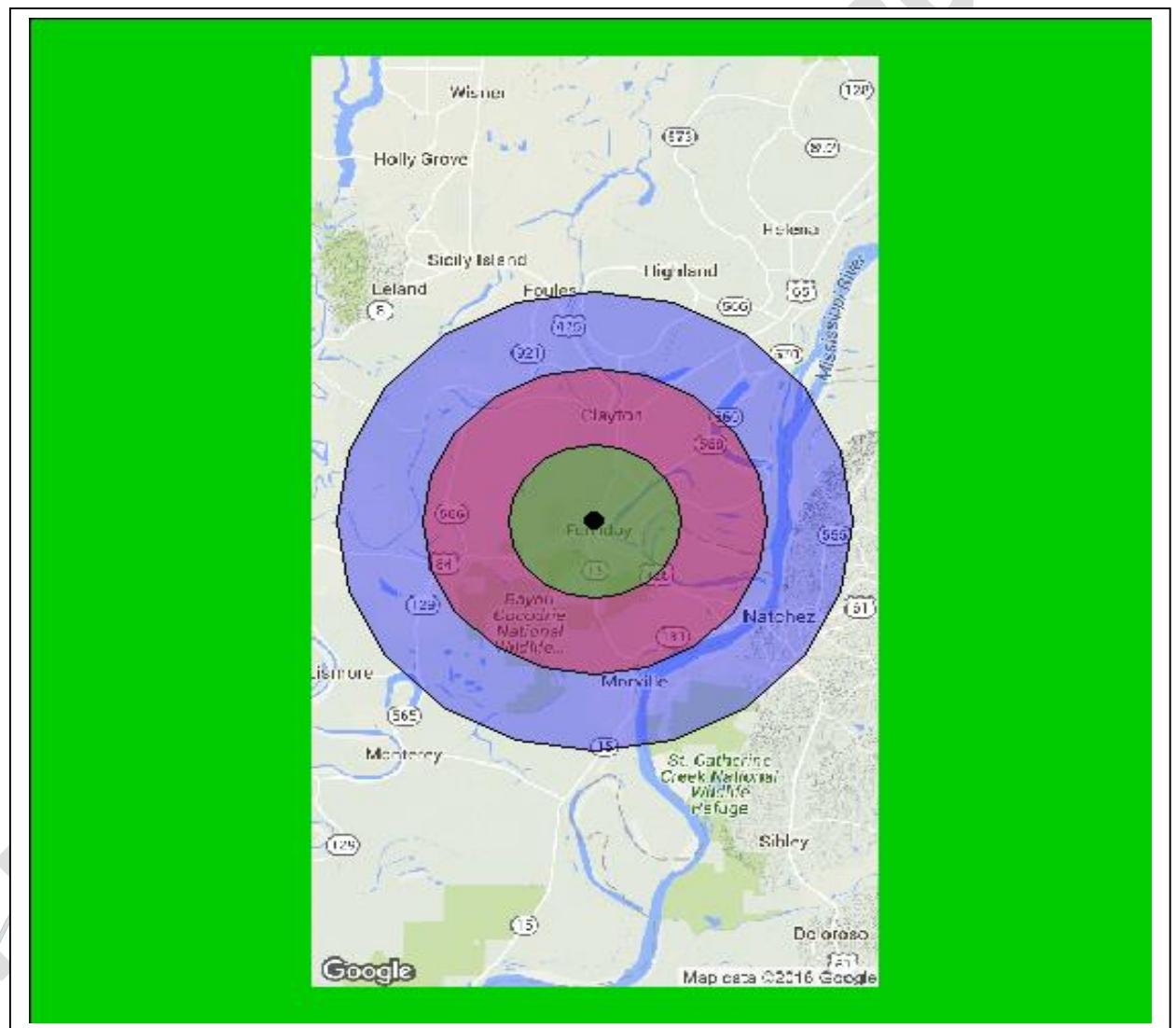


Hotel Feasibility Study for Town of Ferriday Concordia Parish, Northeastern Louisiana

Aloyce R Kaliba, Ph.D.





Hotel Feasibility Study for Ferriday Town, Concordia Parish, Northeastern Louisiana

Aloyce R Kaliba, Ph.D.

**Professors of Economics and Statistics and Co-Director and Director
University Center for Economic Development
Department of Accounting, Finance and Economics
College of Business, Southern University, and A&M College
Contact: aloyce_kaliba@subr.edu; Phone: 225 771 5952;
Office: 251 T.T. Allain Building**

SUMMARY

The town of Ferriday commissioned this study to investigate the opportunities and risks of operating a medium class hotel in the town in order to determine whether a feasible operation of such an establishment is possible. In this report, we analyze various key factors of competitive hotel business in this particular market. The aim is to obtain a neutral, professional, and qualified opinion and a thorough analysis of the proposed project. All scenarios in this feasibility study regarding the hotel project with respect to size, layout and design, as well as operator revenues, and costs relies upon information provided by the Town Managers and the analysis of secondary data acquired through extensive research. A prerequisite for a professional feasibility study is the depiction of the micro and macro-economic circumstances, which are of importance to the market. Therefore, the study focuses on the macro- and micro-environment of the location of the proposed hotel and the local hotel market. The estimated revenues and costs and trading performance of the proposed hotel assume a position at the lower and middle end of the hotel market. If economic and tourist outlook of the town of Ferriday and the surrounding areas develop as expected, the proposed hotel project should achieve the success desired by the investor. In particular, given a positive trend of economic recovery and increased attractiveness of cultural and outdoor activities, the realization of the respective project is possible.

This is one of the study conducted by the Southern University and A&M Economic Development Center to support Comprehensive Economic Development Strategies in Louisiana. The U.S. Department of Commerce's Economic Development Administration through the University Center for Economic Development at Southern University and A&M College, Baton Rouge, Louisiana funded this study through Award # 80-66-04881. The views are those of the author and do not necessarily represent the views of the U.S. Department of Commerce's Economic Development Administration nor Southern University and A&M College, Baton Rouge, Louisiana.

INTRODUCTION AND BACKGROUND INFORMATION

The town of Ferriday in Northeastern Louisiana requested the Southern University and A&M College's University Center for Economic Development to conduct a study to determine if a hotel venture is economically and financially feasible. In particular, the study seeks to identify various target markets and assess the market potential for a hotel development in the town of Ferriday. The study provides description of a recommended development program and economic and financial feasibility analyses results. Based on different assumptions, the analysis depends on the current and expected state of the economy. Taking great care, these assumptions base on most recent and reliable information obtained from a variety of public, and private sector sources, as well as from other government resources. The main assumption is that economic growth and other economic indicators for the area will not significantly differ from the projected long-term economic growth rates.



For any hotel feasibility study, the vitality of the tourism sector; specifically, the travel industry is an important consideration in forecasting supply and demand for a hotel complex. Vitality of the tourism sector bear strong correlation with profitability of relevant target markets, and the study of local economic conditions provide insights on the health of the region in terms of market strength.



Travel industry, measured by visitation and spending is an important segment of the tourism industry in Louisiana. The tourism forecast report for 2015-2018 by the University of New Orleans (UNO) Hospitality Research Center ¹ (hence thereafter UNO 2015 reports) indicates that before Hurricanes Katrina and Rita, Louisiana tourism industry was a major contributor to the economy. In 2004, the industry generated \$10 billion in visitor spending and directly supported 165,000 jobs. However, the great recession of the 2008/09 and the BP Horizon oil spill of 2010/2011 adversely affected the Louisiana tourism industry

Since 2012, Louisiana tourism industry has recovered significantly and spending and visitation have remained strong. Most of the tourism indicators in the industry

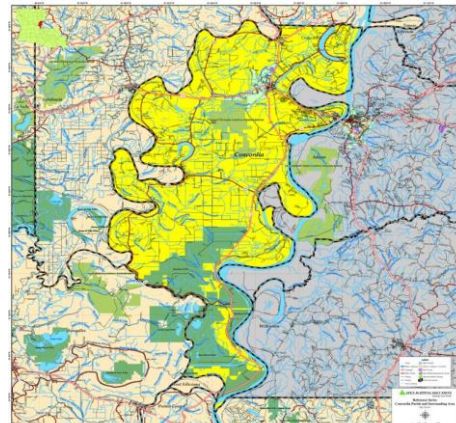
¹ The report is available at <http://www.crt.state.la.us/Assets/Tourism/research/documents/2014-2015/Louisiana%20Tourism%20Forecast%20Report%204%2015%2015.pdf> (visited April 5, 2016)

have reached comparable levels as those seen in the years prior to Hurricanes Katrina and Rita. As reported by the UNO 2015 report, the number of visitors statewide reached a new record of 28.7 million visitors in 2014, exceeding the 27.4 million visitors in 2013, and the 26.3 million visitors in 2012, a nearly 5 percent growth per year. The forecasted number of visitors statewide will reach 30.6 million in 2018, representing a 7 percent growth. In 2014, visitor spending statewide reached \$11.2 billion, an increase of 3 percent compared to 2013, and the highest figure since 2004. Travelers who visited Louisiana spent approximately \$388 per visitor during their trip. If the economic conditions continue to improve, the level of spending will increase by 3 percent annually, reaching \$12.5 billion by 2018.



The UNO 2015 report also indicates that due to activities related to natural gas shale in northern part of Louisiana demand of hotels and related services are increasing rapidly. In 2014, hotel room capacity grew by 2 percent, while room-nights sold increased by 5 percent.

Concordia Parish, which is in Northeast Louisiana, stretches 57 miles along the legendary Mississippi River. Just across from Natchez, Mississippi, the parish is accessible via U.S. Highways 84, 65, and 61 as well as Louisiana Highways 15 and 425. The parish boasts bountiful lakes, have rich musical heritage and Delta cooking, and houses the State of Louisiana Delta Music Museum, Frogmore Cotton Plantation and Ginnery, and Jerry Lee Lewis family museum. The Parish has 300 miles of water including Lake St. John and Lake Concordia, Three Rivers and Red River State Wildlife Management Areas, and Bayou Cocodrie National Refuge.



The parish could take advantage of increasing economic activities by attracting visitors to the area through strategic investment in the area.



Particularly, Ferriday is one of the town in Concordia Parish. According to the 2010 US Census the population of Ferriday was 3,511 of which three-fourth are African American. The population has decreased by 7.3 percent since the 2000 Census. The male population account for 38 percent of the total. The median resident age was 27 years, compared to Louisiana median age of 36 years. The estimated median household income² 2013 was \$15,841 that has increased from \$14,732 in 2000. In the same period, Louisiana median income was about \$44,164. In terms of homeownership, the median house or

condo value in 2013 was \$62,019 that has increased from \$39,500 in 2000. The average payment for rental apartments in 2013 was \$443. Other economic indicators are presented in Appendix 1.

The town of Ferriday is 100 percent urban and is on the west side of Lake Concordia and 8 miles from Lake St. John. Lake Concordia is famous for recreational and professional bass fishing. U.S. Highways 84 and 425 pass through the center of Ferriday. U.S. Highways 84 leads west 16 miles to Jonesville and U.S. 425 leads north 6 miles to Clayton. The two highways jointly lead southeast and about 11 miles to Natchez in Mississippi.



The town of Ferriday claims to have produced more famous people per square mile than any other American small town. This statement intrigued author Elaine Dundy who probed that phenomenon while profiling both celebrities and townsfolk in her book, *Ferriday, Louisiana*, which was published by E. P. Dutton in 1991. The town of Ferriday played an improbable role in promoting blues music through the Haney's Big House lounge in the African-American community. Almost every Delta Blues musician played at Haney's big house. Notably, the Delta Music Museum is in the historic district of the town and is open daily to visitors. Developers of a new hotel could collaborate with city managers to attract more and nontraditional tourist by advertising the area's historical and rich culture and by promoting existing tourist attractions within the vicinity of Ferriday.

² Estimated from the current American Community Survey for 2010/2014 estimates

To increase tourism and create employment, Ferriday stakeholders are trying to convince real estate developers and hoteliers to invest in the town. Currently, the town has no hotel establishment. The data from TripAdvisor.com list 16 hotels that are nearby or at least less than 6 miles from the town center. This report relays on the premise that a prerequisite for a professional feasibility study starts with the depiction of the micro and macro-economic circumstances, which are of importance to the project. For this reason, the comprehensiveness and accuracy of this feasibility study rely on information provided by the town managers and other information acquired through extensive secondary data research and analyses.



The objective of this study is to answer the following three questions. First, is there demand for a new hotel in this market? Second, what are the appropriate brand, size, facilities, and amenities for a new hotel? Third, is it economically and financially feasible? The main objective is to identify and analyze variables that affect profitability of new hotel developments or turnaround projects. The investigation looks at supply and demand of locations and competition, then forecast demand and project returns from revenues and expenses. The study uses

the macro- and micro-environment of the location of the proposed hotel, the assumed competitive set, the local hotel market, the estimated trading performance of the hotel assuming a position of a different type of the market to estimate demand and supply. The study analyzes supply and demand based on the rate of occupancy of other hotels in the vicinity, and evaluate the potential revenue concurrently with the expected cost through capital budgeting and financial analysis and simulation.

This study presents the results of the location analyses, hotel market and tourism analyses, and predicts supply and demand. A location analysis evaluates the potential opportunity for a specific site for hotel development. These steps are applicable for any business investigating new locations, or developers interested in understanding the market opportunity a proposed site might offer. Hotel market and tourism analyses involve presenting the overview of the surrounding market and review of macro trends such as population and employment growth. It also involves the delineation of area boundaries

for the site based on other influencing factors such as topography, competition, and regional accessibility. This is in addition to examining and benchmarking the area characteristics such as population and household changes, and demographic



characteristics such as age, income, and ethnicity. Review of key hotel competition within the trade area, focuses on relative strengths and weaknesses of the proposed site. Forecasting sales potential of the site and estimation of market share is also important.

The following elements will be covered in this report: brief economic overview of Louisiana and Concordia Parish, location and site analysis of Ferriday and the property site trading area, market analysis including supply and demand and competition analysis, the product and its positioning, and economic and financial analyses based on hotel services and trading estimates. The organization of the report is as follows: The results of micro economic analysis are in the following section. Section 3 present the results of hotel market analysis. Economic and financial feasibility analysis results are in section 4. Summary and conclusion are in section 5.

MACRO LOCATION ANALYSIS

Louisiana's total gross state product in 2010 was US\$213.6 billion, placing it 24th in the nation. The state per capita personal income was \$30,952, ranking 41st in the United States. The state's climate (subtropical in the south and temperate in the north) and rich alluvial soil make the state one of the nation's leading producers of sweet potatoes, rice, and sugarcane. Fishing is a major industry and shrimps, menhadens, and oysters are principal catches. The state is the biggest producer of crawfish in the world, supplying approximately 90% of the world total. Louisiana is also a leading fur-trapping state; its marshes of about 7,500 square miles, supply most of the country's muskrat furs. Pelts from mink, nutria, coypus, opossums, otter, and raccoon are also plentiful. Louisiana leads the nation in the production of salt and sulfur, and it ranks high in the production of offshore crude petroleum, natural gas, and natural-gas liquids. Forests cover almost 50% of the land area and timber is an important industry. The state rapidly industrialized in the 1960s and 1970s and currently has giant oil refineries and petrochemical plants. Four of the ten busiest U.S. ports include New Orleans, Port of South Louisiana, Baton Rouge, and Plaquemines along the lower Mississippi River.



Louisiana has the following metropolitan areas Alexandria, Baton Rouge, Houma-Bayou Cane-Thibodaux, Lafayette, Lake Charles, Monroe, New Orleans-Metairie-Kenner, and Shreveport-Bossier. Tourism is increasingly important to the state economy, especially in the New Orleans area. New Orleans, Shreveport, and Baton



Rouge are home to a thriving film industry. State financial incentives since 2002 and aggressive promotion have given Louisiana the nickname Hollywood South. Because of its distinctive culture within the United States, only Alaska is Louisiana's rival in popularity as a setting for reality television programs. New Orleans is the major attraction with its history, nightlife, and Old World charm. As the largest town in Louisiana, New Orleans is especially noted for its picturesque French quarter, which has many celebrated restaurants, and for the Mardi Gras

festival, perhaps the most famous festival in the United States, which is held annually since 1838. Baton Rouge is the capital and the second largest city.

Louisiana is rich in tradition and legend. Four different groups have contributed to its unique heritage: the Creoles, descendants of the original Spanish and French colonists and the Cajuns, whose French ancestors were expelled from Acadia (Nova Scotia and New Brunswick) by the British in 1755. Other groups include the American cotton planters; and the African Americans who worked to create much of Louisiana's wealth and whose blues music, especially, has swept the world. Along the rivers and bayous overhung with Spanish moss, some old mansions remain, recalling the elegance and splendor of antebellum days. Plantation tours from Baton Rouge and Natchitoches are popular, while the Cajun country west of New Orleans also attracts visitors, particularly the area around St. Martinsville and Lafayette.

Northern Louisiana is the sportsman paradise for the outdoor enthusiast, teeming with activities and recreational facilities. Campers, hunters, hikers, and birdwatchers flock to the area to enjoy the outdoors in the mild year-round climate. Kisatchie, the state's only national forest, provides a wealth of facilities including hiking and biking trails, camp grounds, swimming areas and picnic sites. In addition to recreation, northern Louisiana offers a number of interesting attractions including the Depot Museum

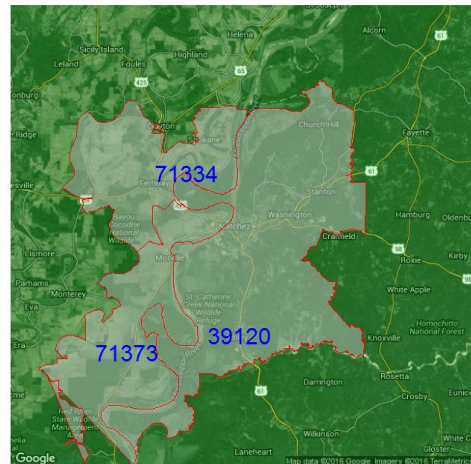


in Bernice, the American Rose Gardens in Shreveport, the Masur Museum of Art in Monroe and the Bossier Parish Library Historical Center in Bossier Town.



The town of Ferriday is within the Natchez Micropolitan Statistical Area, consisting Adams County in Mississippi and Concordia Parish in Louisiana. The neighboring metro areas include Baton Rouge, Alexandria, Macomb, and Vicksburg. Other nearest cities are Ridgecrest, LA (1.6 miles), Minorca, LA (2.4 miles), Clayton, LA (2.5 miles), Spokane, LA (2.7 miles), Natchez, MS (3.4 miles), and Cloverdale, MS (3.5 miles). The Natchez Micropolitan Statistical Area is a tertiary trade area for the town of Ferriday. According to the new 2010/14 American Community Survey 5 year estimates, the Natchez Micropolitan Area has a population of 53,349, the population in households were 49,212, population in

families were 40,058, and population in group quarters were 4,137 in 2015. The average population density is about 146 people per square mile. In the same year, the area has 20,424 total households with average household size of 2.41. The total family households were 13,362, with average family size of three. The total housing units was 24,380. The owner occupied units were 13,780 (56.5%) and the renter occupied was 6,644 units (27.3%). The vacant housing Units were 3,956 and accounted for 16.2 percent of the all-housing units. The median and average home value were \$86,692 and \$123,249, respectively. The median, average, and per capita income were respectively, \$27,540, \$42,760, and \$16,813. For the 2010/14 ACA estimates, the population growth rate was 0.08% and the household growth rate was 0.16%. Median and per capita income is expected to increase by 2.13% and 2.34% during the 2015/2020 period.



The secondary trade area includes 39120, 71334, and 71373, ZIP Code Tabulation Areas (ZCTAs), representing Ferriday, West Ferriday, and Vidalia. The primary trade area is therefore ZCTA 71334³.



The tourism sector tends to depend on the economic vitality of the area and building permits is one of the leading indicators used to predict the direction of the economy's movements or trend. Data from the State of the Cities Data Systems (SOCDS) of the U.S. Department of Housing and Urban Development shows that since 2010, the number of issued building permits for single family structures have been decreasing overtime. A dramatic decrease was recorded in the Ferriday/Vidalia area that accounted for 42 percent of the permits issued in Concordia Parish in 2010. The permits

decreased to only 5 percent of the total permits in 2014. All new permits issued in Adams County in Mississippi for the same period, were for the Natchez area. The numbers were also decreasing, which may be a sign of stagnant economy in the area.

Appendix 1 shows example of financial characteristics for housing units with a mortgage for year 2014. The value of homes for majority of homeowners ranged between \$50,000 to less than \$199,999. This group accounted for 67.4 percent of all homes in Natchez, and 46.1 percent in Ferriday, and 60 percent in Vidalia. Homes with value between \$200,000 and \$499,000 accounted for 17.6 percent in Natchez, and 22.5 percent in Ferriday and 15.9 percent in Vidalia. The median home values were respectively, \$94,600, \$80,000, and \$ 96,800 in Natchez, Ferriday, and Vidalia; in comparison to \$140,000 and \$175,700 for Louisiana and United States, respectively.



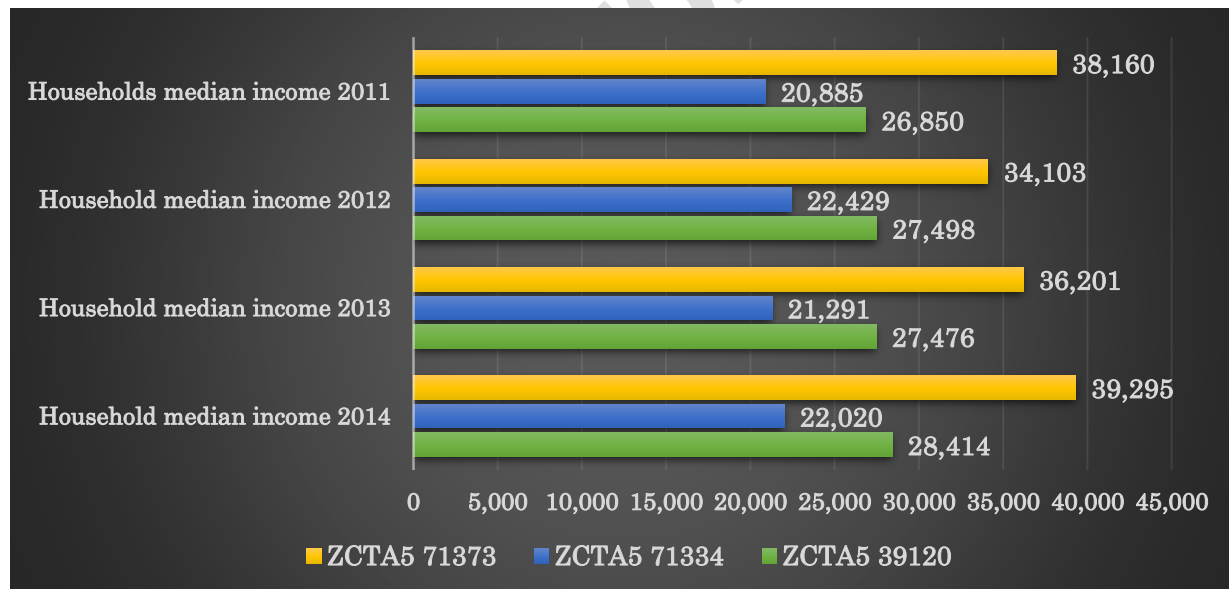
³ The ZIP Codes Tabulation Areas are statistical entities developed by the United States Census Bureau for tabulating summary statistics. Unless stated otherwise, and all data are from the new 2010/14 American Community Survey 5 year estimates. According to the U.S. Bureau of Census, the American Community Survey (ACS) is an ongoing survey that provides data every year, giving communities the current information they need to plan investments and services. The ACS covers a broad range of topics about social, economic, demographic, and housing characteristics of the U.S. population. The 5-year estimates from the ACS are period estimates that represent data collected over a five-year period. The primary advantage of using multiyear estimates is the increased statistical reliability of the data for less populated areas and small population subgroups.

More than 86 percent of homeowners did not have secondary mortgage and the monthly median housing cost were \$ 910 per month in Natchez, \$792 in Ferriday, and \$837 in Vidalia. In the same period, monthly median housing cost in Louisiana and United States were respectively, \$719, 3 and \$1,108.

BUILDING PERMITS: Units in Single-Family Structures

Town/Region	2010	2011	2012	2013	2014
Concordia Parish	19	9	13	13	19
Ferriday	7	1	1	0	0
Vidalia	1	1	1	1	1
% Concordia Parish	42	22	15	8	5
Adams County	5	2	2	3	3
Natchez	5	2	2	3	3

For majority of homeowners, the housing cost as percentage of household income ranged between 15 and 18 percent and paid between \$800 and \$1,499 in real estate taxes annually.



Appendix 1 shows summary statistics from ACS 2010/14 five year estimates and 2000 and 2010 censuses on population and household's characteristics in the area. In general, the area has been experiencing a decrease in population since the 2000 census. Total population has decreased from 51,376 in 2000 to about 49,126 in 2014, a 4.38 percent decrease. The median age has increased from about 37.3 years in 2000 to about 41.4 years in 2010. People of retirement age (62 years old and over) accounted for 33.2 percent and 19.11 percent of the total population in 2000 and

2010, respectively. Also, there is a clear indication that both the young and the old are moving out of the region.

LOCAL TOURISM RESOURCES

The town of Ferriday and for most of its existence has relied on an agricultural, railroad, and timber based economy. The town has experienced economic decline due to the clearing of most of the timber in the 1970s, the closure of the railroad in the early 1980s, and hardship experienced by farmers in recent years. The community is seeking to improve the local economy by developing cultural heritage based tourism. The town has a rich musical heritage. Famous natives of Ferriday include Jerry Lee Lewis, Mickey Gilley, Jimmy Swaggart, and Howard K. Smith. The town of Ferriday celebrates this musical heritage is every year on the first Saturday of April. The festival includes both live music and performances.



The town of Ferriday is also famous via Haney's Big House then a boogie-woogie nightclub and famed for Chitlin' Circuit, located on the 500 block of 4th Street (now East Wallace Boulevard). Run by an African American Businessperson Will Haney (1895-1972); in its heyday the club featured about fifty tables and served food around the clock. Local musicians who performed at the club included trombonist Leon "Pee Wee" Whittaker (1906-1993). Natchez natives Y.Z. Ealey (1937) and Hezekiah Early (1934), who had earlier played in the club with Natchez guitarist John Fitzgerald and singer Elmo Williams, also led House bands. The house featured leading blues and R&B acts including B. B. King, Little Milton, Bobby "Blue" Bland, Roy Brown, Solomon Burke, Percy Mayfield, Big Joe Turner, Ray Charles, Johnnie Taylor, Irma Thomas, and several others.



Will Haney

The town of Ferriday has several heritage and nature-based tourist attractions. The town is eight square miles in land area, with gracious Southern living that includes plantations, golf courses, country clubs, cotton gins, pecan groves, fried catfish, and even miniature horse and ostrich farms. This area is indeed a "Sportsman's Paradise", with 300 miles of

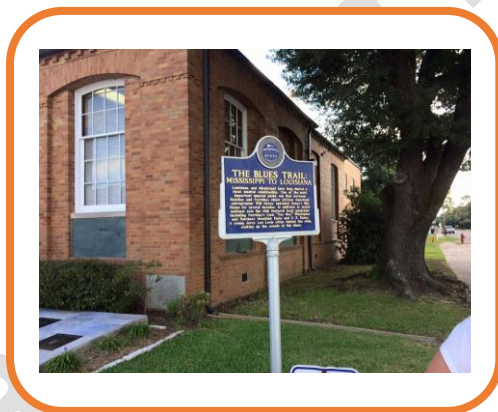
water, including Lake St. John and Lake Concordia, a trophy bass lake. Camping, cabins, bed & breakfasts, boat rentals and fishing guide service are available year round. Wild game is abundant in close by Concordia State Wildlife Management Area, Three Rivers and Red River State Wildlife Management Areas, and Bayou Cocodrie National Refuge.

Frogmore Plantation

Frogmore Plantation is a 1,800-acre working cotton plantation with gins, and 19 dependency buildings. Guided tour of the plantation fully explain the changes made in the operation of cotton plantation from the 1700s through the present. The tour teach about slave culture and the plantation system in America, based on former slave narratives and extensive archives. The plantation has 18 restored antebellum structures that date to the early 1800s and a steam cotton gin. The Frogmore Plantation has received the Louisiana Tourism award and has been featured in Country Discoveries magazine, AAA Southern Traveler, Louisiana Cultural Vistas, and other magazines. Frogmore has even been in Public Broadcasting System documentaries.



The Delta Music Museum and Arcade Theater



This famous and well-known museum highlights the careers of local legends and music trailblazers. Located in the downtown historic district, the Delta Music Museum opened in 2001 in the town's old post office. In 2008, the museum expanded to include the Arcade Theater, a 1920s-era movie hall. The theater, also serves as a concert hall and recording studio, and hosts the Louisiana Country Music Opry on the fourth Saturday of each month and an annual November concert sponsored by the Concordia Parish Library.

At the museum's entrance, sculptures of Ferriday's three most famous first cousins: Jerry Lee Lewis, Mickey Gilley, and Jimmy Swaggart greet visitors. Lewis became a national celebrity in the mid-1950s. Mickey Gilley earned his country stardom with more than 30 top 40 hits. Jimmy Swaggart began as a gospel musician before

becoming one of the most recognized television evangelists in the country. He has recorded 50 albums and sold an estimated 13 million copies worldwide. He preaches weekly on a national radio show with television stations carrying his revivals on Sunday mornings. The tour of the museum helps to learn the rich musical heritage of Ferriday—a town that claims to have produced more famous people per square mile than any small town in America.

The Jerry Lee Lewis Museum

This is the birthplace of Jerry Lee Lewis and the home of Jerry Lee, Linda Gail, and Frankie Jean Lewis. Lewis also known as “The Killer” for his piano-pounding rockabilly music is an American singer-songwriter, musician, and pianist, often viewed as "rock & roll's first great wild man. The museum has become a Jerry Lee shrine, with family photos, bills, family mementoes, clothes, guns, and others. Jerry Lee’s Sister Frankie Jean organizes the tour from 1:00 PM - 8:00 PM daily.



Lake Concordia

Lake Concordia, a freshwater lake with acreage of about 1,137 acres, is an ancient, highly fertile oxbow like lake near Ferriday. According to the Louisiana Department of Wildlife and Fisheries, Lake Concordia is a natural lake formed when the Mississippi River changed its course. The lake was permanently cut off from the Mississippi River when the U. S. Army Corps of Engineers built the Mississippi



River mainline levees following the Flood Control Act of 1927. The State of Louisiana owns the water bottoms and the Louisiana Department of Wildlife & Fisheries (DWF) manages the fish and wildlife resources. Statewide regulations control recreational fishing activities in the lake. Recreational water sports are very popular on Concordia Lake and include water skiing, jets skis, party barges, sailboats, and other recreational boats. The Lake is also famous for recreational fishing, primarily for

largemouth bass. There are numerous bass tournaments annually. Anglers call Lake Concordia as a trophy bass lake. Camping, cabins, bed & breakfasts, boat rentals and fishing guide service are available year round the Lake.

Other attraction



In general, Concordia Parish is a sportsman's paradise. Camping areas maintained by the State of Louisiana Department of Wildlife and Fisheries, provide varieties of outdoor activities. The parish offers unprecedented hunting and fishing opportunities. Other attraction near Ferriday includes Concordia State Wildlife Management Area, Bayou Cocodrie National Wildlife Refuge, Red Rivers/Three Rivers Management Area, and Lake St.

John. The Tacony Plantation in nearby Vidalia, built in 1845, is a famous antebellum attraction. The Vidalia Riverwalk consists of restaurants, a hotel, specialty shops, amphitheater, and public boat. Founded in 1716 by French Colonists, which is not far from Ferriday, Natchez has a rich history along the Mississippi River. Natchez is the home of a number of nationally known plantations such as Dunleith, Oakland Plantation, Monmouth Plantation, Stanton Hall, and others. Natchez is also the location of a successful gaming and casino industry, and a major tourist destination.

LODGING MARKET ANALYSIS

This section presents information of the lodging industry at the national, state, and regional levels. At the national level, the 2015 annual report by the American Hotel and Lodging Association ⁴indicates that the lodging industry was booming. In 2015, the industry added more than 30,000 new hotel jobs and more than 100,000 new travel-related jobs in the U.S., resulting in an increase of over \$12 billion in travel-related wages and salaries, up six percent compared to 2014. The total number of



properties grew from about 52,000 properties to more than 53,432 properties, a 2.68 percent increase nationally; and the numbers of rooms grew from about 4.8 million rooms to 4,978,705 rooms, a 3.72 percent increase. In 2015, the hotels industry also generated \$141.5 billion in tax revenue, which was up by \$6.5 billion from 2014 and

⁴ Available at https://www.ahla.com/uploadedFiles/Common/pdf/Lodging_Industry_Trends_2015.pdf (visited on April 5, 2016).

employed 1.9 million. The typical business traveler spends about 3 percent more per night, and the typical leisure traveler spends about 6 percent more per night compared to 2014. International travel continues to increase, making the U.S. the top destination for international travelers. The association forecast 96.4 million visitors by 2020, an increase of 29 percent over 2015. In 2015, the revenue per available room was \$74.12 on average, and the average occupancy rate was 64.4 percent.



According to the same report, about 40 percent of visitors travelled for business and 60 percent travelled for leisure. In 2014, about 63 percent of a typical business traveler were male (63 percent), between the age of 35–54 years (50 percent), employed in a professional or managerial position (56 percent), earning an average yearly household income of \$127,000. About 78 percent of typical business travelers travelled alone, 95 percent made reservation online, and spent \$147 per room per night. About 57 percent of leisure visitors travelled in a pair

of two adults. Important age groups were 35–54 years (39 percent) and above 54 years (39 percent). The average yearly household income for leisure travelers was \$99,000; they travelled by auto (80 percent), and 93 percent made reservations, and spends \$131 per room per night on average.

Tourism represents one of the top four major industries in Louisiana in both job creation and revenue generation. According to the study conducted by the U.S. Travel Association, domestic travelers spending in Louisiana totaled \$10.7 billion (in current dollars) during 2014⁵, representing an increase of 5 percent from 2013. Foodservice was the largest expenditure category for domestic travelers in Louisiana. In 2014 they spent \$2.7 billion on foodservice, accounting for 25.2 percent of total domestic travel expenditures in the state. This represents a 6.4 percent increase from 2013. In the same year, domestic travelers also spent close to \$2.4 billion on ground transportation, 2.6 percent increase from 2013 and representing 22.1 percent of the total state domestic travel spending in 2014.



⁵ Available at <http://www.crt.state.la.us/Assets/Tourism/research/documents/2015-2016/Economic%20Impact%20of%20Travel%20on%20Louisiana%20Parishes%202014%20Report.pdf> (visited April 5, 2016)



The 2014 Travels America Visitor Profile report ⁶indicates that Louisiana visitation grew in 2014 from the prior years. In 2014, Louisiana successfully attracted tourists from in state and nearby areas with high Business Development Index (BDI)⁷. New Orleans hosted more visitors than other cities in Louisiana and fared well in attracting visitors from the high BDI marketing areas, especially those outside the south regions. Shreveport and Baton Rouge held second place for attracting more

visitors in 2014. The list of top fifteen Louisiana's high BDI marketing areas includes Biloxi-Gulfport, MS; Beaumont-Port Arthur, TX; Hattiesburg-Laurel, MS; Jackson, MS; Mobile-Pensacola (Ft. Walton Beach), AL-FL; Houston, TX; Jonesboro, AR; Wichita Falls & Lawton, TX-OK; Austin, TX; Meridian, MS; Tyler-Longview (Lufkin & Nacogdoches), TX; Ft. Smith-Fayetteville-Springdale-Rogers, AR; Joplin-Pittsburg, MO-KS; Waco-Temple-Bryan, TX; and, Little Rock-Pine Bluff, AR.

Most visitors come to Louisiana for Leisure (74%), visiting friends or relatives (41%) or for entertainment (13%). Most of the visitors stay overnight (70), with the average of length of stay of 3 days. About 39% of Louisiana travelers are in-state travelers, 34% are from high BDI area, and 24% are from elsewhere. In terms of age, 28% are under 35 years old, 36% are between 35 – 54 years, and 35% are over 54 years old. Because visitors often arrive from within the state or from the High BDI Marketing Area, most drive (76%). Louisiana attracts the largest proportion of residents from nearby Mississippi and Texas designated market areas (DMAs)⁸. Overall, 27 DMA areas show above average BDI that exceeds 100, which indicates the likelihood of visiting Louisiana. According to TNS, the index measures the propensity of residents to take trips to Louisiana compared to the proportion that DMA constitutes of the total population. For example, Biloxi-Gulfport, MS residents represent 0.112% of all US residents, but .948% of total Louisiana visitors. Those two proportions .948/.112 (x 100) yield a BDI index value of 844. Louisiana



⁶ Available at <http://www.crt.state.la.us/Assets/Tourism/research/documents/2014-2015/Louisiana%202014%20Visitor%20Profile.pdf> (visited April 5, 2016).

⁷ The Business development index of a designated market area (DMA) measures the propensity of residents to take trips to Louisiana compared to other DMAs after taking the total population into account.

⁸ A designated market area includes all counties that share same primary TV marketing signals. Therefore, high BDI market areas are DMAs where residents have an above average propensity to visit Louisiana.

visitors rely on experience, online resources, and word of mouth to gather travel information. This is important for Louisiana, which also excels in sending visitor home happy.



Each destination within Louisiana has attributes that attract visitors. The Shreveport area tends to attract gaming tourist and outdoor sportsmen and outdoor recreational enthusiasts, especially among retirees. The Shreveport are attracted 13 percent of Louisiana visitors totaling 3,247,000. Visitors who travelled to the Shreveport area had similar age as other Louisiana visitors, which averaged at 48 years. The income was relatively less affluent at \$56,800 compared to \$75,200

Louisiana visitors. About 79 percent of the visitors were Caucasians and 16 percent were African American. Most visitors were employed full-time (45 percent) and 32 percent were retirees. Respective numbers for Louisiana were 32 percent and 21 percent. Entertainment draws these 51 percent of visitors to Shreveport and 34 percent come for casinos and gaming. Shreveport visitors spend less than average \$509 compared to Louisiana's average of \$618. About 82 percent of the visitors left the area fully satisfied.

Due to its location, the town of Ferriday has a potential of attracting tourist who visit Vicksburg, MS (1 hour and 29 minutes' drive) and McComb, MS (1 hour and 35 minutes' drive). Vicksburg sits high atop a bluff overlooking the Mississippi and Yazoo Rivers, the city of Vicksburg was the setting of a bloody 47-day siege during the Civil War. The site of this epic battle is now Vicksburg National Military Park, preserving original fortifications and the U.S.S. Cairo, an ironclad gunboat that once prowled the waters of the Mississippi River. Vicksburg is also the place where Coca-Cola



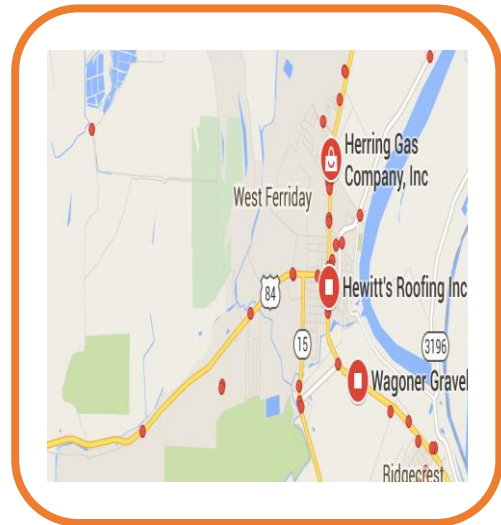
was first bottled. The Biedenharn Coca-Cola Museum houses a wide variety of exhibits interpreting the beginnings of Coca-Cola, the history of the Biedenharn family, the process used to first bottle Coca-Cola, a reproduction of the equipment first used to bottle Coke, the history of Coca-Cola advertising, and Coca-Cola memorabilia from past to present. McComb is popular among tourist who visit the area the railroad museum.



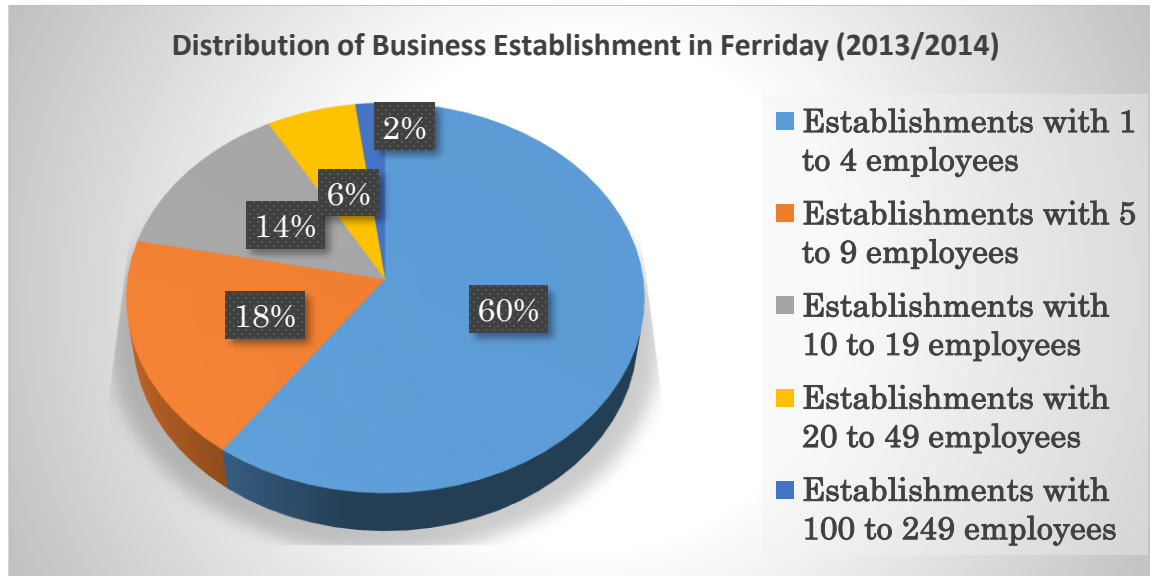
Shopping tourism has emerged as a growing component of the travel experience, either as a prime motivation or as one of the major activities undertaken by tourists at their destinations. The 2014 report by the World Tourism Organization (UNWTO) ⁹shows that shopping has converted into a determinant factor affecting destination choice, an important component of the overall travel experience and, in some cases the prime travel motivation. Destinations have thus an immense opportunity to leverage this new market trend by developing authentic and unique shopping experiences that add

value to their touristic offer while reinforcing, and even, defining their tourism brand and positioning. More importantly, shopping is one of the major categories of tourists' expenditure, representing a significant source of income for regional economies both directly and through the many linkages to other sectors in the economy. Shreveport has five-mile stretch of antique stores, specialty shopping, boutiques, restaurants and professional services along the Line Avenue

In the town of Ferriday, most shopping centers are along U.S. Routes 84 and 425 that pass through the City center. The area depends on small businesses with four employees or less that account for 60% of all businesses. According to the U.S. Census business pattern data, in 2013 the area has 1,862 paid employees, employed by 154 businesses. The first quarter payroll in 2013 was \$13,200, 000 and the total annual payroll was about \$57,180,000. Appendix 2 present the business pattern in 2013. In general, the area depends on retail trade that accounts for 20 percent of all businesses, followed by health care and social assistance (15 percent), and other services (14 percent), and finance and insurance (11 percent).



⁹ Available at http://cf.cdn.unwto.org/sites/all/files/pdf/am9-shopping-report_v2.pdf (Visited April 5, 2016)

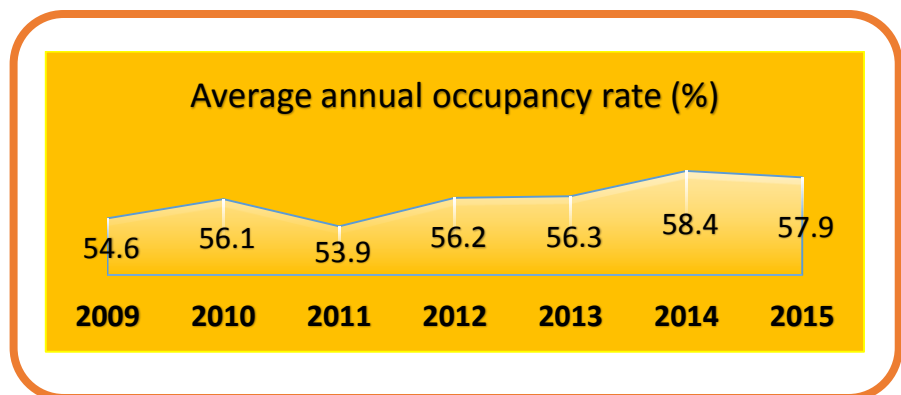


PERFORMANCE, MARKET AND COST ANALYSES

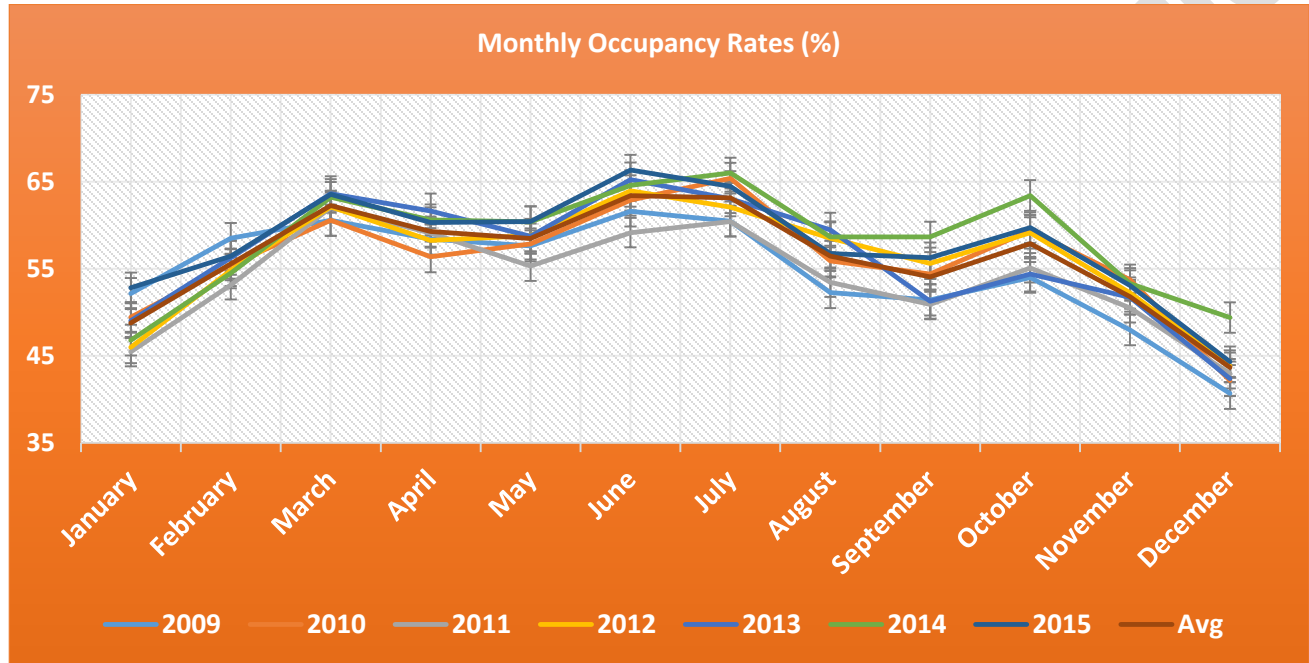
Performance Indicators

Hotel industry data used in this report are from Smith Travel Research (STR), a global provider of competitive benchmarking, information services and research to the hotel industry. The company collect the hotel industry information across markets via voluntary survey, and provide compiled blinded information back to the industry. The data acquired for this analysis summarize seven-year performance of 50 hotel establishments in a 65-mile radius around the town of Ferriday for the period ending December 2015. The establishments have rooms ranging from 15 to 534, with average and median of 74 and 56 rooms, respectively. Majority of establishment were economy class (54 percent). Midscale establishments accounted for 18 percent of all establishments, upper midscale class (18 percent), upper upscale class (6 percent), and luxury class hotels accounted for 4 percent of all establishments.

In the area, the occupancy rate that shows the rooms sold divided by rooms available or the percentage of rooms occupied has been increasing for the last seven years. The rate has increased from 54.6



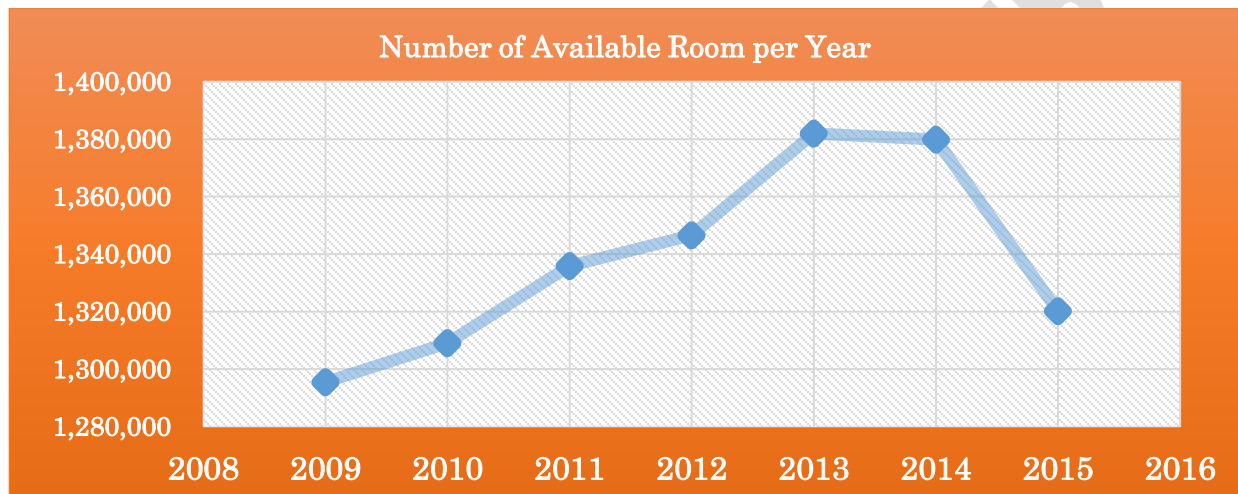
percent in 2009 to 57.9 percent in 2015, with a small dip in 2011 when the occupancy rate was 53.9. The occupancy data shows a monthly fluctuation but a predictable trend for the covered period. The peak period includes the month of March with the average occupancy rate of 69.5 percent, June (68.1 percent), and October (70.1 percent). The occupancy rate is relatively stable between March and October and tends to fall to lower levels from December (53.6 percent) to January (57.5 percent).



The occupancy rate is a very important ratio to real estate investors because it is an indication of anticipated cash flows. The gives information on the relation between the number of occupied rooms and the total number of rooms available. Low occupancy rate is an indication that the hotel market has a structural overcapacity: the supply of hotel rooms exceeds the demand for hotel (nights). The regional occupancy rate is below national average. For example, according to available data from STR and American Hotel & Lodging Association, the regional occupancy rates were 56.2 percent, 56.3 percent, 58.4 percent and 57.9 percent in 2012, 2013, 2014 and 2015, respectively and the U.S. average was 61.4 percent, 62.3 percent, 66.3 percent and 67.5 percent in the same year. In the region, occupancy rate tends to increase towards the weekends.

Three Years Occupancy Rate (%) by Day of the Week								
	Sun	Mod	Tue	Wed	Thru	Fri	Sat	Average
Jan 13 - Dec 13	39.7	55.5	60.0	60.2	55.3	62.2	61.4	56.3
Jan 14 - Dec 14	40.5	57.3	63.0	62.5	57.9	64.1	63.1	58.4
Jan 15 - Dec 15	39.6	55.9	61.4	61.4	56.8	64.9	65.1	57.9
Total 3 Year	39.9	56.2	61.5	61.4	56.7	63.7	63.2	57.5

The total number of rooms available indicates supply or the number of rooms times the number of days in the period. Data from STR shows a consistent increase in the number of room available from 2009 to 2013 from just above 1.290,000 rooms to just over 1.380,000 rooms per year, a 6.68 percent increase. The supply plateaued in 2013/14 and then, there was a sharp decline on the number of room available during 2014/15 period by about 4.32 percent. The sharp decline is an indication of one casino closing and some hotel closing in the Natchez area and one hotel with about 171 rooms closing in Alexandria area.



A decrease in supply may be a temporally phenomenon as some of the closed establishment are being renovated into new hotels or acquired by other companies for redevelopment. Expected increase in tourism activities in the Ferriday, Vidalia, and Natchez Area is luring real estate investor who are constructing new hotels. Recent added hotel establishments include Holiday Inn Express & Suite in South Natchez and Best Western of Vidalia. In addition, there is a construction of three-story, multi-million dollars, 90 rooms Town Place Suites by Marriott on the Vidalia Riverfront, with a scheduled completion by early 2016.

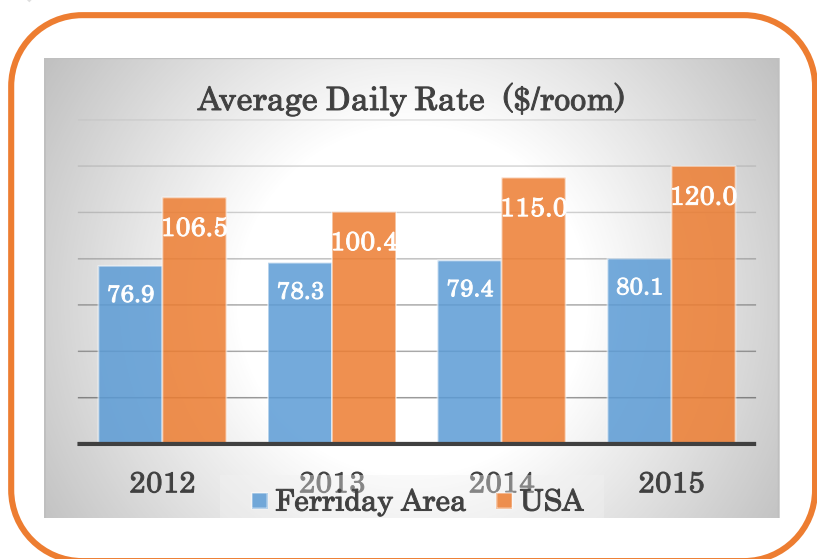
Another import financial indicator in hotel industry, which is useful for measuring the operating performance of a lodging unit, is the average daily rate (ADR) or ARR (average daily rate or average room rate). To calculate the rate divide the rooms-revenue earned by number of rooms sold, excluding complimentary rooms and house use room or those rooms occupied by hotel employees or management, as they are not available for sale and not generating revenue. The average daily rate along with the property's occupancy are the foundations for the property's financial performance. The ADR measure how well a hotel performs compared to its competitors and itself overtime. It is common in the hotel industry for the ADR to increase gradually overtime, bringing in more revenue.

The average daily rate for hotel establishment around the town of Ferriday was \$77 per room for the past seven years. The room rate has steadily increased from \$74.40 per room in 2009 to about \$80.10 per room in 2015 a 7.64 percent increase. The highest average room rate was in October 2015 at \$85.30 per room. October tends to register higher average daily rate compared to other months. In all seven year, the December-February period recorded the most of the lowest average daily rates.

Average Daily Rate or Average Room Rate (\$)													
	Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Average
2009	75.6	74.7	75.7	76.0	75.6	75.9	75.2	73.1	72.9	72.9	72.4	71.6	74.4
2010	74.0	73.4	75.2	74.4	74.0	75.1	75.7	73.7	74.0	75.0	72.1	71.7	74.1
2011	74.8	73.7	75.0	75.5	74.2	76.9	76.4	75.9	76.6	76.3	76.2	73.6	75.5
2012	76.3	74.4	77.4	77.2	75.6	78.6	78.1	77.4	77.4	78.7	76.8	73.1	76.9
2013	78.2	76.3	78.1	79.4	78.3	80.6	78.1	78.5	77.5	79.9	78.1	74.8	78.3
2014	78.6	78.0	79.4	80.3	78.9	80.9	80.8	78.8	79.6	82.1	77.6	75.4	79.4
2015	77.7	76.6	81.2	80.8	80.0	82.1	82.2	78.0	79.4	85.3	79.5	76.3	80.1
Avg	76.5	75.3	77.5	77.7	76.7	78.7	78.2	76.6	76.9	78.8	76.2	73.9	77.0

For the entire period, the average daily rates in the area are relatively lower, compared to the average rate in the U.S. The STR statistic and data from the American Hotel & Lodging Association show that the average daily rate of the U.S. hotel industry reached \$120.01 in 2015. The rates were \$106.15, \$110.35, and \$115.02 in 2012, 2013, and 2014, respectively.

In the Hotel industry strategies to increase ADR, focus more on increasing revenue per customer by implementing pricing strategies, including up-sale and cross-sale offers. Sales professional know that it can cost four times as much to sell to a new customer as it does to sell to an existing one. Up selling involves inducing existing customer to purchase more items, upgrades or other add-ons in an attempt to make a more profitable sale. This may include designing packages and extras that encourage the guests to spend a little more such as providing airport shuttle and packages to visit local arts. Cross-selling involves discovering new applications for the products and services the customers already are using such as offering



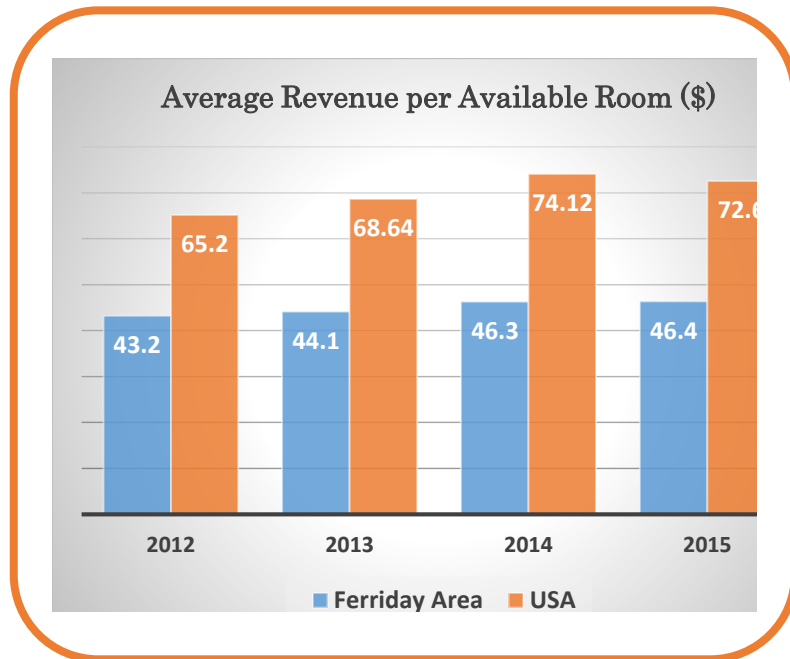
incentives such as a promotion code to potential guests and customers and discounts for extended stays. By cross selling and up selling in the hotel industry, are important marketing techniques for selling more products and services, reduce the cost of sales, enhance customer loyalty and drive revenue.

The third financial performance metric for any hotel unit is the revenue per available room (RevPAR), calculated by multiplying a hotel's average daily room rate (ADR) by its occupancy rate or by dividing a hotel's total guestroom revenue by the room count and the number of days in the period being measured. It therefore a measure of the relationship between room rates and occupancy. Since RevPAR measures performance for a point in time such as a month or year, the ratio is useful for comparing points within the same period. It is often used in comparison to competitors within a custom defined market or a self-selected competitive set as defined by the hotel's owner or manager. In addition, it is best to use the metric to compare hotels of the same type, or with target customers such as full service, luxury, extended stay, and economy. The metric is import in terms of measuring the hotel's ability to generate greater revenue from each room. However, it does not take into account hotels' other revenue sources like add-on services, car services, and special charges that contribute to the revenue stream, nor does it account for the costs of a hotel. Thus, the indicator is not a complete measure in itself.

Around the town of Ferriday, the average revenue per room was \$43.3 for the 2009/2015 period. June and July recorded the highest revenue per room that ranged between \$45.30 and \$54.40. Again, December recorded the lowest average revenue per room and the amount ranged between \$29.10 and \$37.20. For the 2009/2015 period, the rate between the 25th and 75th percentiles were \$39.63 and \$46.66. Therefore, 25 percent of the times, the rates were \$39.63 or less and 25% of the times, the rates were \$46.66 or less.

Average Revenue per Available Room													
	Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Average
2009	39.4	43.7	45.9	44.3	43.6	46.7	45.5	38.2	37.5	39.4	34.7	29.1	40.6
2010	36.5	40.7	45.5	41.9	42.8	47.2	49.5	41.2	40.2	44.5	38.7	30.2	41.6
2011	34.0	39.2	46.5	44.6	41.0	45.4	46.2	40.5	39.0	42.0	38.5	31.6	40.7
2012	35.1	40.8	48.1	44.9	44.4	50.2	48.5	45.3	43.0	46.5	40.1	32.0	43.2
2013	38.3	42.9	49.7	48.9	46.0	52.6	49.2	46.7	39.7	43.4	40.4	31.7	44.1
2014	36.8	42.5	50.2	48.7	47.7	52.2	53.3	46.2	46.7	52.1	41.3	37.2	46.3
2015	41.0	43.2	51.6	48.7	48.3	54.4	53.0	44.3	44.7	50.9	42.2	33.8	46.4
Avg	37.3	41.9	48.2	46.1	44.8	49.9	49.3	43.3	41.6	45.6	39.4	32.2	43.3

Compared to the national average, the area's RevPar is still very low. The STR statistic and data from the American Hotel & Lodging Association show, the revenue per room in the U.S. was \$65.16 in 2012 and consistently increase to \$74.12 in 2014, and slightly decreased to 72.55 in 2015. Average revenue per available room around the town of Ferriday was about 64.24 percent of the national average. The two main factors driving a hotel's RevPAR are its occupancy rates and



average daily rates or room rate. The variables such as the services offered by the hotel, services offered by competition, national economic conditions, available amenities for tourists, and seasonality influence both occupancy rate and average daily room rate. Generally, several methods, which are applied, increases RevPAR. One of the methods is adopting minimum or maximum length of stay restrictions, which is the most effective way to increase revenue per room. For example, during the high peak room demand (football game weekend) the manager may employ minimum length for two nights to prevent bookings for one night that would depart the day before the big football game. During the low room demand (New Year's Eve) the manager would set a maximum for 3-4 nights stays in order to retain rooms for guests who want to stay beyond the holiday to extend the higher occupancy level instead of being sold out only for a two-day event.

Market Segmentation and Competitive Analysis

The TravelsAmerica visitor profile report for 2014 indicates that most visitors who travel to the Alexandria area are 40 years of age on average; they are employed full-time (58%), with annual family income of \$53,600. Most of them are married (52%), and are Louisiana residents (64%). Top two activities is visiting friends (27%), visiting relatives (22%), and spending at least \$250 in the area and are likely to live with children and to drive to destinations. In general, younger visitors and low-income travel to Alexandria area and the area depends heavily on locals (Louisiana residents). Family-friendly hotels are important attractions in the area. About 25% of business travel including conventions, conferences, and seminars occur most often in Alexandria area. These profiles demand different classes of hotels.



There are generally five main categories in the hotel industry basing on the range of facilities and amenities provided. Most leading groups have brands in more than one category. Luxury hotels such as Four Seasons and Ritz-Carlton have the highest level of amenities, often boutiques or small chains with top-class facilities and services and very high room rates. They have a five-

star quality with a mix of business and leisure customers, depending on location, often with a high proportion of international guests. Leading brands include. The Upper Upscale hotels such as Hilton and Hyatt hotels have full, high-quality amenities including spacious rooms and bathrooms and charge high room rates. They are four or five-star hotels, usually located in prime city-center locations in major cities or in resorts. Business customers often with a high proportion of international guests predominantly book these upper upscale hotels.

Other categories include upscale, midscale and economy or budget class hotels. Upscale hotels such as Clarion and Wyndham Hotels are high quality, mostly full-service hotels with moderate to high room rates. They are usually less luxurious than upper upscale and sometimes lacking some of the facilities such as a concierge. These upscale hotels are predominantly booked by business customers in urban locations but also appealing to the leisure guest, less international than upper upscale but can still have a significant international guest base.



The midscale class hotels have full service but with fewer amenities than upscale and broadly equivalent to three-star quality. They charge comparatively lower room rates than upscale. The midscale class hotels are predominantly domestic guests, for both business and leisure. They appear in two sub-categories depending on availability of food and beverage (F&B) service. The midscale class hotels with F&B include hotels such as Best Western and Doubletree Club. The midscale class hotels without F&B include hotels such as Comfort Inns & Suites and Country Inns & Suites by Carlson (Carlson). The economy or budget class hotels are the cheapest with most basic hotels with limited facilities, and one or two-star quality and are for predominantly domestic guests.

A hotel in any category in the town of Ferriday is likely to compete with other hotels specifically in Vidalia and Natchez. The STR data lists 17 hotels in the Ferriday, Vidalia, and Natchez area, with two hotels in Vidalia. The tripadvisor website lists 16 hotels in Natchez and 2 hotels in Vidalia. The economy class hotels dominate the Ferriday, Vidalia, and Natchez area and account for 35.29 percent of all hotels. The midscale and upper midscale class hotels accounts for 11.76 percent and 29.41 percent, respectively. The Monmouth Plantation hotel located in Natchez is the only luxury hotel in the area.

Name of Establishment	City & State	Zip Code	Class	Open Date	Rooms
Deluxe Inn	Natchez, MS	39120	Economy Class		38
Relax Inn	Natchez, MS	39120	Economy Class	1964	50
Days Inn Natchez	Natchez, MS	39120	Economy Class	1978	123
Excellent Inn & Suites	Natchez, MS	39120	Economy Class	1958	70
Red Carpet Inn Natchez	Natchez, MS	39120	Economy Class	1960	88
Budget Inn	Vidalia, LA	71373	Economy Class		58
Quality Inn Natchez	Natchez, MS	39120	Midscale Class	1994	50
Best Western River Inn	Natchez, MS	39120	Midscale Class	2009	60
Holiday Inn Express & Suites	Natchez, MS	39120	Upper Midscale Class	2013	81
Hotel Vue	Natchez, MS	39120	Upper Midscale Class	2008	91
Hampton Inn Suites Natchez	Natchez, MS	39120	Upper Midscale Class	2007	86
Isle of Capri Casino Hotel	Natchez, MS	39120	Upper Midscale Class	1984	141
Comfort Suites Vidalia	Vidalia, LA	71373	Upper Midscale Class	2002	102
Dunleith Historic Inn	Natchez, MS	39120	Upper Upscale Class	2000	26
Natchez Historic Inn	Natchez, MS	39120	Upper Upscale Class	1983	17
Natchez Grand Hotel	Natchez, MS	39120	Upper Upscale Class	2008	119
Monmouth Plantation	Natchez, MS	39120	Luxury Class	1978	30

Cost and Location Analyses

In the hotel industry, there are two simple rules of thumbs that provide a rough approximation as to whether a project is economically feasible. The first rule of thumb requires the supportable economic land value (SELV) to exceed the actual cost of land to ensure that the developer is not overpaying for the land. The following formula calculates the supportable economic land value:

$$SELV = [OCR * ARR] \left[\frac{365 * NOR * \beta}{\theta} \right] \quad (1)$$

In Equation (1), *OCR* is occupancy rate, *ARR* is average room rate, *NOR* are number of rooms and β and θ are constants. In addition, the constant β represents an assumed ground rent. The constant can vary from around 3% to 10% of rooms revenue, 4% being the value commonly used in most markets. The value increases as land cost increases such as land located in city centers. The constant θ is a capitalization rate for converting the ground rent to an estimate of land value and can vary from 4% to 10%. The capitalization rate (or cap rate) for a hotel is used as a way to compare potential returns on various real estate investments. The industry generally uses 8% as a capitalization rate for ground rent. This means that the 0.04/0.08 factor suggests that the land cost should not be more than half of a stabilized year revenues.



For the area around the town of Ferriday, the average occupancy rate for the past seven years was 56.2%, and the average room rate was \$77/room. The median number of rooms per hotel is 56. This analysis therefore considers a hotel with 50, 60, and 80 rooms and adopts the 0.04/0.08 factor for the base-case scenario. The estimated supportable economic land value is respectively, \$394,875, \$473,850,

\$631,800 for a hotel with 50, 60, and 80 rooms. Land cost above these values, the developer needs to re-evaluate the project to validate the underlying economics. Additional rooms could increase the room count or a higher quality hotel would increase the average room rate.

The second rule of thumb requires that the hotel's total economic value be greater than the total development cost. The relationship ensures that the hotel's economic value is greater than the total project cost (including land) on the date it opens. One of the rules the industry uses to estimate economic value is the average daily rate (ADR) rule. The rule states that a property is worth 1,000 times its average daily rate on a per-room basis. The rule is essentially a revenue per room multiplier, setting value per room at 3.5 to 4.5 times annual room revenues, depending on occupancy. More formally;

$$\text{Hotel Economic Value} = \text{Average Daily Rate} \times \text{Number of Rooms} \times 1,000. \quad (2)$$

Using Equation (2) and the numbers presented above; produces \$3,850,000, \$4,620,000, and \$6,160,000 total economic value for a hotel with 50, 60, and 80 rooms, respectively. If the total development cost is over these values, there could be an economic feasibility problem. These values suggest that an economy and midscale hotel has a potential to be economically feasible under existing market

condition. Activities that will increase occupancy rate and average daily rate will make the hotel even more economically profitable.

Another point of reference used in the hotel industry is the percentage relationship between the hotel's land cost and the economic value, which should be no more than 15% to 20%. Given the results presented above, the value of the land is approximately 10.26 percent of the overall economic value of a three hotel categories, which is below of the required threshold. As with any rule of thumb, these assumptions do not account for numerous exceptions into the evaluation. It is therefore important to supplement this study with in depth analysis to either verify or dispute the conclusions produced by the rules of thumb.



The results presented above set up a precedence for estimating realistic range of acceptable room revenue performance that would render the project feasible. Basing on the estimated supportable economic land value of \$394,875, \$473,850, \$631,800 for hotel of 50, 60, and 80 rooms translate into about \$7,898 land cost per room. Assuming that the supportable economic land value is the maximum value a developer is willing to pay for land. In addition, the HVS hotel development cost survey¹⁰ for 2014/15 indicate that land accounts for 13 percent of the hotel development cost for budget/economy hotels, 12% for midscale hotels without food and beverages and 16% for midscale hotels with food and beverage services. Estimated construction costs per room for the three hotel categories are \$60,750, \$65,813, and \$49,359, respectively. If financing is available for 65% of the construction cost, and assuming equity return of 12% and 9% mortgage constant as suggested by HVS consulting, the table below shows important performance measures to make the project feasible.

Equity is the property value attributed to the owner; often this is the cash invested in the property. In the table, return on equity (ROE) is the desired amount of net income returned as a percentage of own cash investment. The percentage measures a hotel's profitability by revealing how much profit a hotel should generates with the money shareholders have invested. Mortgage capitalization rate or mortgage constant is a ratio between the annual amount of debt servicing to the total value of the loan. The mortgage constant is only applicable to mortgages that pay a fixed rate.

¹⁰ Available at <file:///C:/Users/Aloyce%20Kaliba/Downloads/HVS-U.S.%20Hotel%20Development%20Cost%20Survey%20201415.pdf> (visited April 5, 2016).

Variable	Budget/ Economy	Midscale w/o F&B	Midscale w/ F&B
Land cost per room	\$7,898	\$7,898	\$7,898
Land cost as % of total development cost	13%	12%	16%
Estimated construction cost per room	\$60,750	\$65,813	\$49,359
Equity (35%)	\$21,263	\$23,034	\$17,276
Return on equity	12%	12%	12%
Required income per room	\$2,552	\$2,764	\$2,073
Mortgage (65%)	\$39,488	\$42,778	\$32,084
Mortgage constant	9%	9%	9%
Required income per room	\$3,554	\$3,850	\$2,888
Required net operating income per room	\$6,105	\$6,614	\$4,961
Return on the project cost	10%	10%	10%
Net operating income (NOI %)	40%	40%	40%
Required annual gross revenue per room	\$15,263	\$16,535	\$12,402
Room revenue as % of gross revenue	90%	90%	90%
Indicative annual room revenue per room	\$16,959	\$18,373	\$13,780
Revenue per available room per day	\$46	\$50	\$38

In the above table, return on the project cost is the ratio between required net operating income per room and estimated construction cost per room, which represent 10% return on the total projected cost. Net operating income is the measure of operating income after deducting operating expenses but before deducting income taxes and interest. The ratio is a good measure of hotel performance. According to the 2015 STR HOST almanac¹¹, required net operating income per room represent 40% of revenue and room revenue represent 90% of gross revenue per room-indicative annual gross revenue per room. Calculation of revenue per available room is by dividing the indicative annual gross revenue per room by number of days in the year. The estimated value of revenue per available room for Budget/Economy (\$46/day) and Midscale without food and beverages (\$50/day) were above the average for hotels round the town of Ferriday, which is \$43.30 per day. The revenue per available room for the midscale hotel with Food and beverage services (\$38/day) was below that average. Improvement in average daily rate and occupancy rate will also increase the revenue per available room.

All reviewed reports from the travel industry project the rising of mixing business and pleasure. Technological advances have provided a vehicle for people looking to attaining a better work-life balance and experiential travel marketing is exploding.

¹¹ The report is available at https://www.str.com/Media/Default/Samples/HOSTAlmanac_Highlights.pdf (visited April 5, 2016).



Each stage of the journey is planned in advance; from flights, cars, restaurants, shows, meetings with locals, unmissable viewing points, and other unique and authentic experiences. On the economic front, the outlook is positive for the travel industry as global economic activity are stabilizing. The U.S. travel industry will continue to grow, fueled by a strong domestic travel market. In the absence of unexpected shocks, that the number of leisure trips taken by

Americans will grow by 2.1 and percent overall leisure travel spending will climb 4.0 percent, driven in part by strong demand for the nation's varied and compelling leisure travel products.

Boosted by steady job growth and lower gas prices which have improved consumers' overall buying power, American optimism about their future leisure travel has reached record levels. U.S. economic growth continues to be positive; the labor market continues to improve, with the most recent national unemployment rate trending consistently downward to a seven-year low of 5.0 percent. There are also indications that businesses are offering higher wages to attract and keep workers. The travel cost will remain flat due to low gas prices. Lower oil prices allow modest pricing growth in air travel, ground transportation, and rental cars. These indicators tend to boost leisure travel, which increases demand for available rooms and therefore rises occupancy and room rates. During this period, a new hotel establishment in the town of Ferriday will easily recoup the investment cost by taking advantage of increased travel demand.

SUMMARY AND CONCLUSION

This study explores market opportunities for a new hotel in the town of Ferriday, Concordia Parish, Northeastern Louisiana. Hotels can be an extremely valuable addition to economic development in the town. Hotels bring leisure visitors and business people, generates sales for nearby retail and service businesses and capture tourism dollars in the community. Hotels also generate significant tax revenues while creating new jobs for local residents. Because of Ferriday's central location, the town has great market opportunities for hotel development. The town is within



close proximity to several tourist attractions and landmarks that including the Louisiana Delta Music Museum and the Frogmore Cotton Plantation and Gins, one of the top three favorite attractions in the tri-states of Arkansas, Louisiana and Mississippi. Additional potential attractions are Haney's Big House and Jerry Lewis Lee Museums. With about 300 miles of water that include Lake Concordia, a trophy bass lake, and nearby Concordia State Wildlife Management Area, Bayou Cocodrie National Wildlife Refuge, the town has a potential of attracting outdoor sportsmen and women and outdoor enthusiasts.



The study presents macro-economic condition of the area; analyzes travel and visitation trends, existing competition, traveler market segments in the area, and room supply, and the occupancy and average room rate, which are key variables in determining the viability of a new hotel. While the market conditions have a significant impact on the feasibility of a new hotel, the strength of the local lodging market affects how many rooms to sell and the rates to charge.

The main results indicate that an economy/budget hotel or a midscale class hotel is economically feasible under existing market conditions. The estimated value of revenue per available room for a Budget/Economy was \$46 per day and Midscale without food and beverages was \$50 per day were above the average for hotels around the town of Ferriday, which is currently \$43.30 per day. However, a new hotel establishment in the town of Ferriday has a potential of performing above the market average, if the management and managers of the towns work together to promote the town of Ferriday cultural and existing tourist attractions. The town boasts bountiful lakes, have a rich musical heritage, houses the State of Louisiana Delta Music Museum, and Frogmore Cotton Plantation and Ginnery, and Jerry Lee Lewis family museum are located in the area. The town is near Lake St. John and Lake Concordia; a bass fishing paradise. Three Rivers and Red River State Wildlife Management Areas, and Bayou Cocodrie National Refuge are also within a short distance. The town managers and the developers should put a great deal of emphasis on increasing economic activities to attract more visitors to the area through strategic investment. Particularly, promoting Jerry Lee Lewis family museum and Haney's Big House will attract more tourists that are willing to stay in the town of Ferriday.

APPENDIX 1: POPULATION AND HOUSING VARIABLES

VARIABLE	ZIP CODE TABULATION			TOTAL/ AVERAG
	AREAS			
	39120	71334	71373	
SECONDARY TRADE AREA				
2014 Total Population	32,443	9,765	6,918	49,126
2013 Total Population	32,501	9,747	7,069	49,317
2012 Total Population	32,536	10,080	7,018	49,634
2011 Total Population	32,453	9,597	7,125	49,175
2010 Total Population	32,334	9,839	7,358	49,531
2000 Total Population	34,699	9,480	7,197	51,376
SECONDARY TRADE AREA POPULATION AGE				
2000 Median age	38.1	37.3	36.5	37.3
2000 18 years and over	25,408	6,945	5,105	37,458
2000 Male	11,398	3,346	2,397	17,141
2000 Female	14,010	3,599	2,708	20,317
2000 21 years and over	23,972	6,550	4,781	35,303
2000 62 years and over	6,324	1,761	1,122	9,207
2000 65 years and over	5,407	1,510	936	7,853
2010 Median age	41.3	37.2	37.0	38.5
2010 18 years and over	25,162	7,550	5,369	38,081
2010 Male	16,149	5,145	3,556	24,850
2010 Female	16,185	4,694	3,802	24,681
2010 21 years and over	24,044	7,152	5,095	36,291
2010 62 years and over	6,228	1,733	1,246	9,207
2010 65 years and over	5,155	1,433	1,016	7,604
2000 HOUSEHOLDS BY TYPE				
Total households	13,798	3,464	2,708	19,970
Family households	9,491	2,404	2,006	13,901
Nonfamily households	4,307	1,060	702	6,069
Households with individuals under 18	5,124	1,297	1,110	7,531
Households with individuals 65 years	3,966	1,054	722	5,742
Average household size	2.48	2.56	2.64	2.6
Average family size	3.03	3.13	3.12	3.1
2000 HOUSING OCCUPANCY				
Total housing units	15,312	4,118	3,333	22,763
Occupied housing units	13,798	3,464	2,708	19,970
Vacant housing units	1,514	654	625	2,793
For seasonal, recreational, or	179	349	418	946
Homeowner vacancy rate (percent)	1.3	2.2	1.4	1.6

Rental vacancy rate (percent)	7.4	6.2	5.9	6.5
2000 HOUSING TENURE				
Occupied housing units	13,798	3,464	2,708	19,970
Owner-occupied housing units	9,717	2,462	2,104	14,283
Renter-occupied housing units	4,081	1,002	604	5,687
Average household size of owner-	2.49	2.5	2.63	2.5
Average household size of renter-	2.44	2.71	2.68	2.6
2010 HOUSEHOLDS BY TYPE				
Total households	12,685	3,396	2,783	18,864
Family households (families)	8,145	2,282	1,959	12,386
With own children under 18 years	3,192	834	861	4,887
Nonfamily households	4,540	1,114	824	6,478
Householder living alone	4,040	993	727	5,760
Male	1,728	434	285	2,447
Female	2,312	559	442	3,313
Households with individuals under 18	3,943	1,093	1,036	6,072
Households with individuals 65 years	3,845	1,032	781	5,658
Average household size	2.37	2.5	2.59	2.5
Average family size	2.98	3.09	3.11	3.1
2010 HOUSING TENURE AND OCCUPANCY				
Occupied housing units	12,685	3,396	2,783	18,864
Owner-occupied housing units	8,652	2,322	2,017	12,991
Population in owner-occupied housing	20,487	5,762	5,222	31,471
Average household size of owner-	2.37	2.48	2.59	2.5
Renter-occupied housing units	4,033	1,074	766	5,873
Population in renter-occupied housing	9,527	2,735	1,993	14,255
Average household size of renter-	2.36	2.55	2.6	2.5

Appendix 2: Business Pattern in Ferriday Area

Total for all sectors	All establishments	154
Total for all sectors	Establishments with 1 to 4 employees	88
Total for all sectors	Establishments with 5 to 9 employees	27
Total for all sectors	Establishments with 10 to 19 employees	20
Total for all sectors	Establishments with 20 to 49 employees	9
Total for all sectors	Establishments with 100 to 249 employees	3
Agriculture, forestry, fishing and hunting	All establishments	3
Mining, quarrying, and oil and gas extraction	All establishments	4
Utilities	All establishments	1
Construction	All establishments	5
Manufacturing	All establishments	5
Wholesale trade	All establishments	5
Retail trade	All establishments	31
Retail trade	Establishments with 1 to 4 employees	10
Retail trade	Establishments with 5 to 9 employees	9
Retail trade	Establishments with 10 to 19 employees	7
Retail trade	Establishments with 20 to 49 employees	4
Retail trade	Establishments with 50 to 99 employees	1
Transportation and warehousing	All establishments	3
Information	All establishments	3
Finance and insurance	All establishments	16
Finance and insurance	Establishments with 1 to 4 employees	10
Finance and insurance	Establishments with 5 to 9 employees	3
Finance and insurance	Establishments with 10 to 19 employees	3
Real estate and rental and leasing	All establishments	8
Real estate and rental and leasing	Establishments with 1 to 4 employees	8
Professional, scientific, and technical services	All establishments	9
Professional, scientific, and technical services	Establishments with 1 to 4 employees	6
Professional, scientific, and technical services	Establishments with 5 to 9 employees	1
Professional, scientific, and technical services	Establishments with 20 to 49 employees	2
Administrative and support and waste management and remediation services	All establishments	4
Administrative and support and waste management and remediation services	Establishments with 1 to 4 employees	3
Administrative and support and waste management and remediation services	Establishments with 5 to 9 employees	1
Administrative and support and waste management and remediation services	Establishments with 1,000 employees or more	0
Educational services	All establishments	1
Health care and social assistance	All establishments	23
Health care and social assistance	Establishments with 1 to 4 employees	11

SUBR UNIVERSITY CENTER FOR ECONOMIC DEVELOPMENT, JANUARY 2016

Health care and social assistance	Establishments with 5 to 9 employees	3
Health care and social assistance	Establishments with 10 to 19 employees	3
Health care and social assistance	Establishments with 50 to 99 employees	3
Arts, entertainment, and recreation	All establishments	2
Arts, entertainment, and recreation	Establishments with 1 to 4 employees	1
Accommodation and food services	All establishments	9
Other services (except public administration)	All establishments	22
Other services (except public administration)	Establishments with 1 to 4 employees	16
Other services (except public administration)	Establishments with 5 to 9 employees	6