

Hotel Feasibility Study for the City of Diamondhead, MS

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EXECUTIVE SUMMARY



Executive Summary

The primary purpose of this study is to project local and regional market demand for the decision-makers in the city of Diamondhead, Mississippi, in particular, to determine if there is an opportunity to build a new hotel in the city of Diamondhead, located in Hancock County in south Mississippi.

Several key strengths and challenges for a new hotel in the city of Diamondhead are identified. The strengths of the local market include:

- Population is projected to increase by 8% by the year 2029.
- The real median household income of the city of Diamondhead (\$67,202) was higher than that of Hancock County (\$47,518), the state of Mississippi (\$42,009), and the national averages (\$57,652).
- Conveniently located in the Southern part of the State of Mississippi, connected to the region's major cities, including Biloxi, MS, New Orleans, LA, and Mobile, AL.
- Currently no quality hotel to accommodate guests, including visitors to various events and meetings.
- The presence of public schools and Pearl River Community College Hancock Center may provide the demand necessary to support a new hotel.
- Affordability of destination.

On the other hand, some of the challenges as they relate to supporting a new hotel construction in the city of Diamondhead include:

- No major university or college within a 15-mile radius of the city of Diamondhead, which can be a demand source for a new hotel.
- Distance from major cities in the state of Mississippi and other adjacent states (e.g., more than a half-hour away, and each city provides various hotels to meet local demand).

- Airport accessibility; lack of commercial (passenger) airlines within a 15-mile radius of the city of Diamondhead.
- Lack of a large (or significant) corporate presence in the city of Diamondhead and Hancock County.
- Limited in traditional visitor amenities, including local attractions and events/festivals in the city of Diamondhead.
- 206 Airbnb options within a 15-mile radius of the city of Diamondhead, which are potential competitors for a new hotel, especially for leisure demand.

Within a 30-mile radius of the city of Diamondhead, there are currently 102 hotels with 13,374 nightly rooms available. Diamondhead and proximate markets have the following characteristics:

- Supply, demand, and revenue steadily grow, and demand and revenue increase sharper in 2016.
- Among the comparable markets based on proximity, revenue per available room (RevPAR) growth is lowest, except for New Orleans, LA. At the same time, actual RevPAR is higher than Gulfport and Biloxi, MS, but is significantly lower than New Orleans, LA.
- Occupancy growth is higher than neighboring markets, except Biloxi, MS, while average daily rate (ADR) growth is the lowest among neighboring markets.
- The actual occupancy percentage is similar to neighboring markets, while actual ADR is higher than Gulfport and Biloxi, MS, but lower than Mobile, AL and New Orleans, LA.
- Historically the weekends have higher ADR than weekdays, while over the last six years, ADR is continually growing on weekends.
- Friday and Saturday have higher occupancy, while Sunday is the lowest occupancy over the last three years.
- There is no seasonal distortion over the last three years, but an average of \$20 higher ADR on weekends.
- A popular place for weekend getaways, but needs to improve weekday numbers.
- More upper-midscale and upscale hotels are in construction, but midscale and upper-class hotels seemed to be more promising based on the current hotel properties in this area.

Table E1. Composite Growth Rate of Demand

Source	Market Segment	Source of Demand (%)	Annual Compound Growth (%)	Composite Growth (%)
Transient	Leisure Market	35.0	5.5%	1.93%
	Business Market	20.0	3.5%	0.70%
	Educational Market	15.0	3.5%	0.53%
	Healthcare Market	15.0	3.5%	0.53%
	Military Market	-*	-	-
	Others	5.0	3.5%	0.18%
Group	Leisure Market	2.0	3.5%	0.07%
	Business Market	3.0	3.5%	0.07%
	Educational Market	-*	-	-
	Healthcare Market	-*	-	-
	Military Market	-*	-	-
	Others	5.0	5.5%	0.28%
Contract	Military Market	-*	-	-
Total		100%		4.29%

Note) - * is less than 0.1 % of demand, which is insignificant, so that the demand is not shown in this Table.

Based on the total composite growth rate (4.29%) (see Table E1), the future demand for a new hotel in the city of Diamondhead is estimated. Initially, customer demand for overnight stays is compared to the supply of available rooms and then projected over the next five years. Overall, as shown in Table E2, the projected average nightly demand is 649 rooms over five years for the hotels within a 15-mile radius of the city of Diamondhead

Table E2. Future Rooms Demand Year by Year with Data from the Hotels within a 15-Mile Radius of Diamondhead

Year	Composite Demand (Nightly)	Future Growth (%)	Rooms Demand (Nightly)
1	571	104.29%	596
2	596	104.29%	621
3	621	104.29%	648
4	648	104.29%	676
5	676	104.29%	705
Average	-	-	649

In addition, supply required in the city of Diamondhead is estimated based on the normal occupancy rate (53.6%). As seen in Table E3, the local market could not support additional rooms right now because there are 48 more rooms per night available for guests who will stay in a hotel in this area. In Year 2, there is a surplus of one room per night. However, starting in Year 3, there is a shortage of 46 rooms per night. At the end of five years, 148 additional rooms per night could support at an average occupancy of 53.6%. In other words, if a new 80-room hotel were built today, given the current demand for rooms, the new overall average occupancy rate would be 53.6%, resulting in 43 additional rooms being sold per day.

Table E3. Future Rooms Supply Year by Year

Year	Rooms Demand (Nightly)	Normal Occupancy (%)	Supply Required (Nightly)	Current Supply (Nightly)	New Rooms Required (Nightly)
1	571	53.6	1,065	1,113	-48
2	596	53.6	1,112	1,113	-1
3	621	53.6	1,159	1,113	46
4	648	53.6	1,209	1,113	96
5	676	53.6	1,261	1,113	148
Average	621	-	1,161	-	48

Should the city of Diamondhead decide to pursue the development of a hotel, we would recommend the construction of an upscale or upper-midscale hotel with an effective loyalty program on or near the intersection of Interstate 10. More importantly, a 50 to 80-room hotel is recommended because of the average new room requirement (i.e., 48 rooms) in the comparable market. Over a five year-period, demand can support an estimated 50 or 80 rooms, and it is anticipated to increase by an average of 48 rooms, for a total of 148 rooms (see Table E3).

In addition, restaurants and other development components would be beneficiaries of the hotel development. As the future business community (2.4%) and population (8%) continue to grow in the city of Diamondhead, there might likely be increased demand from various guests for a proposed hotel.

SECTION I.

INTRODUCTION



I. INTRODUCTION

The city of Diamondhead is a small Mississippi town, located about 150 miles south of Jackson, the state capitol, and within Hancock County. Diamondhead is easily accessible for visitors via air and highway, making it capable of drawing visitors from large regions. For instance, Interstate 10 runs adjacent to Diamondhead and connects the region to most major cities in the Southeastern United States, such as Biloxi, MS (35 miles), New Orleans, LA (53 miles), Hattiesburg, MS (75 miles), and Mobile, AL (85 miles). The Diamondhead Airport has a 3,800-foot lighted runway and offers a storage hangar, repair facilities, and fueling station. In contrast, the Gulfport-Biloxi International Airport, located 21.3 miles east of Diamondhead, offers daily direct flights to Charlotte Douglas International Airport (CLT), Dallas/Fort Worth International Airport (DFW), Hartsfield-Jackson Atlanta International Airport (ATL), and Houston George Bush International Airport (IAH). Additionally, Louis Armstrong New Orleans International Airport is 69 miles away from Diamondhead, offering domestic and international services that welcome millions of travelers each year from around the world.

According to the U.S. Census Bureau (2017), the median household income of Diamondhead was \$67,202, its median housing value was \$163,000, and the number of total housing units was 4,217. The city has a relatively small corporate presence albeit the city's three largest employers are Ochsner Health System (314 employees), Woodland Village Nursing Center, LLC (113 employees), and Rouse's Enterprise, LLC (89 employees), which may generate potential demand for a new hotel in the city of Diamondhead. In 2019, an estimated 2,841 people were employed in the city. The largest industry was Government, employing 1,551 people, and the next two largest industries were 'Health Care and Social Assistance' (275 people) and 'Accommodation and Food Services' (275 people). In particular, an increase in employment was identified for 'Nursing Care Facilities' (Skilled Nursing Facilities) (113 additional jobs), 'Continuing Care Retirement Communities' (51 jobs), and 'Full-Service Restaurants' (32 jobs).

SECTION II.

PURPOSE OF STUDY



II. PURPOSE OF STUDY

The main purpose of this feasibility study is to project local and regional market demand for the decision-makers in the city of Diamondhead, Mississippi, in particular, to determine if there is an opportunity to build a new hotel in the city of Diamondhead. In order to complete this feasibility study, we perform the following tasks:

- Analyzed economic and demographic characteristics and trends of the area, such as population, employment, and corporate presence, including the lodging industry.
- Conducted interviews with selected key demand generators, including selected university personnel and persons knowledgeable on the relevant local hotel markets.
- Collected and analyzed secondary data, such as Average Daily Rate (ADR), Occupancy Rate, and Revenue Per Available Room (RevPAR), to identify competitive and/or comparable hotels in and around the city of Diamondhead, MS.
- Estimated the local market demand for a new hotel.
- Estimated capital investment required for a new hotel.

The specific deliverables of this study include:

- Market Analysis – presents general area’s population growth trends, industrial diversification and growth trends, economic trends, attractions, and other unique factors.
- Market Competitive Analysis – conducts performance analysis with ADR, occupancy rate, RevPAR trends in the area, and further identifies sources of demand (e.g., transient, group, contract) for a new hotel in the city of Diamondhead.
- Supply and Demand Analysis – estimates the composite growth rate and demand by different market segments, future rooms demand and ADR and RevPAR forecasting, and future supply of rooms required in the market, including recommendations to the city of Diamondhead.
- Financial Analysis – projects capital investment required and financial plan, including cash flow and pro forma income statement.

SECTION III.

MARKET ANALYSIS



III. MARKET ANALYSIS

In order to analyze local market opportunities for a new hotel in the city of Diamondhead, a comprehensive analysis of the local market is conducted relative to the national and/or state averages. The main objective of this analysis is to examine the level of support that exists for the development of a new hotel in the city of Diamondhead, and to identify further the opportunities and challenges that may affect the ongoing competitiveness of the hotel within the area and beyond.

In general, key indicators of a region's ability to provide ongoing competitiveness and support for a new hotel construction are demographic information, such as population, education attainment, employment/unemployment, and household income. In addition to these measures, the size and characteristics of a marketplace, its proximity to other metropolitan areas, and the location of competing and complementary hotel properties all directly influence the size and quality of a new hotel property that can be supported within a particular local market.

In this regard, an analysis of these attributes is conducted as they relate to a potential new hotel in the city of Diamondhead. In particular, the study of existing local market conditions addresses the following areas:

1. Demographics
2. Location and Accessibility
3. Corporate and University Presence
4. Local and Regional Attractions
5. Local Market Issues and Conclusions

1. Demographics

1.1. Current Population

Economic Modeling Specialists International (EMSI, 2019) indicates that Diamondhead had an estimated population of 10,015 in 2019. As Table 1 illustrates, Hancock County had an estimated population of 47,758. The state of Mississippi in 2019 had a population of 2,988,590, and the United States had a population of 329,399,330. Over the last 10 years, from 2009 to 2019, the population in Diamondhead decreased by 611 people, which is the loss of 6% of its population, while Hancock County had increased by 10% (4,286).

Table 1. 2019 Local, County, State, and National Population

Area	2009 Population	2019 Population	Change in Population	% Change
Diamondhead	10,626	10,015	-611	-6%
Hancock County	43,472	47,758	4,286	10%
State	2,958,773	2,988,590	29,817	1%
Nation	306,771,529	329,399,330	22,627,801	7%

Source: EMSI (2019)

1.2. Projected Population

Over the next 10 years, the population in Diamondhead is projected to increase by about 8% (totaling 10,793). By the year 2029, Diamondhead is anticipated to gain an additional 776 residents, while Hancock County is projected to increase by about 5%, for a total of 49,992 residents. In comparison, Mississippi is projected to increase by 0.2% (5,856), and the United States is projected to increase by 4% (11,684,758) by 2029 (see Table 2).

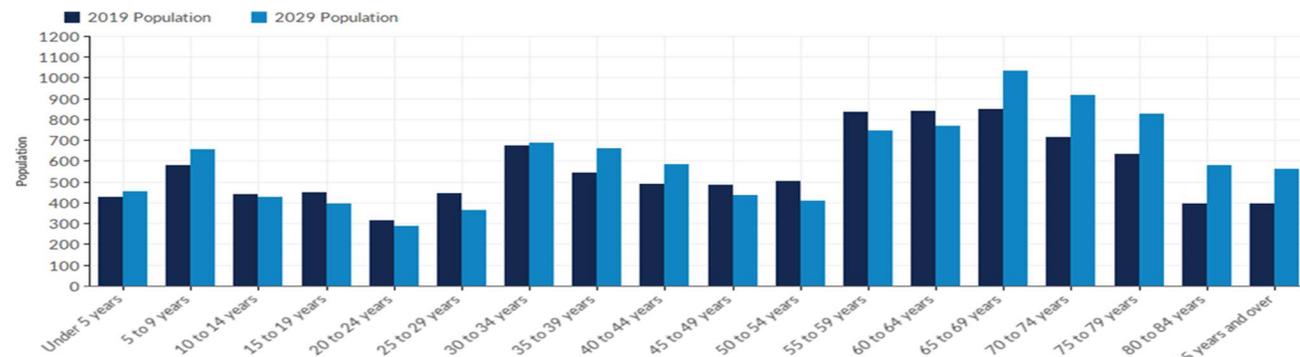
Table 2. 2019-2029 Local, County, State, and National Projected Populations

Area	2019 Population	2029 Population	% Change
Diamondhead	10,017	10,793	8%
Hancock County	47,758	49,992	5%
State	2,988,590	2,994,446	0.2%
Nation	329,399,330	341,084,088	4%

Source: EMSI (2019)

Figure 1 illustrates the forecasted population in terms of age cohort from 2019 to 2029. Population segments in Diamondhead are all expected to increase, except the age cohorts '10-29' and '45-64.' Among these, the most significant population decline will be seen in those aged 50-54 years (-90 people), followed by 25-29 years (-81 people). Interestingly, the projected population between 80-84 years and 85 years and over will significantly increase over the same time period by 47% (185 people) and 42% (165 people), respectively.

Figure 1. 2019-2029 Diamondhead Projected Population by Age Cohort



Source: EMSI (2019)

As per the forecasted population by race/ethnicity (see Table 3), the highest percentage increase group is 'Two or More Races, Non-Hispanic' (49%), followed by 'Black, Non-Hispanic' (17%), and 'White, Hispanic' (10%). The largest number change by group is 'White, Non-Hispanic', which is projected to increase by

663 people, followed by 'Two or More Races, Non-Hispanic', which is projected to increase by 47 people.

Table 3. 2019-2029 Diamondhead Projected Population by Race/Ethnicity

Race/Ethnicity	2019 Population	2029 Population	Change	% Change	2019 % of Cohort
White, Non-Hispanic	9,255	9,918	663	7%	92.39%
White, Hispanic	459	503	44	10%	4.58%
Black, Non-Hispanic	187	219	32	17%	1.87%
Two or More Races, Non-Hispanic	95	142	47	49%	0.95%
Two or More Races, Hispanic	9	2	-7	-78%	0.09%
Black, Hispanic	6	3	-3	-50%	0.06%
Native Hawaiian or Pacific Islander, Non-Hispanic	4	4	0	0%	0.04%
Native Hawaiian or Pacific Islander, Hispanic	1	1	0	0%	0.01%
American Indian or Alaskan Native, Non-Hispanic	0	0	0	0%	0.00%
Asian, Non-Hispanic	0	0	0	0%	0.00%
American Indian or Alaskan Native, Hispanic	0	0	0	0%	0.00%
Asian, Hispanic	0	0	0	0%	0.00%
Total	10,017	10,793	776	8%	100.00%

Source: EMSI (2019)

As per the projected population by gender, Table 4 shows that the largest change by number is in females with a projected increase of 465. The number of males is also expected to increase by 311 people, which represents a 9% change in female and 6% in male groups.

Table 4. 2019-2029 Diamondhead Projected Population by Gender

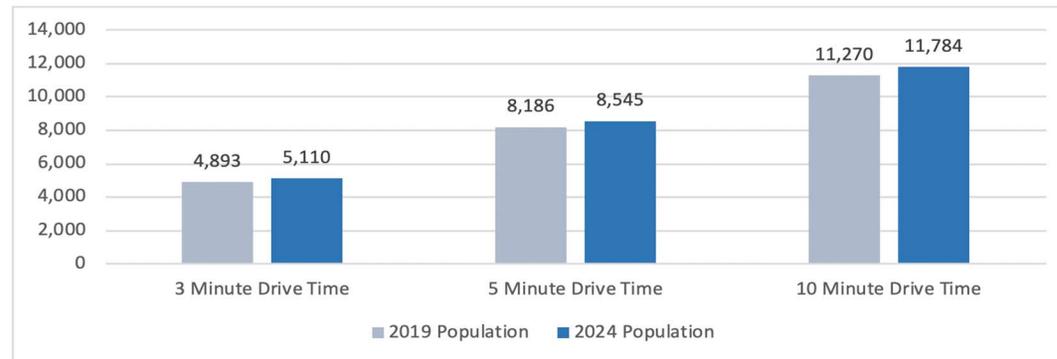
Gender	2019 Population	2029 Population	Change	% Change	2019 % of Cohort
Females	5,038	5,503	465	9%	50.29%
Males	4,979	5,290	311	6%	49.71%
Total	10,017	10,793	776	8%	100.00%

Source: EMSI (2019)

1.3. Population by Drive Time

The population is projected to increase from 2019 to 2024 in analyzing a 3, 5, and 10-minute drive time from the city of Diamondhead. As per the projected population, Figure 2 shows that, in 2024, the population will reach 5,110, 8,545, and 11,784 people within a 3, 5, and 10-minute drive time, respectively.

Figure 2. 2019-2024 Diamondhead Projected Population by Drive Time



Source: Next Site (2019)

1.4. Educational Level

In contrast to the differences between national and state population trends, the percentage of Hancock County residents to attain education up to ‘High School Diploma’ reflects the national and state trends. The main difference in educational attainment between Hancock County and the national and state statistics is the percentage of the population with ‘Some College.’ As shown in Table 5, Hancock County’s portion of the population that received “Some College Education” (27%) is higher than the national (21%) and state (22%) percentages. Also, the population percentage for attaining a Bachelor’s Degree (14%) is lower when compared to the national (19%), but slightly higher than the state (13%) percentages.

Table 5. 2019-2029 Local County, State, and National Educational Attainment

Education Level	2019 Population	2029 Population	2019 Local % of Population	2019 State % Population	2019 Nat. % Population
Less Than 9th Grade	2,083	2,570	6%	7%	7%
9th Grade to 12th Grade	3,017	2,731	9%	11%	7%
High School Diploma	10,015	10,956	29%	31%	28%
Some College	9,395	9,962	27%	22%	21%
Associate's Degree	2,879	3,063	8%	9%	8%
Bachelor's Degree	4,809	5,279	14%	13%	19%
Graduate Degree and Higher	2,467	2,466	7%	8%	12%
Total	34,665	37,027	100%	100%	100%

Source: EMSI (2019)

1.5. Household Income

According to the U.S. Census Bureau (2017), the median household income in Diamondhead was \$67,207 (see Table 6). This is above the county (\$47,518), the state (\$42,009), and the national averages (\$57,652). Besides, its median housing value was \$163,000, and the number of total housing units was 4,217.

Table 6. 2013 & 2017 Local, County, State, and National Median Household Income

	2013	2017	% Change
Diamondhead	\$68,161	\$67,207	-1.4%
Hancock County	\$44,522	\$47,518	6.7%
State	\$39,031	\$42,009	7.6%
Nation	\$53,046	\$57,652	8.68%

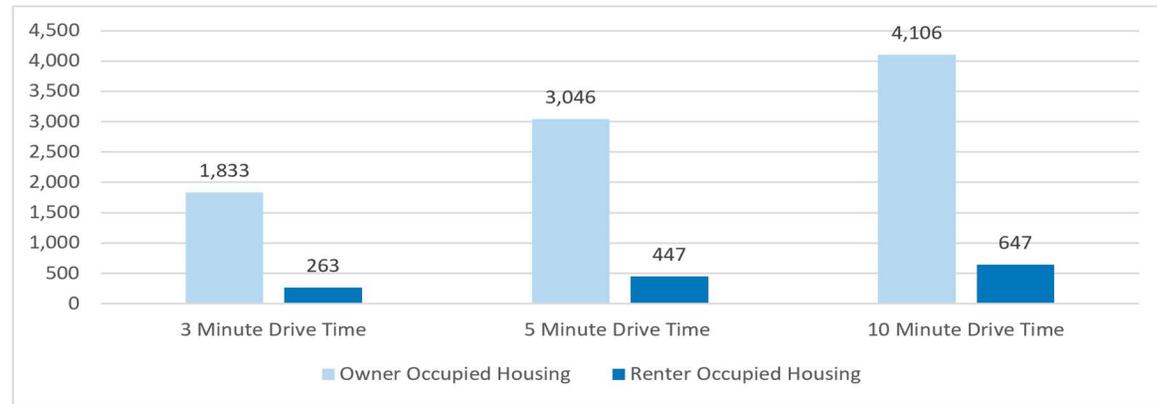
Source: Fact Finder U.S. Census Bureau (2017)

1.6. Home Ownership

In the city of Diamondhead, most of the houses are occupied by the owners, while the renters occupy a small number of homes. For example, by estimating the drive time of 10 minutes, there are 4,106 houses occupied by owners, while renters occupy only 647 houses. More detailed information about homeownership in Diamondhead is shown in Figure 3.

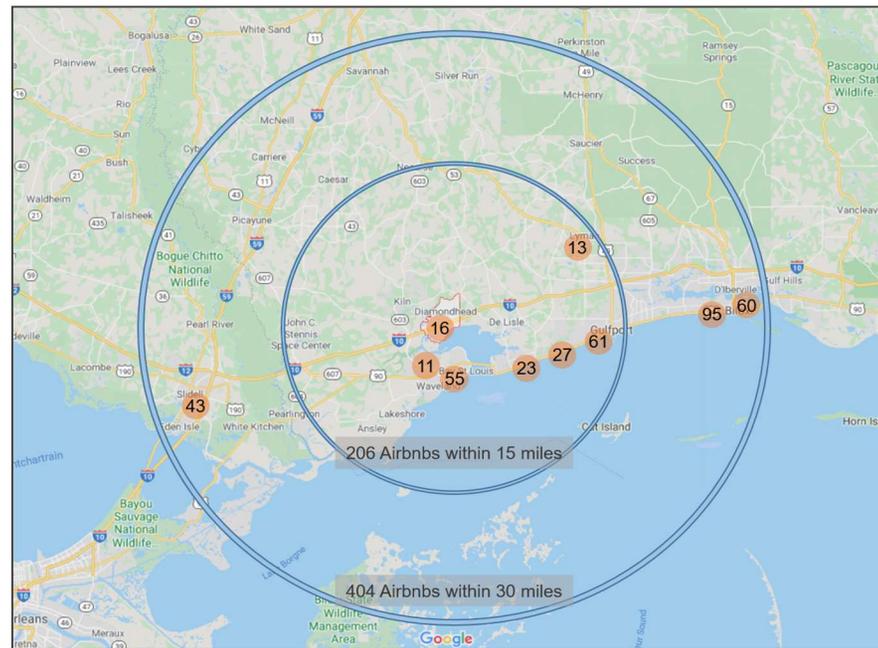
Additionally, there are 206 Airbnb's options within a 15-miles radius of the city of Diamondhead, and 404 Airbnb's options available within a 30-mile radius (see Figure 4), for those who visit Diamondhead for various purposes, such as visiting their relatives and friends.

Figure 3. Homeownership in Diamondhead, MS



Source: Next Site (2019)

Figure 4. Availability of Airbnb within 15 and 30 miles from Diamondhead



Source: Airbnb (2020)

2. Location and Accessibility

Diamondhead is a small Mississippi town located 153 miles south of Jackson, the State Capitol. The city is located within Hancock County. Diamondhead is situated approximately 76 miles from Hattiesburg, 60 miles from New Orleans, and within 90 miles from Mobile. Interstate 10 runs through the southern part of Diamondhead and connects the region to most major cities in the southeastern and southwestern United States. More specifically, Diamondhead is easily accessible for passengers via air and road, making it capable of drawing visitors from a large region:

- **Roads**
 - Off of Interstate 10, Traffic Count: 48,000 vehicles per day
 - Highway 90 runs parallel to I-10, Traffic Count: 6,700 vehicles per day
 - Highways 43 and 603 run North and West to the West of town, Traffic Count: 15,000 vehicles per day

- **Airports**
 - Diamondhead Airport
 - Privately owned airport, lighted 3,800 feet runway, offers a storage hangar, repair facilities, and a fueling station.

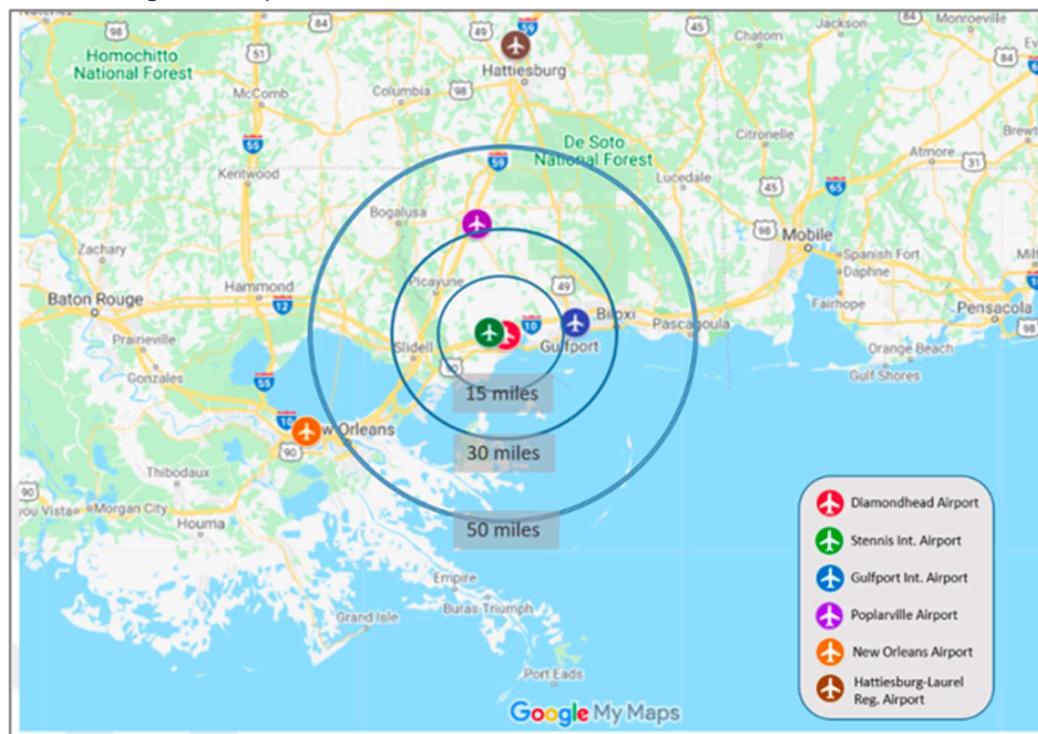
 - Stennis International Airport
 - Public use airport, with one asphalt surfaced runway measuring 8,497 x 150 feet. Yearly, the airport has around 63,000 aircraft operations, which is on average 174 per day. The majority of the flights are general aviation (90%) and the rest is military (10%). No commercial operators.

 - Poplarville-Pearl River County Airport
 - General Aviation airport; 4,000 ft lighted runway; No commercial aircraft; 15 aircraft

based on the field; 21 flights a day, 13 single engines; 1 ultra-light, 1 military. 71% local general aviation, and 29% transient general aviation.

- Gulfport-Biloxi International Airport (GPT) - 21 miles East of Diamondhead
 - Commercial airfield serviced by American Eagle, Delta Air Lines, Delta Connection, Sun County Airlines, and United Express. It has two runways; one is 9,000 feet long, and the other is 4,935 feet long. For October 2019, the total number of enplaned and deplaned passengers consisted of 73,495 (Fly GPT, 2019).
 - Direct daily flights to Charlotte Douglas International Airport (CLT), Dallas/Fort Worth International Airport (DFW), Hartsfield-Jackson Atlanta International Airport (ATL), and Houston George Bush International Airport (IAH).
- Hattiesburg-Laurel Regional Airport (PIB) - 86 miles north of Diamondhead
 - Direct daily flights to Dallas/Fort Worth International Airport (DFW). There is a runway of 6,501 feet long.
- Louis Armstrong New Orleans International Airport (MSY) - 69 miles southwest of Diamondhead
 - Commercial airfield serviced by Air Canada, AirTran, Alaska Airlines, American Delta, Frontier, JetBlue, Spirit, Southwest, and United.
 - In total, the new terminal built in 2019 serves 16 airlines with 35 gates spread out across three concourses. The airport operates on domestic and international levels.
 - There are two runways; one is 11/29, which goes east-west and is 10,104 feet, and the other one (02/20) is north-south and is 7,001 feet. For November of 2019, the total number of enplaned and deplaned passengers consisted of 1,146,316, and for the year, the number exceeded 12 million passengers (Fly MSY, 2019).

Figure 5. Airports within a 15, 30, and 50 miles radius of Diamondhead



- **Rail**

- There is no rail passenger service in Diamondhead, closest service in Picayune (30 miles west), Slidell (30 miles west), New Orleans (50 miles west), and Hattiesburg (76 miles north). These stations are serviced by daily Amtrak passenger service on the city of New Orleans route. The route connects New Orleans through several cities and terminates in Chicago, IL, as well as in Washington DC.
- In addition, there are plans and proposals to return the east-west passenger travel from New Orleans to Florida (M. J. Reso, personal communication, April 9, 2020).

3. Corporate and University Presence

Diamondhead has a relatively small corporate presence. According to Nexis-Uni (2019), the city’s two largest employers are Ochsner Health System and Woodland Village Nursing Center, LLC. Each of these employers hires over 100 people. Presumably, these organizations can provide a potential demand for a new hotel in the city of Diamondhead. A list of Diamondhead employers is provided in Table 7.

Table 7. 2019 Top Employers in Diamondhead

Business Name	Industry Name	Employees
Ochsner Health System*	Family Planning Centers	314
Woodland Village Nursing Center, LLC	Continuing Care Retirement Communities	113
Rouse’s Enterprise, LLC*	Supermarkets and Other Grocery (except Convenience) Stores	89
Nvision Solutions, Inc	Custom Computer Programming Services	68
Avery Gilliam Real Estate*	Offices of Real Estate Agents And Brokers	65
Keesler Federal Credit Union	Credit Unions	45
City of Diamondhead	Other General Governmental Support	30
RPM Pizza, LLC	Limited-Service Restaurants	25
Rehab One, Inc	Other Individual and Family Services	25
GPS Hospitality Partners IV, LLC	Limited-Service Restaurants	25
Diamondhead Country Club and Property Owners Association, Inc.	Other Similar Organizations (except Business, Professional, Labor, and Political Organizations)	20
The Red Zone	Civic and Social Organizations	20

Note) * These businesses may have a branch in other locations, which may increase the total number of employees in this table.

Source: Gazelle AI (2020) and Nexis-Uni (2020)

In addition, Hancock County has a relatively limited corporate presence. As seen in Table 8, the county’s three largest employers are Hollywood Casino, United States Department of the Navy, and BSLO, LLC.

Table 8. 2019 Top Employers in Hancock County

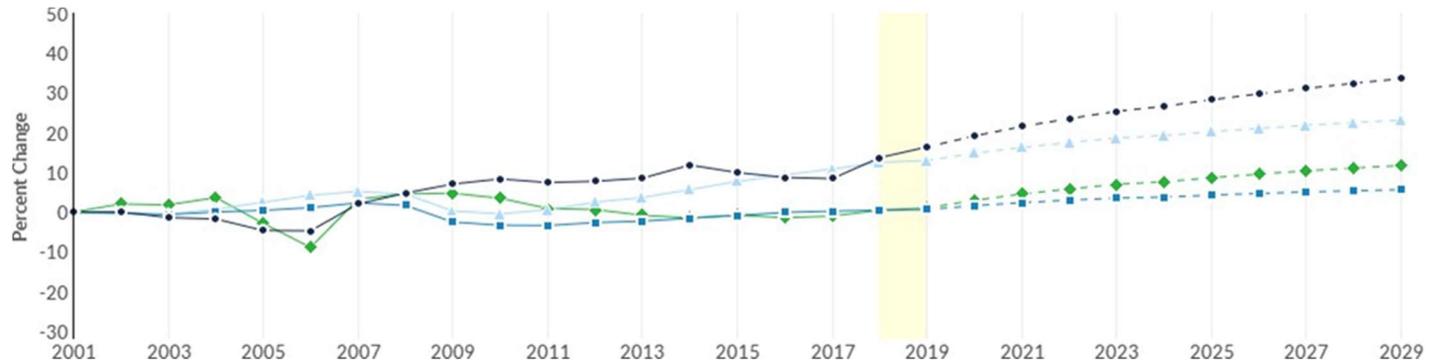
Business Name	Industry Name	Employees
Hollywood Casino	Casinos (except Casino Hotels)	3,260
United States Department of the Navy	National Security	750
BSLO, LLC	Casino Hotels	650
Silver Slipper Casino Venture LLC	Casino Hotels	650
Lockheed Martin Corporation	Search, Detection, Navigation, Guidance, Aeronautical, and Nautical System and Instrument Manufacturing	584
Lockheed Martin Space Operations Company	Aircraft Manufacturing	500
Hancock County School District	Elementary and Secondary Schools	500
Mississippi Space Services	Other Computer Related Services	407
Jacobs Technology Inc.	Engineering Services	400
PSL-North America LLC	Iron and Steel Mills and Ferroalloy Manufacturing	350

Source: Nexis-Uni (2019)

3.1. Employment

In 2019, an estimated 2,841 people were employed in Diamondhead. The largest industry was the 'Government,' which employed 1,551 people. The next two largest industries were 'Health Care and Social Assistance' and 'Accommodation and Food Services.' They employed 388 and 275 people, respectively. As shown in Figure 6, the number of jobs between 2018 and 2019 in Diamondhead increased by 66 jobs (2.4% change), which is above the national average of 0.4% and the Mississippi average of 0.2%.

Figure 6. 2001-2029 Local, County, State, and Nation Job Trends



Region	2018 Jobs	2019 Jobs	Change	% Change
● Diamondhead	2,775	2,841	66	2.4%
◆ Hancock County, MS	15,648	15,737	89	0.6%
■ State	1,278,336	1,280,843	2,507	0.2%
▲ Nation	163,434,946	164,123,542	688,596	0.4%

Source: EMSI (2019)

As seen in Table 9, in particular, an increase in employment was identified for Nursing Care Facilities (Skilled Nursing Facilities) (113 jobs), Continuing Care Retirement Communities (51 jobs), and Full-Service Restaurants (32 jobs). On the other hand, a decrease of employment in Bowling Centers (33 jobs), Office Administrative Services (13 jobs), and Gasoline Stations with Convenience Stores (10 jobs) was identified. Also, the local unemployment rate is shown in Table 10, along with national, state, and county's rates.

Table 9. 2015-2019 Growing and Declining Industries

Industry	Change in Jobs (2015-2019)
Nursing Care Facilities (Skilled Nursing Facilities)	113
Continuing Care Retirement Communities	51
Full-Service Restaurants	32
Bowling Centers	-33
Office Administrative Services	-13
Gasoline Stations with Convenience Stores	-10

Source: EMSI (2019)

Table 10. 2015-2019 Local, County, State, and National Unemployment Rates

	Diamondhead	Hancock County	State	Nation
Oct 2015	-	6.1%	6.2%	5%
Oct 2016	-	5.6%	5.6%	4.9%
Oct 2017	-	4.9%	4.9%	4.1%
Oct 2018	-	4.5%	4.7%	3.8%
Oct 2019	-	5.2%	5.5%	3.6%
Average %	-	5.3%	5.4%	4.3%

Source: Bureau of Labor Statistics (2019)

3.2. Industry Earnings

The average earnings of Diamondhead working-class individuals were \$66,000. The national earning average for the same year was an estimated \$67,300 (EMSI, 2019), which indicates that Diamondhead residents earned 1.9% less than the national earning average. The industries with the highest average earning in Diamondhead were Government (\$90,754), followed by Transportation and Warehousing (\$83,047), Finance and Insurance (\$65,369). As seen in Table 11, the average earnings from 'Health Care and Social Assistance' and 'Accommodation and Food Services' were \$54,865 and \$17,082, respectively.

Table 11. 2019 Diamondhead Average Earnings by Industry

NAICS	Industry	Avg. Earnings (2019)
11	Agriculture, Forestry, Fishing and Hunting	\$0
21	Mining, Quarrying, and Oil and Gas Extraction	Insf. Data
22	Utilities	\$0
23	Construction	\$39,140
31	Manufacturing	Insf. Data
42	Wholesale Trade	\$46,954
44	Retail Trade	\$22,983
48	Transportation and Warehousing	\$83,047
51	Information	Insf. Data
52	Finance and Insurance	\$65,369
53	Real Estate and Rental and Leasing	\$41,644
54	Professional, Scientific, and Technical Services	\$63,898
55	Management of Companies and Enterprises	\$0

NAICS	Industry	Avg. Earnings (2019)
56	Administrative and Support and Waste Management and Remediation Services	\$35,011
61	Educational Services	\$0
62	Health Care and Social Assistance	\$54,865
71	Arts, Entertainment, and Recreation	\$18,585
72	Accommodation and Food Services	\$17,082
81	Other Services (except Public Administration)	\$22,073
90	Government	\$90,754

Note 1) Insf. Data = Insufficient Data

Source: EMSI (2019)

3.3. University and College Presence

Diamondhead does not have a local university or college. However, there are preschool, elementary, middle, and high schools present within a 10-mile radius. Also, there is an educational center, such as Pearl River Community College Hancock Center (10 miles away), which is related to the main campus of Pearl River Community College (PRCC) (38 miles away). PRCC is a comprehensive community college and offers academic transfer, career/technical, evening, online, and workforce training programs. PRCC has a student population of 4,529 (the year 2019-20). PRCC athletics held 84 events last year, including Baseball (25 home games), Football (4), Women’s Basketball (11), Men’s Basketball (23), Women’s Soccer (6), Men’s Soccer (6), and Softball (9). The Hancock Center, located in the city of Waveland, provides students with an opportunity to receive a quality education in a quality learning environment with flexible scheduling as well as state-of-the-art computer laboratories.

In addition, there are several Universities and Colleges located within a 50-mile radius of the city of

Diamondhead, including the University of Southern Mississippi Gulf Coast campus, the University of New Orleans, Southern University at New Orleans, Dillard University, Louisiana State University Health Sciences Center New Orleans, University of Holy Cross, and Loyola University.

3.4. Public Schools

Hancock County Career Technical Center is a public center that offers numerous programs for students. These include secondary occupational programs such as Architectural Design and Drafting, Automotive Service Technician, Career Pathway Experience, Construction/Carpentry, Culinary Arts, Early Childhood Education, Engineering and Robotics, Health Sciences, Hotel and Restaurant Management, Manufacturing Fundamentals and Metal Fabrication, Polymer Science, Science, Technology, Engineering, and Mathematics Applications, Teacher Academy, and Welding.

Hancock High and Middle School is located in Kiln, MS, and is about 7 miles away from Diamondhead. The Hancock High School has 1,270 students in grades 9-12, while Hancock Middle School has 1,049 students in grades 6-8. There is also East Hancock Elementary School, located in Kiln, MS, which is 6.6 miles away from Diamondhead and has 696 students in grades K-5.

4. Local and Regional Attractions

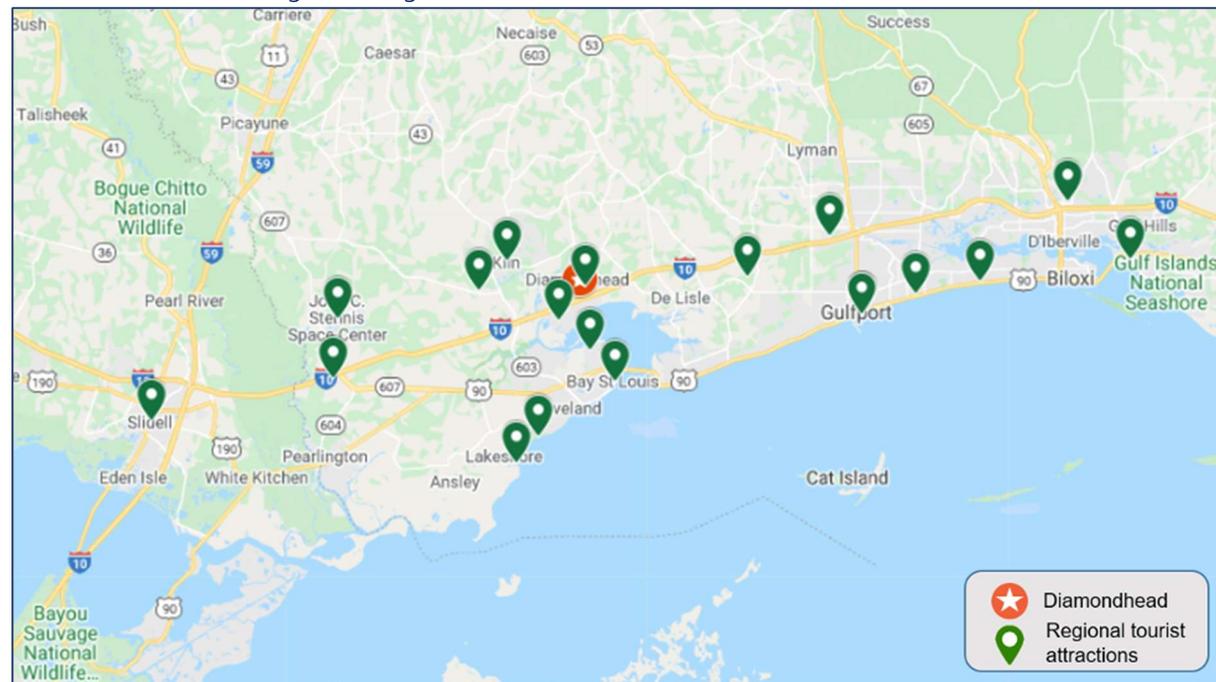
4.1. Regional Tourist Attractions in the city of Diamondhead

- Annual Krewe of Diamondhead Mardi Gras Parade (February). It is an annual, one-day Mardi Gras parade in the city of Diamondhead. Visitors come from a 1-hour drive time but are mostly from Mississippi Gulf Coast communities. This parade is within city limits, and it is a family-oriented parade.
- The Maluhia Garden is a volunteer-maintained, contribution-funded garden designed as a pleasing site for walking and enjoying nature.

- Rapiscan Systems Classic Pre-Qualifier is a P.G.A. pre-qualifier tournament (March).
- Annual Diamondhead Arts and Crafts Show (September). This show is an annual event for two days (Saturday and Sunday) at the city hall in the city of Diamondhead. There are about 125 booths (arts, vendors, crafts, snacks, etc.). Visitors usually come from a 2-hour drive time. The event gathers on average 2,500 people that come from Florida, Mississippi, Louisiana, and Alabama. Visitors stay in the hotels that are in Diamondhead and along the Coast.
- Annual Slavic Invitational is a 3-day golf tournament that brings over a thousand players to Diamondhead (September).
- Diamondhead Hummingbird festival (September). Arts, crafts, presentations, demonstrations, and products primarily geared toward hummingbirds. A certified bander will capture and band live birds and allow participants to hold live birds before releasing them. One-day, that gathers around 100 visitors from the coast and Louisiana.
- Cruisin' the Coast is a weeklong event (October). The event includes activities such as cruise-ins, headline bands & oldies entertainment, a swap meet, and the CTC/Vicari auto auction.
- Diamondhead festival and BBQ competition (November). Teams arrive on Friday to start cooking and spend the night on the grounds cooking. Twelve teams come from the three states (Mississippi, Alabama, and Louisiana). The event gathered around 1,000 people who were from Louisiana and Mississippi.
- Rotten Bayou Cemetery Wreath Across America Event (December). This annual event places live wreaths on more than 230 veterans interred at this cemetery. The event includes guest speakers, TAPS, a 21-gun salute, and a special guest.
- Diamondhead Holiday Classic – MS 200 STA 75. Tennis tournament (December).
- Christmas on the Town Green (December). Santa and Mrs. Claus arrive at City Hall at 6 P.M. One-day event held in City Hall of Diamondhead, and it draws 200 local people.
- Diamondhead Tennis World is a state-of-the-art tennis facility that is open to the public. The facility offers an opportunity for U.S.T.A. league play, monthly round robins, tournaments, summer youth clinics, and group or private lessons. Also, it features a full-service pro shop and game matching services.
- The Diamondhead Country Club, which has two 18-hole golf courses, an indoor/outdoor Golf Academy, casual and fine dining, and meeting and banquet space.

- Diamondhead airport for recreational flights (people who have a personal plane; consider possible fly-in event).
- Fishing, kayaking, bird watching, eco-tourism, beach, Rotten Bayou Blueway, Grassy Point Blueway, and Jourdan River Blueway (in Hancock County) for kayaking on coast.
- Bowling Alley – the organization hosts tournaments for the high school teams and leagues. The games are five days a week, and the participants come from the Pass Christian, Diamondhead, Kiln, and Gulfport. Also, it is open for the public seven days a week. There are special events that are called ‘Friday Night Family Night’ and ‘Saturday Night Glow Bowling.’ These events offer an entertaining atmosphere with DJs, food, drinks, lanes, and other promotions.

Figure 7. Regional Tourist Attractions Near Diamondhead



4.2. Regional Tourist Attractions Near Diamondhead

- Silver Slipper Casino in Waveland offers a wide variety of entertainment for visitors that includes casinos, beachfront parks, golf, and live music.
- Hollywood Casino in Bay St. Louis offers a multipurpose hotel that includes amenities such as pool, bar/lounge, casino and gambling, golf course, business center with internet access, and conference facilities.
- Second Saturday Art Walk in Bay St. Louis – gallery openings, shop and restaurant specials, and live music make the streets of downtown Bay St Louis swirl with fun family energy. While things are lively all day, the music and specials take place from 4-8 pm.
- Infinity Science Center offers various space-related entertainment such as a blend of space, earth science, engineering, and technology content, spiced with innovative programming. The center located in Pearlinton, MS, which is in the Gulf area.
- John C. Stennis Space Center (NASA, Navy, private sector, etc.) located in Hancock County, MS, which is on the Gulf Coast area. It is one of 10 NASA field centers in the United States. The center provides an opportunity for visitors to learn about aeronautics by having attractions and exhibits.
- Jourdan River Blueway – located in Bay St. Louis, the event invites canoers and kayakers to explore an 8.5-mile trail through coastal floodplains and a riverine ecological system. The river trail links the McLeod Park canoe launch to the Bayou Talla boat launch.
- Waterpark at Buccaneer State Park - 4.5-acre waterpark overlooks the Gulf of Mexico. The park is open daily throughout the summer season from 10 am-6 pm through Labor Day. The facility provides rides, food courts, and a lounge area.
- Spanish Trail Lanes Bowling Alley provides a quality bowling experience for everyone. Located in Gautier, MS, the facility features league tournaments, offering to glow and bumper bowling, catering to company functions, youth programs, concession stand, and pro shop.
- McLeod Park Campground stands as a pristine camping destination on the Mississippi Gulf Coast, with more than 100 campsites, the park is in Kiln, MS.
- Baseball and soccer tournaments in Gulfport, Slidell, Kiln (Hancock County built a new baseball complex in the Kiln, and it is under-utilized but could attract more teams) and D’iberville (the city recently constructed a large facility for different tournaments).

- Gulf Islands Waterpark features wild rides, miles of slides and cool summer fun for all ages. There are water attractions and special events like Celebrity Meet & Greets with Stars from Nickelodeon and Disney Channel. Some of the past performances include the live bands of DreamFest, Sea Lion Shows, Frisbee Dog Shows.
- Lynn Meadows Discovery Center is a children’s museum in Gulfport. Located in the renovated Mississippi City Elementary School, the museum offers 15,000 square feet of indoor exhibit space, seven and a half acres of outdoor play space, a spacious theatre, Viking kitchen and other great facilities for community use.
- The Mississippi Gulf Coast hosts festivals that celebrate food, music and heritage. The events include Mardi Gras parade, St. Patrick’s Day, Grillin’ on the Green, Biloxi Chamber Draft Beer Festival, Spring Arts Festival, and Art in the Pass.
- Wolf River Canoe located in Long Beach, MS. It is famous for its white-sand beaches and winding waterways. The Wolf River is the perfect playground for the amateur or experienced canoer and kayaker alike.
- Hancock County has plans to renovate the fairgrounds on Kiln Delisle Road, located just north of Diamondhead. Plans are visionary and could bring festivals, concerts, fairs, horseracing, etc. to the area.
- Gulf Coast Fishing Rodeo is a family-friendly fishing rodeo located in Gulfport, MS. This is the annual event that features fireworks, fishing, and vendors. The fishing rodeo attracts an average of 50,000 people every year.
- Mississippi Coast Coliseum is an 11,500-seat reserved seating, 15,000 festival seating, multi-purpose arena in Biloxi, MS. The arena hosts the events such as the Annual Crawfish Music Festival, Crawfish Cook-off, and Elite Dance Cup.
- Ship Island is part of Gulf Islands National Seashore and one of five Mississippi barrier islands located approximately 11 miles south of Gulfport and Biloxi. Different cruises include dolphin watching cruise, private charter, Biloxi sunset music cruise, and 4th of July firework cruise.

5. Local Market Issues and Conclusions

Based on local market analysis, several key strengths and challenges for a new hotel in the city of Diamondhead are identified. The strengths of the local market include:

- Population is projected to increase by 8% by the year 2029.
- The real median household income of the city of Diamondhead (\$67,202) was higher than that of Hancock County (\$47,518), the state of Mississippi (\$42,009), and the national averages (\$57,652).
- Conveniently located in the Southern part of the State of Mississippi, connected to the region's major cities, including Biloxi, MS, New Orleans, LA, and Mobile, AL.
- Currently no quality hotel to accommodate guests, including visitors to various events and meetings.
- The presence of public schools and Pearl River Community College Hancock Center may provide the demand necessary to support a new hotel.
- Affordability of destination.

On the other hand, some of the challenges as they relate to supporting a new hotel construction in the city of Diamondhead include:

- No major university or college within a 15-mile radius of the city of Diamondhead, which can be a demand source for a new hotel.
- Distance from major cities in the state of Mississippi and other adjacent states (e.g., more than a half-hour away, and each city provides various hotels to meet local demand).
- Airport accessibility; lack of commercial (passenger) airlines within a 15-mile radius of the city of Diamondhead.
- Lack of a large (or significant) corporate presence in the city of Diamondhead and Hancock County.
- Limited in traditional visitor amenities, including local attractions and events/festivals in the city of Diamondhead.
- 206 Airbnb options within a 15-mile radius of the city of Diamondhead, which are potential competitors for a new hotel, especially for leisure demand.

SECTION IV.

**MARKET
COMPETITIVE ANALYSIS**



IV. MARKET COMPETITIVE ANALYSIS

This section provides a summary and analysis of competitive and comparable properties to a potential new hotel in the city of Diamondhead. This section will be beneficial to understanding how similar markets are performing within current industry conditions, including hotel room capacities offered by competitors, and other characteristics that affect the potential demand for new hotel construction in the city of Diamondhead. The data gathered from this analysis will also help determine the supply and demand analysis, addressed in Section V.

In this regard, a competitive market analysis conducted as it relates to the potential development of a new hotel in the city of Diamondhead primarily addresses the following areas:

1. Hotels proximate to the city of Diamondhead
2. Performance Analysis
3. Demand Generators (i.e., Source of Demand)

1. Hotels Proximate to the City of Diamondhead

1.1. Hotels within a 15-Mile Radius of Diamondhead

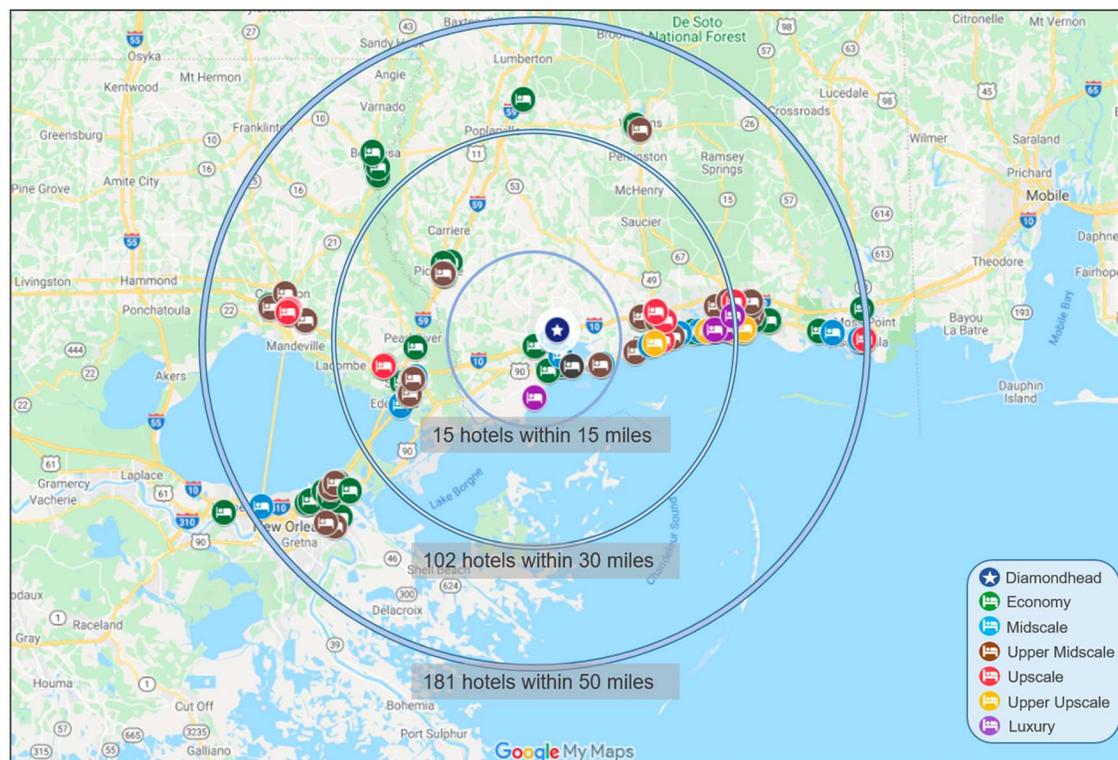
There are 15 lodging facilities within a 15-mile radius of the city of Diamondhead. The majority of these properties are located in Bay St Louis, MS. For example, there are currently four economy hotels, one midscale class, one upper-upscale class, and one luxury hotel in Bay St Louis. Table 12 shows a list of hotel properties, which provide 1,113 rooms in the area, and the location of these hotel properties is presented in Figure 8. Hotel information for a 30-mile radius of Diamondhead is in Appendix A.

Table 12. Hotels within a 15-Mile Radius of Diamondhead

City & State	Class	Name of Establishment	Rooms
Bay St Louis, MS	Economy Class	Motel 6 Bay St Louis	114
	Economy Class	Economy Inn	26
	Economy Class	Travelers Choice Motel	19
	Economy Class	Super 8 Bay St Louis	42
	Midscale Class	Hollywood Casino Gulf Coast Hotel	291
	Upper Upscale Class	Bay Town Inn Bed & Breakfast	12
	Luxury Class	Silver Slipper Hotel & Casino	129
Diamondhead, MS	Economy Class	Econo Lodge Inn & Suites Diamondhead	50
	Midscale Class	Diamondhead Inn & Suites	153
Gulfport, MS	Economy Class	Legacy Inn & Suites	50
	Upper Midscale Class	Comfort Inn & Suites Crystal Inn Sportsplex	108
Long Beach, MS	Upper Midscale Class	Holiday Inn Express Long Beach	76
Pass Christian, MS	Midscale Class	Hotel Whiskey	11
	Upper Midscale Class	Hotel Pass Christian	10
Waveland, MS	Economy Class	Budget Inn	22

Source: Trend Report - Smith Travel Research (2020)

Figure 8. Hotels within a 15-Mile, 30-Mile, and 50-Mile Radius of Diamondhead



Source: Smith Travel Research (2020)

2. Performance Analysis

A performance analysis was conducted to analyze the trends of average daily rate (ADR), occupancy rate, and revenue-per-available room (RevPAR) within a 15-mile and 30-mile radius of the city of Diamondhead. These types of data are commonly used by hotel developers when identifying the advantage of a local market in sustaining a hotel. In particular, the trends are broken down by 12 months over the 4 or 10 year-periods, and compared with the national and state average overall, and with suburban and small-town locations.

As seen in Table 13, the average occupancy rate of the hotels within a 15-mile radius of the city of Diamondhead was 51.3%, which is relatively lower than the MS state average (57.9%) and the national average (66.1%) (Trend Report, 2019). However, the occupancy rate had gradually increased since 2016, except in the year of 2017. For instance, the occupancy rate in 2016 was 50.2%, and in 2019, 53.6%. Similarly, the average daily rate (ADR) had increased by about 3.2% over the last 4 years, while the average ADR of the hotels within a 15-mile radius of Diamondhead was \$79.28, which is significantly lower than the MS state average (\$86.10) and the national average (\$131.17). In addition, the average RevPAR (\$40.69) had slightly increased over 4 years from \$39.33 to \$43.38. However, this is about \$10.1 and \$46.63 lower than the MS state (\$50.79) and the national RevPAR average (\$86.72).

Table 13. Data from Hotels within a 15-Mile Radius of Diamondhead

Year	Occupancy Rate (%)	ADR (\$)	RevPAR (\$)
2016	50.2	78.36	39.33
2017	48.6	77.68	37.75
2018	52.8	80.16	42.30
2019*	53.6	80.93	43.38
Average	51.3	79.28	40.69

Note) * November YTD (Year to Date)

Source: Trend Report - Smith Travel Research (2019)

Table 14 shows the trends of hotels concerning occupancy rate, ADR, and RevPAR over the 7 year-periods. The average occupancy rate of the hotels within a 30-mile radius of Diamondhead was 58.89%, which is about 7.59% higher than the average occupancy rate of the hotels within a 15-mile radius. The average ADR (\$88.70) and RevPAR (\$52.28) were significantly higher than those within a 15-mile radius. These trends occurred because there are more upscale hotels (e.g., 4 luxury; 5 upper-upscale; 9 upscale; 25 upper-middle-class hotels) within a 30-mile radius of Diamondhead (see Table 15). In general, the average ADR and RevPAR for luxury hotels were \$375.51 and \$155.82, respectively, followed by upper-upscale hotels (\$182.79 and \$84.91), and upscale hotels (\$136.68 and \$74.63) (STR, 2019), which would increase the average ADR and RevPAR of hotels within a 30-mile radius of Diamondhead.

Table 14. Data from Hotels within a 30-Mile Radius of Diamondhead

Year	Occupancy Rate (%)	ADR (\$)	RevPAR (\$)
2013	58.1	84.84	49.26
2014	57.3	86.63	49.64
2015	55.7	88.62	49.38
2016	58.0	87.55	50.77
2017	59.2	89.74	53.17
2018	61.2	91.58	56.09
2019	62.7	91.95	57.63
Average	58.89	88.70	52.28

Source: Trend Report - Smith Travel Research (2019)

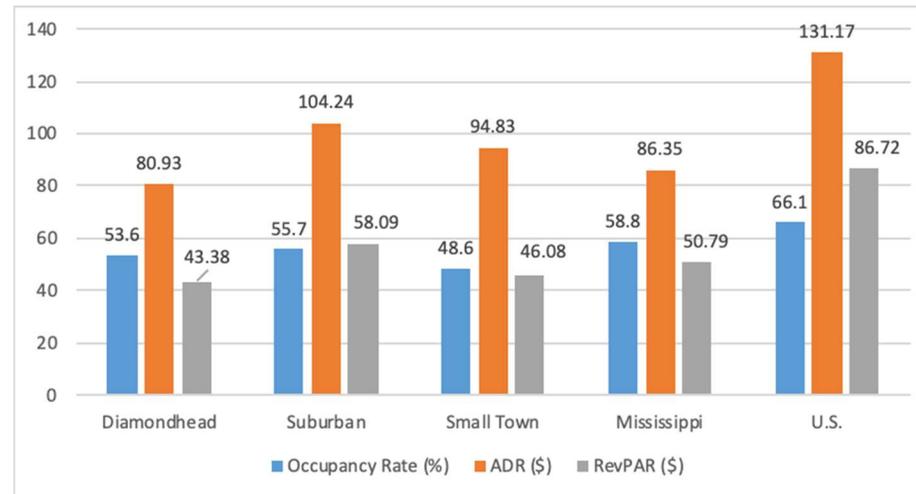
Table 15. Properties and Rooms by Class within a 30-Mile Radius of Diamondhead

Class	Census Properties	Census Rooms	Sample Properties	Sample Rooms
Luxury Class	4	602	2	173
Upper Upscale Class	5	1,558	-	-
Upscale Class	9	1,109	7	912
Upper Midscale Class	25	2,712	22	2,461
Midscale Class	19	4,676	10	1,047
Economy Class	40	2,717	23	2,022

Source: Trend Report - Smith Travel Research (2019)

According to Smith Travel Research (STR) (2019), the city of Diamondhead is classified in a category of a small town or suburban area. As shown in Figure 9, the national average occupancy rate of the hotels in the small town category is 48.6%, which is lower than the occupancy rate (53.6%) of the hotels within a 15-mile radius of Diamondhead. But, the occupancy rate of hotels in the suburban area (55.7%) is about 2.1% higher than the hotels within a 15-mile radius of Diamondhead. Unfortunately, the ADR (\$80.93) and RevPAR (\$43.38) of the hotels within a 15-mile radius of Diamondhead are the lowest in comparing to other categories (see Figure 9).

Figure 9. Comparisons in Hotels in Different Categories, including Suburban and Small Town



Source: Trend Report – Smith Travel Research (2019)

3. Source of Demand

As per the source of demand for hotels within a 15-mile radius from the city of Diamondhead, it was not obtainable because no hotel reported and shared it with Smith Travel Research (STR). STR is a third-party organization, which receives hotels’ confidential supply and demand information, and then disseminates it to those who participate in sharing information with STR. However, Table 16 shows the types of travelers who frequented hotels within a 30-mile radius of Diamondhead over the 3 years.

Table 16. Demand from Different Types of Guests within a 30-Mile Radius of Diamondhead

Year	Transient	Group	Contract	Total
2017	2,677,821	107,191	4,970	2,791,432
2018	2,758,253	110,411	5,119	2,875,277
2019	2,617,688	104,784	4,858	2,728,748
Average	2,684,587	107,462	4,982	2,798,486

Source: Trend Report - Smith Travel Research (2019)

As shown in Table 16, these groups include Transient, Group, and Contract. A Transient hotel guest is a short-term guest, a Group hotel guest is a guest who travels in a group of 10 or more, and a Contract hotel guest is affiliated with a company or organization that has a contract with the hotel (e.g., airline crews). The majority of demand for hotels within a 30-mile radius of Diamondhead comes from the Transient segment, followed by the Group segment, and the Contract segment, which provides the smallest demand of the total (about 5,000 guests).

Table 17. Revenue from Different Types of Guests within a 30-Mile Radius of Diamondhead

Year	Transient	Group	Contract	Total
2017	\$ 239,222,045	\$ 10,812,871	\$ 460,169	\$ 250,495,088
2018	\$ 251,473,118	\$ 11,366,621	\$ 483,736	\$ 263,323,478
2019	\$ 239,604,535	\$ 10,830,160	\$ 460,905	\$ 250,895,602
Average	\$ 243,433,233	\$ 11,003,217	\$ 468,270	\$ 254,904,723

Source: Trend Report - Smith Travel Research (2019)

Table 17 shows that the largest revenue came from the Transient (\$239 Million), followed by the Group (\$10.8 million), and the Contract guests (\$460 thousand). These numbers correspond to Table 16, where the Transient segment represented 95.3% of all guests for the year, which means that each Transient hotel guest spent an average of \$90.67 per day, including hotel room (\$83.63), food and beverage, etc. (about \$7.04) (STR, 2019).

In addition, hotel guests (Transient or Group) can be categorized as leisure, business, educational, healthcare, military, and other segments in the city of Diamondhead. The leisure market segment consists of individuals and families who spend time in the area or passing through en route to other destinations. Their primary purposes may include sightseeing, recreation, visiting friends and relatives, or other non-business activities. This leisure market segment is most substantial Friday and Saturday nights and all week during holiday periods, including the spring and fall break, and the summer months. Interestingly, the peak periods of this segment are negatively correlated with the business market segment.

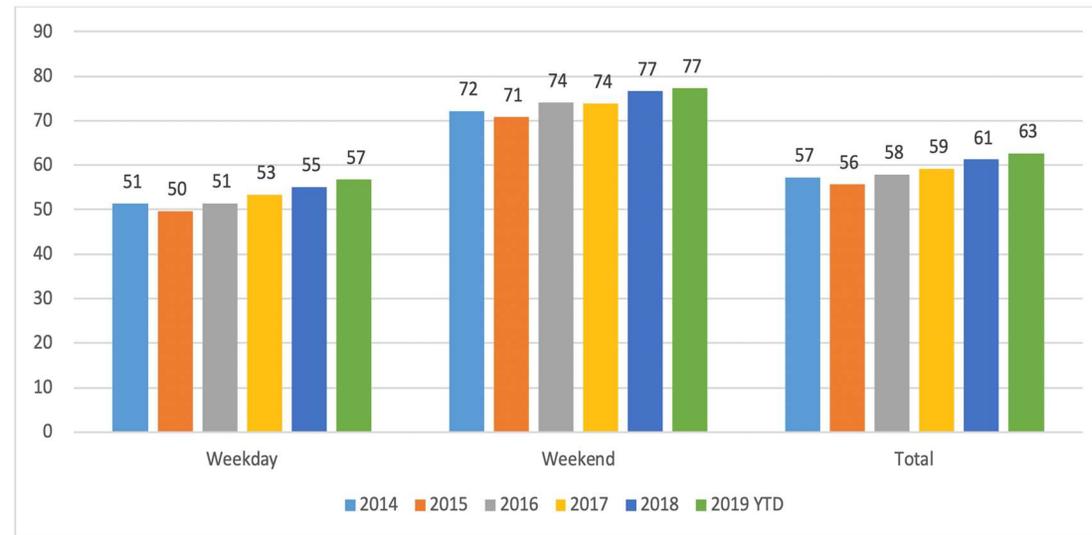
The business market segment can be generated by top employers in the city of Diamondhead and Hancock County, including Mississippi Deli, Ltd., Lockheed Martin Corporation, Lockheed Martin Space Operations company, and Jacobs Technology, Inc. The primary segments are individual business travelers and high-volume corporate accounts. Most individual business travelers are visiting firms in the immediate area or passing through en route to other neighboring destinations. Interestingly, their lodging choices are influenced by brand loyalty, including frequent traveler programs (e.g., World of Hyatt; Hilton Honors Program). This demand is most robust Monday through Thursday nights, but tends to decline significantly on Friday and Saturday, and starts increasing on Sunday. The typical lengths of stay for the business market segment range from one to three days. For example, company training sessions that require participants to arrive Sunday night and depart Friday afternoon. Some training sessions can be over two weeks or longer. At the same time, construction projects for retail, restaurants, industry projects, and other construction projects can be another demand source.

The educational market segment mainly consists of visitors to the Pearl River Community College Hancock Center and other public schools, including Hancock County Career Technical Center, and secondly to the University of Southern Mississippi, Gulfport Campus, and William Carey College Tradition Campus. This segment may include visiting prospective students and their families, the families of present students, visiting faculties and research associates, guest speakers, various attendees at college meetings, and events, including educational training and workshops. However, the demand for this segment might not be consistent. For example, if there are commencements and athletic events at the college, higher demand would be expected, while other college demand is dependent on the total number of visitations from prospective students and their families, as well as the total number of meetings and events hosted there.

The healthcare market segment consists of visitors to Ochsner Health System and Woodland Village Nursing Center. This segment can include patients and their families and relatives, vendors, recruits, and others. Besides, the military market segment is comprised of visitors to the military special operations forces of the US Army, Marines, and Navy when the base can't accommodate all visitors. Notably, this

segment could be a contract guest depending on a new hotel’s marketing efforts. Lastly, other transient or group guests can be generated by local events, such as the Diamondhead Festival and BBQ Competition, which attract about 1,000 visitors, Rapiscan systems classic PGA pre-qualifier tournament, USTA league tournaments, and so forth.

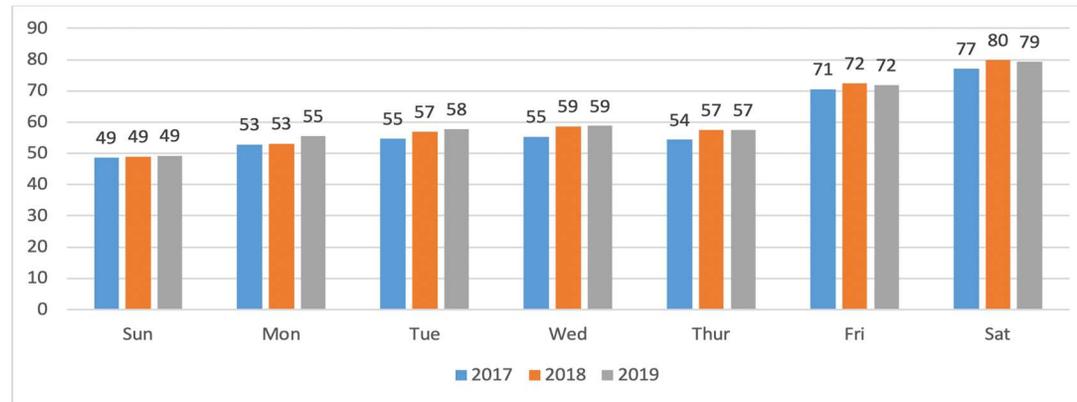
Figure 10. Weekday/Weekend Actual Occupancy



Source: Trend Report - Smith Travel Research (2020)

In addition, Figure 10 shows weekday and weekend trends concerning the actual occupancy within a 30-mile radius of Diamondhead. Importantly, an average of 20% higher occupancy on the weekend, which means that this area is a popular place for weekend getaways, but still needs to improve weekday numbers. The actual occupancy by day of the week is Figure 11. It is evident that Friday and Saturday have higher occupancy, while Sunday is the lowest occupancy over the last 3 years.

Figure 11. Actual Occupancy by Day of Week



Source: Trend Report - Smith Travel Research (2020)

Based on the identified demand for a proposed hotel in the city of Diamondhead, Table 18 provides a detailed list of the sources of demand within various market segments.

Table 18. Source of Demand with Market Segment

	Source of Demand (%)*	Market Segment	Estimated Source of Demand (%)
Transient	95.3	Leisure Market	35.0
		Business Market	20.0
		Educational Market	15.0
		Healthcare Market	15.0
		Military Market	-
		Others	5.0
Group	4.69	Leisure Market	2.0
		Business Market	3.0
		Educational Market	-
		Healthcare Market	-
		Military Market	-
		Others	5.0
Contract	0.01	Military Market	-
Total	100		100%

*Source: Trend Report - Smith Travel Research (2019)

SECTION V.

**SUPPLY AND
DEMAND ANALYSIS**



V. SUPPLY AND DEMAND ANALYSIS

Based on the information identified in Section IV, this section determines if additional hotel rooms in the city of Diamondhead can be justified based on factors, including the average occupancy rate, ADR, the composite growth rate of demand, and the current and future supply of rooms. In the lodging industry, demand is measured by the number of rooms occupied by various guests, while supply is measured by the number of rooms available. As such, the purpose of this section is to examine the current supply and demand, along with pipeline information within a 15-mile or 30-mile radius of the city, depending on the availability of the data. In particular, the supply and demand analysis are conducted by the following four steps:

- Step 1. Calculate the most recent 12-month average occupancy rate of the most competitive hotels.
- Step 2. Calculate the composite growth rate of demand from various sources.
- Step 3. Calculate the additional rooms required year by year.
- Step 4. Calculate the future supply of rooms required.

The supply and demand analysis are conducted as it relates to the development of a new hotel in the city of Diamondhead and addresses the following areas:

1. The 12-month Average Occupancy Rate
2. The Composite Growth Rate of Demand
3. The Future Supply in the City of Diamondhead
4. Hotel Data within a 30-mile Radius of the City of Diamondhead
5. Comparable Markets in Relation to the City of Diamondhead
6. Recommendations for the City of Diamondhead

1. The 12-month Average Occupancy Rate

As shown in Table 19, there are 15 hotels within a 15-mile radius of Diamondhead. These hotels currently provide 1,113 rooms per day or 33,390 rooms per month for the local markets. There are 194 rooms available from 3 upper-midscale hotels and 12 rooms from 1 upper-upscale hotel. Among these available rooms, the current nightly demand in the marketplace is 597 rooms, which is about a 53.6% occupancy rate. However, if the average occupancy rate over 4 years (51.6%) is applied, rather than 53.6%, the nightly demand of local markets decreases by 26 rooms, for a total demand of 571 rooms per day.

Table 19. Average Occupancy of the Hotels within a 15-mile Radius of Diamondhead

Hotel	Class	Average Rooms in Hotel	Average Occupancy Rate	Current Nightly Demand
1	Economy Class	114	51.3%	58
2	Economy Class	26	51.3%	13
3	Economy Class	19	51.3%	10
4	Economy Class	42	51.3%	22
5	Economy Class	50	51.3%	26
6	Economy Class	50	51.3%	26
7	Economy Class	22	51.3%	11
8	Midscale Class	291	51.3%	149
9	Midscale Class	153	51.3%	78
10	Midscale Class	11	51.3%	6
11	Upper Midscale Class	108	51.3%	55
12	Upper Midscale Class	76	51.3%	39
13	Upper Midscale Class	10	51.3%	5
14	Upper Upscale Class	12	51.3%	6
15	Luxury Class	129	51.3%	66
Total		1,113	-	571

Source: Trend Report - Smith Travel Research (2019)

Table 20 shows there are only 206 guestrooms available from the most competitive hotels in the local markets. With an approximate 53.6% occupancy rate, the current nightly demand from these hotels is 110

rooms. Similarly, if the average occupancy rate over 4 years (51.3%) is applied, rather than 53.6%, the nightly demand would be 105 rooms per day.

Table 20. Average Occupancy of the Most Competitive Hotels

Hotel	Class	Average Rooms in Hotel	Average Occupancy Rate	Current Nightly Demand
1	Upper Midscale Class	108	51.3%	55
2	Upper Midscale Class	76	51.3%	39
3	Upper Midscale Class	10	51.3%	5
4	Upper Upscale Class	12	51.3%	6
Total		206		105

Source: Trend Report - Smith Travel Research (2019)

2. The Composite Growth Rate of Demand

With the identified source of demand (see Table 18), the annual compound growth rate is estimated to determine the composite growth rate. The annual compound growth rate is projected concerning the segment changes from 2017 to 2019 from the hotels within a 30-mile radius of the city of Diamondhead: the transient (-5.3%), business travelers (-2.3%), and contract (0.16%) (Trend Report, 2019). These percentages were then modified based on market characteristics in the city of Diamondhead and the results of the phone interview with 9 general managers or sales and marketing managers in the hotels within a 15-mile radius of Diamondhead. For example, a manager in an upper-upscale hotel noted that “most guests were individual customers (i.e., transient) from neighboring states, but more business travelers were visiting Monday to Thursday, while families were coming over the weekends.”

Especially, to determine the composite growth rate, the estimated annual compound growth rate is multiplied by the source of demand for each market segment. As per the transient, for example, the composite growth rate of the leisure market segment (1.93%) is identified by the source of demand (35%) times the annual compound growth rate (5.5%). Similarly, the composite growth rate of the business market segment (0.7%) is determined by the source of demand (20%) times the annual compound growth

rate (3.5%). Concerning the military market for the transient and group demand, the composite growth rate is not determined due to the deficient estimated demand. As indicated in section VI, however, this segment might be a demand source for a new hotel depending on the hotel's marketing efforts. The total overall composite growth rate is 4.29%, and the composite growth rate of demand in relation to each market segment is projected in Table 21.

Table 21. Composite Growth Rate of Demand

Source	Market Segment	Source of Demand (%)	Annual Compound Growth (%)	Composite Growth (%)
Transient	Leisure Market	35.0	5.5%	1.93%
	Business Market	20.0	3.5%	0.70%
	Educational Market	15.0	3.5%	0.53%
	Healthcare Market	15.0	3.5%	0.53%
	Military Market	-*	-	-
	Others	5.0	3.5%	0.18%
Group	Leisure Market	2.0	3.5%	0.07%
	Business Market	3.0	3.5%	0.07%
	Educational Market	-*	-	-
	Healthcare Market	-*	-	-
	Military Market	-*	-	-
	Others	5.0	5.5%	0.28%
Contract	Military Market	-*	-	-
Total		100%		4.29%

Note) -* is less than 0.1 % of demand, which is insignificant, so that demand is not in this Table.

Based on the total composite growth rate (4.29%), the future demand for a new hotel in the city of Diamondhead is estimated. The current average nightly demand for rooms of 571 is multiplied by the composite growth rate of 104.29% (100% + 4.29%) to arrive at the future demand of 596 rooms in Year 1 (see Table 22). Also, the 595 rooms are carried forward into Year 2 and is itself multiplied by the composite growth rate (104.29%). Similar calculations are made for each of the remaining 3 years.

In this regard, the future demand of 705 rooms in Year 5 is estimated. Overall, the projected average nightly demand is 649 rooms over 5 years for the hotels within a 15-mile radius of the city of Diamondhead (see Table 22).

Table 22. Future Rooms Demand Year by Year with Data from the Hotels within a 15-Mile of Diamondhead

Year	Composite Demand (Nightly)	Future Growth (%)	Rooms Demand (Nightly)
1	571	104.29%	596
2	596	104.29%	621
3	621	104.29%	648
4	648	104.29%	676
5	676	104.29%	705
Average	-	-	649

3. The Future Supply in the City of Diamondhead

The next step is to estimate the future supply of rooms required in the city of Diamondhead. The current occupancy rate (53.6%) is first determined by dividing the average nightly demand (621 rooms) by the combination of rooms shortage (or surplus) and current supply (1,113 rooms) to yield an estimated supply required.

As seen in Table 23, the local market could not support additional rooms right now because there are 48 more rooms per night available for guests who will stay in a hotel in this area. In Year 2, there is also a surplus of 1 room per night. However, starting in Year 3, there is a shortage of 46 rooms per night. At the end of 5 years, 148 additional rooms per night could support at an average occupancy of 53.6%. In other words, if a new 80-room hotel were built today, given the current demand for rooms, the new overall average occupancy rate would be 53.6%, resulting in 43 additional rooms being sold per day.

Table 23. Future Rooms Supply Year by Year

Year	Rooms Demand (Nightly)	Normal Occupancy (%)	Supply Required (Nightly)	Current Supply (Nightly)	New Rooms Required (Nightly)
1	571	53.6	1,065	1,113	-48
2	596	53.6	1,112	1,113	-1
3	621	53.6	1,159	1,113	46
4	648	53.6	1,209	1,113	96
5	676	53.6	1,261	1,113	148
Average	621	-	1,161	-	48

4. Hotel Data within a 30-mile Radius of the City of Diamondhead

As shown in Table 24, within a 30-mile radius of the city of Diamondhead, 29 hotels in Biloxi, MS, 27 in Gulfport, MS, and 20 in Slidell, LA totaling 11,630 rooms per night. For example, two hotels offering 203 rooms per night in Diamondhead and 7 hotels are in Bay St. Louis, MS, which provide 633 rooms per night.

Table 24. Properties and Rooms by Submarket

	Census Properties	Census Rooms	Sample Properties	Sample Rooms
Bay St Louis, MS	7	633	2	156
Biloxi, MS	29	5966	15	1947
D'Iberville, MS	6	846	4	457
Diamondhead, MS	2	203	1	50
Gulfport, MS	27	4111	20	2861
Long Beach, MS	1	76	1	76
Pass Christian, MS	2	22	-	-
Pearl River, MS	1	79	1	79
Picayune, MS	6	267	4	219
Slidell, LA	20	1556	16	1378
Waveland, MS	1	22	-	-

Source: Trend Report - Smith Travel Research (2020)

Table 25. Properties and Rooms by Class

Class	Census Properties	Census Rooms	Sample Properties	Sample Rooms
Luxury Class	4	602	2	173
Upper Upscale Class	5	1,558	-	-
Upscale Class	9	1,109	7	912
Upper Midscale Class	25	2,712	22	2,461
Midscale Class	19	4,676	10	1,047
Economy Class	40	2,717	23	2,022

Source: Trend Report - Smith Travel Research (2020)

Table 26. Properties and Rooms by Size

Size	Census Properties	Census	Sample Properties	Sample
Less Than 75 Rooms	44	2,047	20	1,176
75 - 149 Rooms	42	4,410	37	3,900
150 - 299 Rooms	10	1,841	6	1,050
300 - 500 Rooms	3	1,278	1	499
Greater Than 500 Rooms	3	3,798	-	-

Source: Trend Report - Smith Travel Research (2020)

Table 27. Hotels of Interest

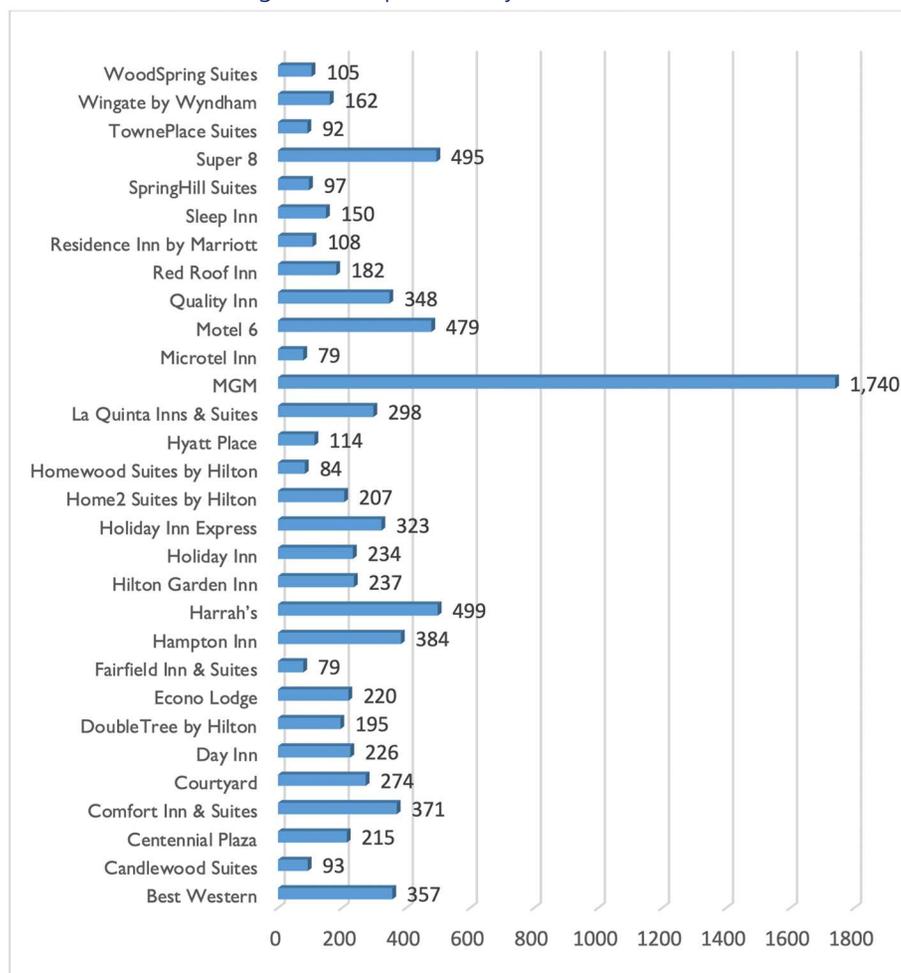
Feature	Hotel Name	Rooms	Open Date	Comment
Largest	Beau Rivage Resort & Casino	1740	Aug 2006	Casino Hotel
2nd largest	IP Casino Resort Spa	1088	Dec 1997	Casino Hotel
3rd largest	Island View Casino Resort	970	Sep 2006	Casino Hotel
Oldest	Flamingo Beach Inn	29	Jun 1957	Economy Class
Historic	White House Hotel	76	August 2014	A rooftop terrace, and a conference center are onsite.
Luxury Chain	-	-	-	
Luxury Class	Sliver Slipper Hotel & Casino	129	May 2015	Casino Hotel

Source: Trend Report - Smith Travel Research (2020)

Table 25 shows that most hotels are Economy Class (40 hotels) within a 30-mile radius of the city of Diamondhead, followed by upper-midscale class (25 hotels), midscale class (19 hotels). Concerning

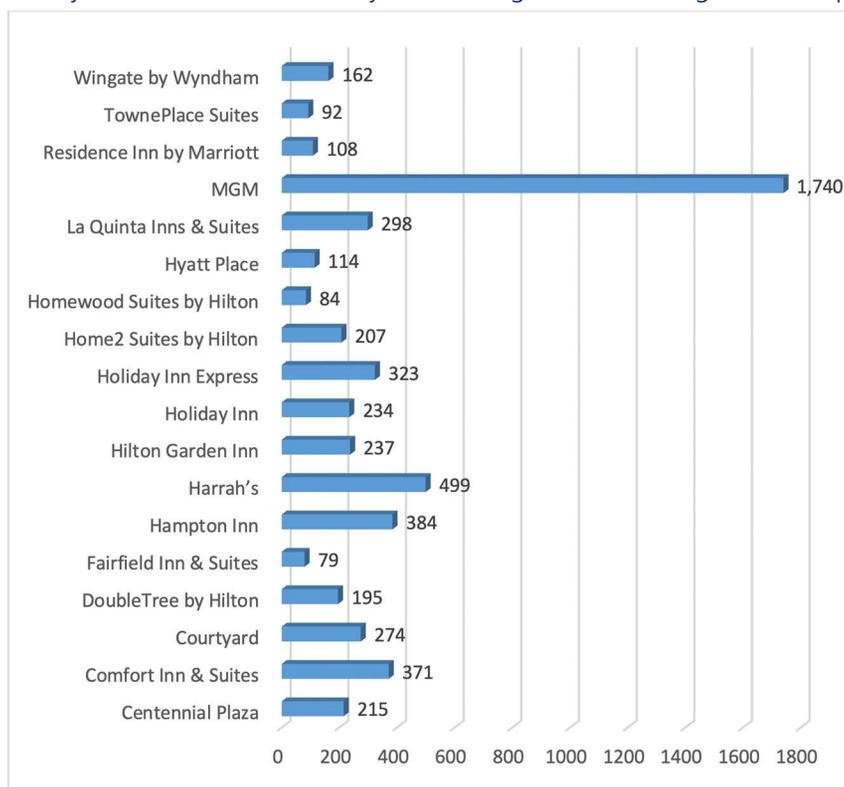
the size of hotels (see Table 26), most hotels (44 hotels) have less than 75 rooms, followed by 75 to 149 rooms (42 hotels). In contrast, three hotels have greater than 500 rooms in the area. As shown in Table 27, however, these hotels are Beau Rivage Resort & Casino, IP Casino Resort Spa, and Island View Casino Resort. Interestingly, there is no luxury chain hotel within a 30-mile radius of the city of Diamondhead.

Figure 12. Top Chains by Number of Rooms



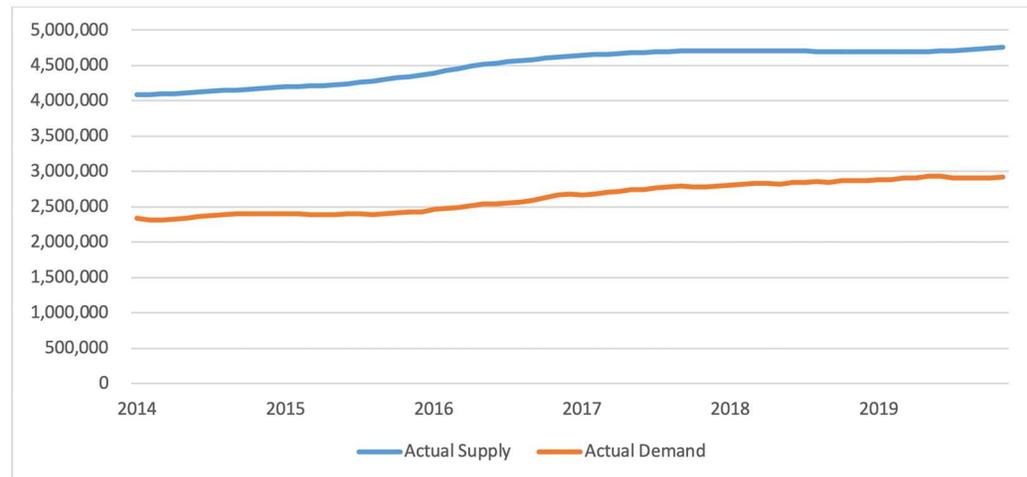
Currently, Super 8 (495 rooms per night) and Motel 6 (479 rooms per night) are the chain hotels that provide the most rooms within a 30-mile radius of the city of Diamondhead, except for the casino-hotel chain (see Figure 12). However, if chain hotels are only considered with higher than 'upper-midscale class,' Hampton Inn (384 rooms per night) becomes the hotel chain providing the highest number of rooms, followed by Comfort Inn & Suites (371 rooms per night), and Holiday Inn Express (323 rooms per night) without considering the casino-hotel chain (i.e., MGM; Harrah's) in this area (see Figure 13).

Figure 13. Top Chains by Number of Rooms – Only Considering Chains with Higher Than Upper-Midscale Class



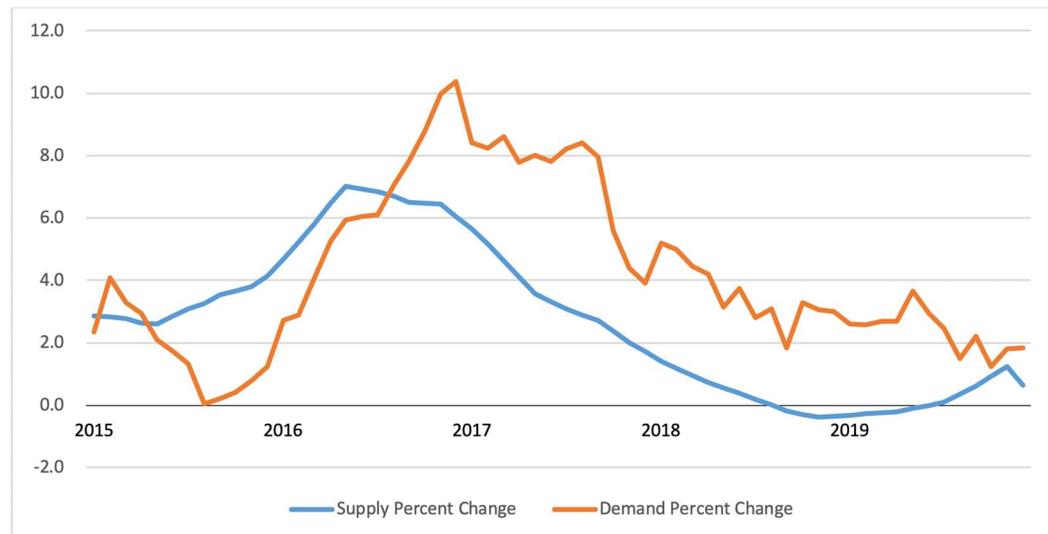
Source: Trend Report - Smith Travel Research (2020)

Figure 14. Diamondhead Market – Actual Supply and Demand



Source: Trend Report - Smith Travel Research (2020)

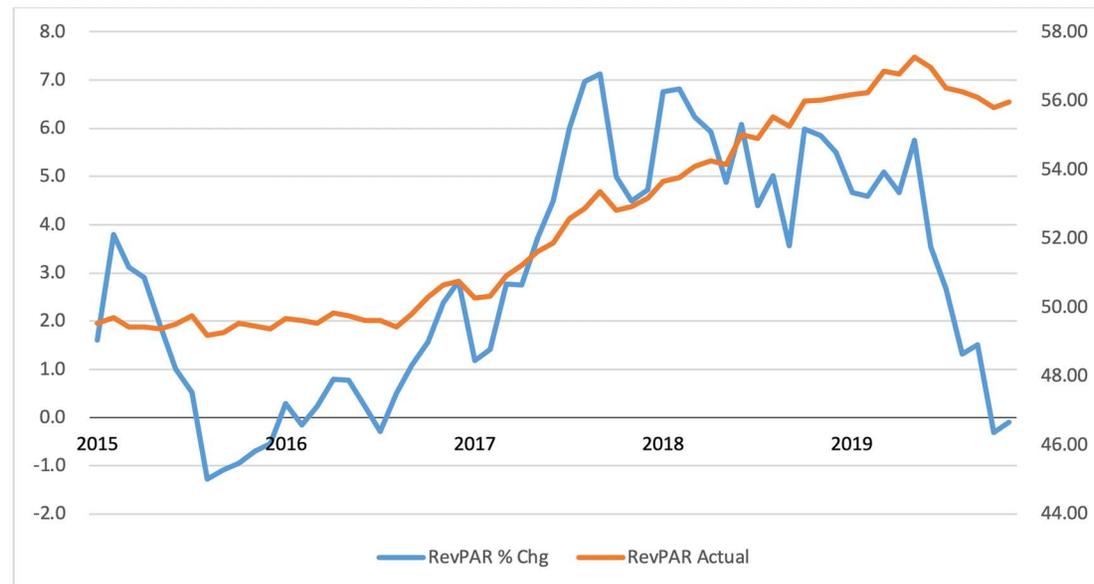
Figure 15. Room Supply & Demand Percent Change



Source: Trend Report - Smith Travel Research (2020)

Figure 14 shows the actual supply and demand. Over the last 6 years, the actual demand and supply have gradually increased, but the actual supply is always higher than the actual demand. Interestingly, starting in later in 2016, however, the demand number (or demand percent change) is above the supply (or supply percent change), which indicates that the future demand will be more likely to be increased in this area (see Figure 15). More interestingly, it was noticed that there had been more substantial RevPAR growth since 2017 within a 30-mile radius of the city of Diamondhead (see Figure 16).

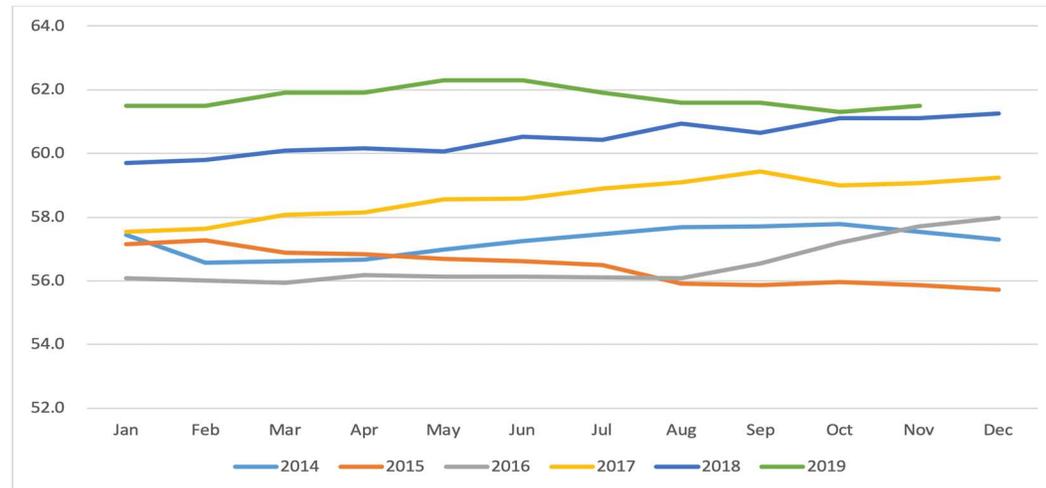
Figure 16. RevPAR Percent Change and Actual Combined



Source: Trend Report - Smith Travel Research (2020)

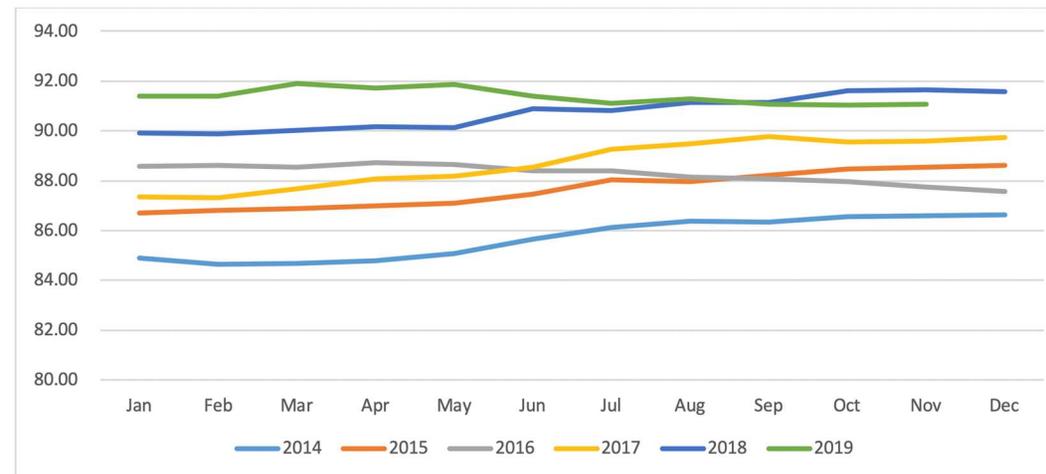
Notably, in order to check for seasonal distortion in hotels within a 30-mile radius of the city of Diamondhead, historic occupancy and ADR seasonality are examined. As shown in Figure 17, there is more growth in occupancy over the last 3 years. However, occupancy is constant over the previous 12 months. Figure 18 also shows that ADR has varied from \$1 to \$2 over the last 6 years, which confirms that there is no seasonality effect in this market area.

Figure 17. Historic Occupancy Seasonality



Source: Trend Report - Smith Travel Research (2020)

Figure 18. Historic ADR Seasonality

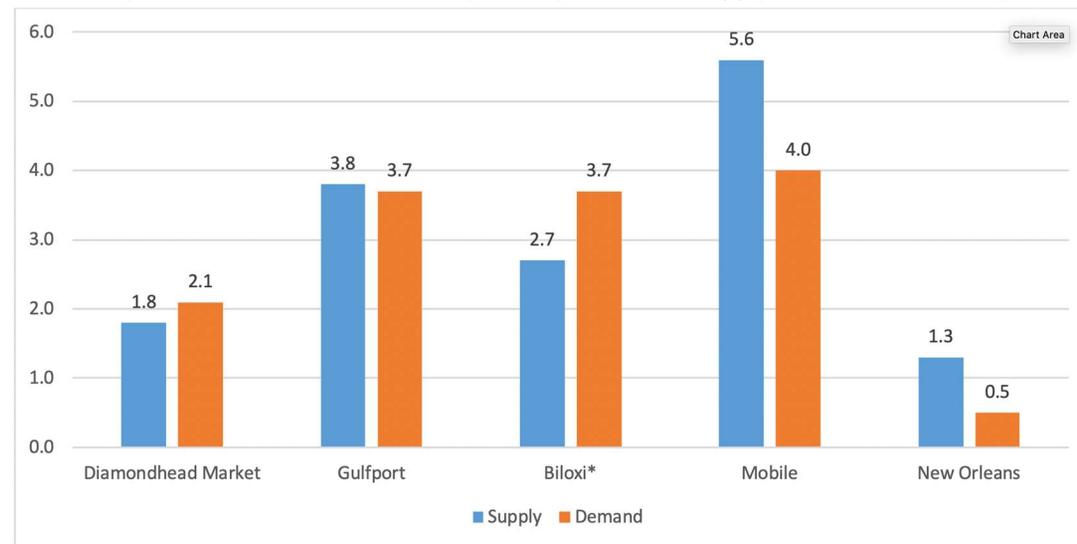


Source: Trend Report - Smith Travel Research (2020)

5. Comparable Markets in Relation to the City of Diamondhead

Comparable markets near the city of Diamondhead are Biloxi, MS, Gulfport, MS, Mobile, AL, and New Orleans, LA. Each market was selected due to its proximity to the city of Diamondhead, MS. However, Slidell, LA is not included in this comparison due to insufficient data from Smith Travel Research. As shown in Figure 19, supply and demand growth is weaker than the adjacent markets, except New Orleans, LA, concerning hotels within a 15-mile radius of the city of Diamondhead. For example, supply growth, as of January 2020, was 1.8%, while demand growth was 2.1%. In contrast, Gulfport supply growth was 3.8%, and demand growth was 3.7%.

Figure 19. Diamondhead vs. Neighboring Markets – Supply & Demand % Change

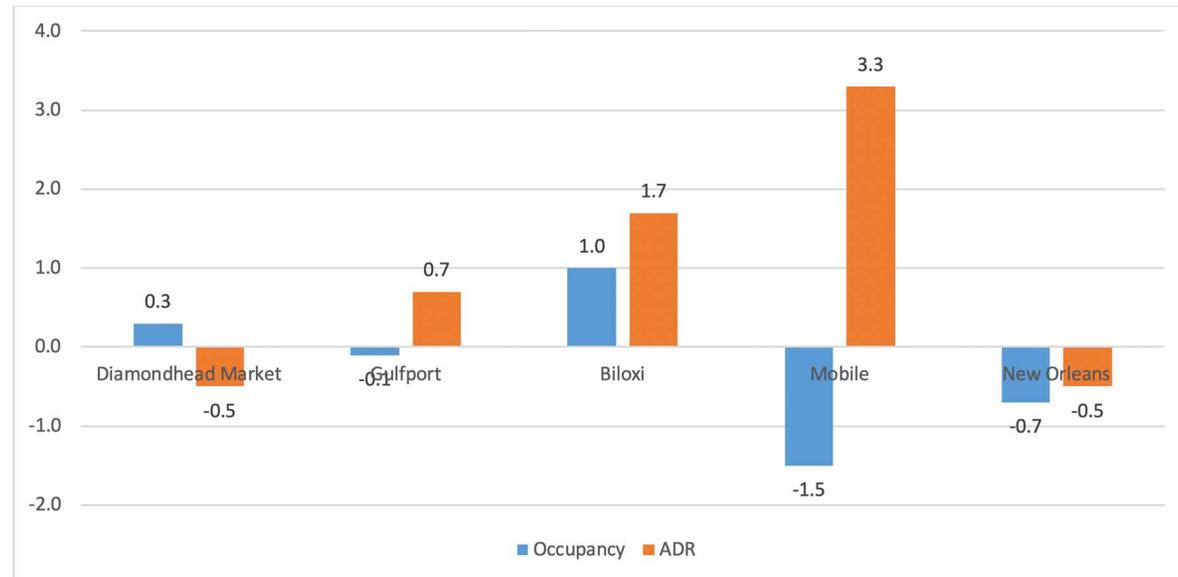


Note) Running twelve-month data as of January 2020

Source: Pipeline Report - Smith Travel Research (2020)

Concerning the occupancy and ADR percentage change, Figure 20 shows that occupancy growth is higher than neighboring markets, except Biloxi, MS. However, ADR growth is the lowest among comparable markets.

Figure 20. Diamondhead vs. Neighboring Markets - Occupancy & ADR % Change



Note) Running twelve-month data as of January 2020

Source: Pipeline Report - Smith Travel Research (2020)

Figure 21 shows the actual occupancy and ADR of hotels within a 15-mile radius of the city of Diamondhead. As illustrated in Figure 21, the actual occupancy is similar to neighboring markets, except Biloxi, MS and New Orleans, LA. However, the actual RevPAR is higher than Gulfport and Biloxi, MS, but significantly lower than New Orleans, LA. Unfortunately, RevPAR growth is also the weakest among the neighboring markets, except New Orleans, LA (-1.20%) (see Figure 22).

Figure 21. Diamondhead vs. Neighboring Markets – Actual Occupancy and ADR

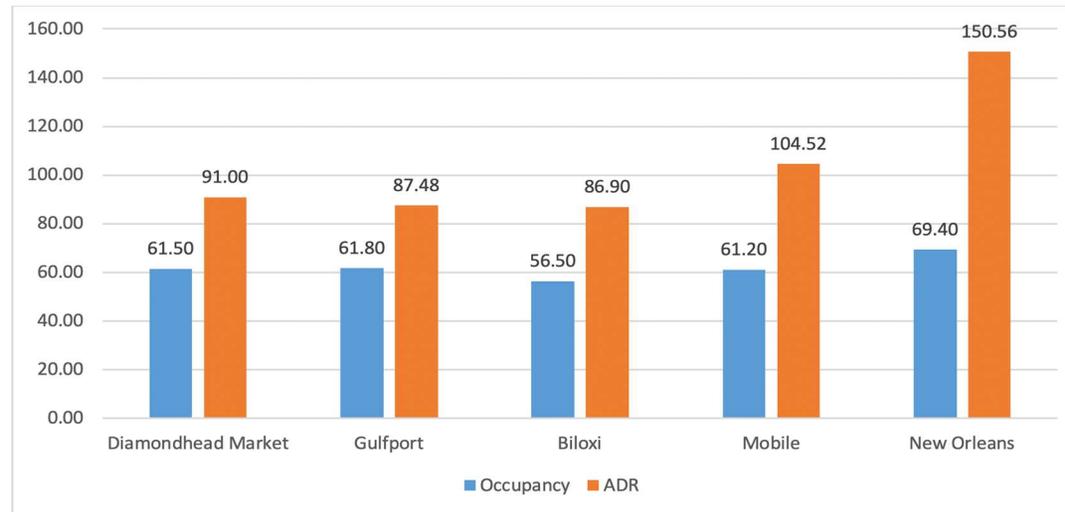
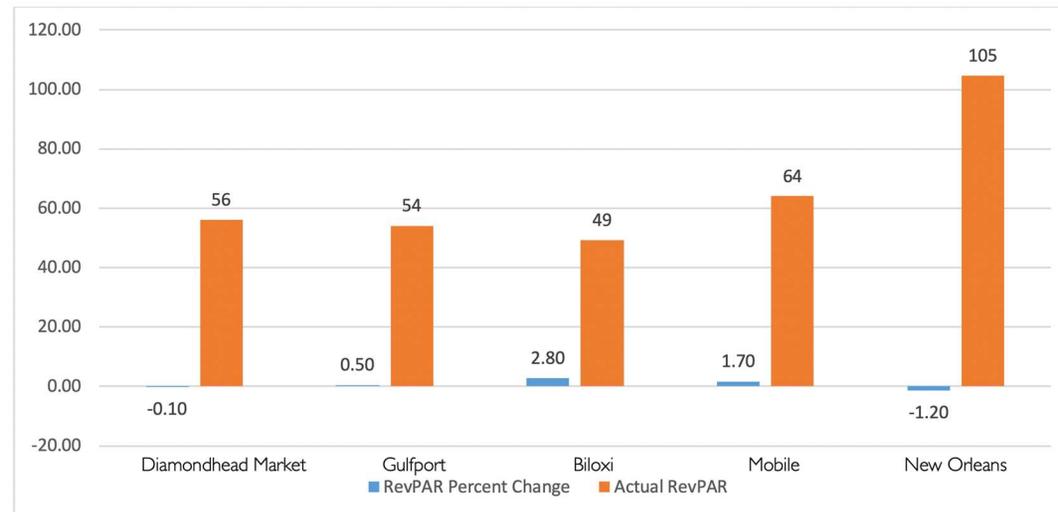


Figure 22. Diamondhead vs. Neighboring Markets - RevPAR % Change & Actuals



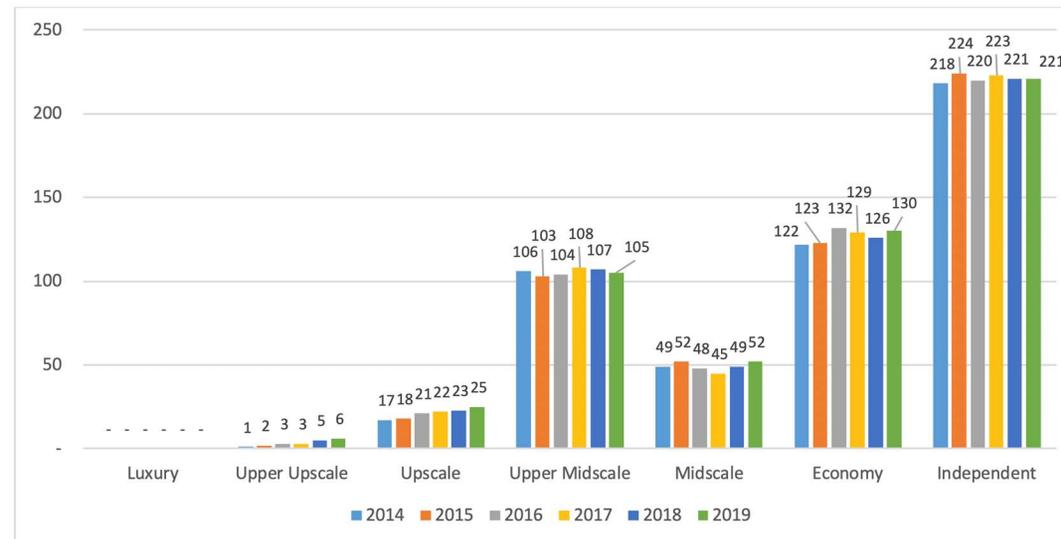
Note) Running twelve-month data as of January 2020

Source: Pipeline Report - Smith Travel Research (2020)

6. Recommendations for the City of Diamondhead

Should the city of Diamondhead decide to pursue the development of a hotel, we would recommend the construction of an upscale or upper-midscale hotel with an effective loyalty program on or near the intersection of Interstate 10. Currently, there are two independent hotels with low (or displeasing) quality in the city of Diamondhead, including one economy and one midscale hotel. At the same time, there is only one upper-upscale hotel (e.g., no upscale hotel) within a 15-mile radius of the city of Diamondhead.

Figure 23. Historic Supply Growth by Scale for the Last 6 Years by the Number of Property



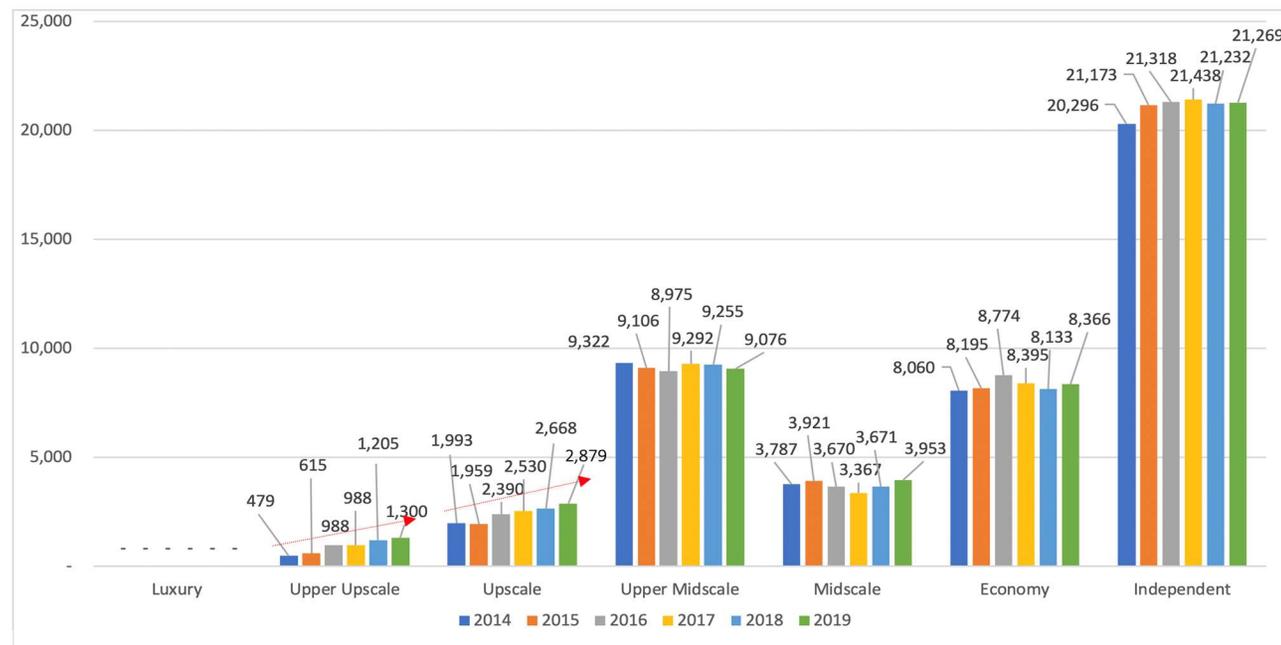
Source: Pipeline Report - Smith Travel Research (2020)

As shown in Figure 23, there had been eight additions to the upscale segment from 2014 to 2019 within a 30-mile radius of Diamondhead. However, there was one hotel lost from 106 hotels to 105 hotels over the last 6 years concerning upper-midscale hotels. Thus, if the city can offer an upscale or upper-midscale hotel, the proposed hotel can attract visitors who prefer staying at a quality hotel around Diamondhead.

In particular, the hotel can draw visitors, such as leisure, business, educational, healthcare, and other market segments. More importantly, a 50 to 80-room hotel is recommended because of the average new room requirement in the comparable markets. Over a 5 year-period, demand can support an estimated 50 to 80 rooms, and anticipated to increase by an average of 48 rooms, for a total of 148 rooms (see Table 23). In addition, historic supply growth by scale for the last six years is provided in Figure 24.

Figure 24. Historic Supply Growth by Scale for the Last 6 Years by the Number of Total Rooms

Source: Pipeline Report - Smith Travel Research (2020)



As shown in Table 28, there are two upscale hotels recently opened, Springhill Suites and Hilton Garden Inn. Also, Figure 25 shows that there is one upscale hotel currently under construction, which will add 249 rooms, while one upper-upscale hotel is in a final planning stage, resulting in an additional 110 rooms in the area.

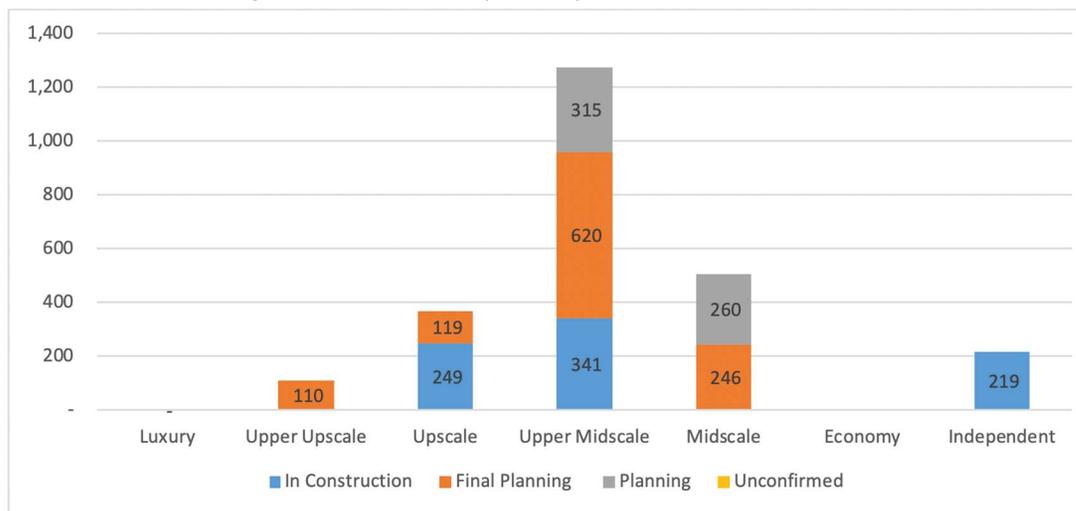
Table 28. Recently Opened Hotels

Hotel Name	Class	Rooms	Open Date
Springhill Suites Gulfport I-10	Upscale	97	19-Oct
Hilton Garden Inn Biloxi	Upscale	100	19-May

Source: Pipeline Report - Smith Travel Research (2020)

Overall, 359 additional rooms could be added to this area. However, these additions would be less likely to influence the development of a new hotel in the city of Diamondhead because the additional rooms (359 rooms) is about 3.0% of the total number of rooms in the area (11,856 rooms).

Figure 25. Rooms in Pipeline by Scale and Phase



Source: Pipeline Report - Smith Travel Research (2020)

Moreover, these are only proposed development plans for major cities in Southern Mississippi, including Biloxi and Gulfport, MS. More importantly, restaurants and other development components would be beneficiaries of the hotel development. As the future business community (2.4%) and population (8%) continue to grow in the city of Diamondhead, there might likely be increased demand from various guests for a proposed hotel.

SECTION VI.

FINANCIAL ANALYSIS



VI. FINANCIAL ANALYSIS

S

Financial analysis is a significant part of any feasibility study. Typically, this section is usually broken down into four subsections: the capital investment required and financial plan, projected cash flow, pro-forma income statement, and evaluation of projections (Jagels, 2007). However, due to the scope of this feasibility study, this section only includes the capital investment required along with an estimated financial plan. The financial plan will include cash flow and pro-forma income statement in relation to the financial feasibility of a hypothetical new 60-room hotel that will have a 48-seat coffee shop or breakfast area, but without any additional food and beverage area.

1. Capital Investment Required for a New Hotel

Estimates of the capital investment required for the proposed hotel are based on the hotel development cost survey (2017/2018) and other useful sources (see Appendix B). Most importantly, hotel development costs are accounted for various items and categories, and proper accounting for a specific project is also affected by tax implications, underwriting requirements, and investment structures (Sahlins, 2019).

Table 29. Construction Loan Assumptions

Items	Values
LTC	65.0%
Loan Amount	\$6,300,000
Loan Amount/Key	\$105,000
Interest Rate	3.7%
Origination Fee	1.0%
Capitalized Interest Calculation	
Average % Drawn	65.0%
Construction Years	2
Capitalized Interest	\$409,500

Note) LTC: Loan to Cost; Interest Rate: Rate at which interest will be paid as funds from the construction loan is drawn; Origination Fee: Fee paid to a lender in exchange for making the loan. The 1% is a commonly used industry-standard; Average % Drawn: On average, about 65% of the loan is actually funded per year.

As shown in Table 29, Loan to Cost (LTC) is a construction loan amount as a percentage of the total project cost. The LTC depends on the current lending conditions, but 65% is a reasonable estimate. A company with a strong record might get about 80%. Fortunately, there is an MBFC (Mississippi Business Finance Corporation) incentive program available for any new (or existing) development projects, including hotel development, which is a statutory program under Mississippi Code §§ 57-10-1 to help stimulate and supplement the flow of private equity capital throughout Mississippi. Also, Diamondhead and Hancock County created a commercial development incentive program for tax abatement that a hotel could receive, while the city also matched the county tax abatement. Concerning the interest rate in Table 29, interest must be paid on the construction loan while the hotel is in construction. However, since the hotel will not be operating, money needs to be reserved upfront to service the payments. Interest is generally due only on the project portion of the loan.

As shown in Table 30, this feasibility study estimates the low range of costs in terms of the investment required for the proposed hotel. However, a property that has a high land cost may have lower construction costs and higher soft costs. Also, a hotel developed in low-cost markets such as the city of Diamondhead may account for a high percentage of the project but typically has per-room component costs that set the lower or medium end of the range.

Table 30. Sources and Uses of Funds

Sources of Funds			Total	\$ / SF	\$ / Key	%
Equity			\$3,394,176	\$102.85	\$56,570	35.4%
Debt			\$6,200,000	\$187.88	\$103,333	64.6%
Total Sources			\$9,594,176	\$290.73	\$159,903	100.0%
Uses of Funds						
Acquisition Costs			Total	\$ / SF	\$ / Key	%
Land Purchase Price			\$3,000,000	\$90.91	\$50,000	31.3%
Closing Costs (% of Purchase Price)	3.00%		\$90,000	\$2.73	\$1,500	0.9%
Total Acquisition Costs			\$3,090,000	\$93.64	\$51,500	32.2%
Hard Costs						
Total Hard Construction Costs			\$4,200,000	\$127.27	\$70,000	43.8%
Hard Cost Contingency	5.00%		\$210,000	\$6.36	\$3,500	2.2%
Total Hard Costs			\$4,410,000	\$133.64	\$73,500	46.0%
Soft Costs						
Soft Costs (% of Hard Costs)	20.00%		\$840,000	\$25.45	\$14,000	8.8%
Soft Cost Contingency	5.00%		\$42,000	\$1.27	\$700	0.4%
Total Soft Costs			\$882,000	\$26.73	\$14,700	9.2%
Total Furniture, Fixtures, and Equipment			\$780,000	\$23.64	\$13,000	8.1%
Financing Costs						
Broker Fee	0.75%		\$71,956	\$2.18	\$1,199	0.8%
Loan Origination Fee	1.00%		\$62,000	\$1.88	\$1,033	0.6%
Capitalized Interest (See Calculation)			\$298,220	\$9.04	\$4,970	3.1%
Total Financing Costs			\$432,176	\$13.10	\$7,203	4.5%
Total Uses			\$9,594,176	\$290.73	\$159,903	100.0%

Note) Hard Construction and Site Improvement include 1) building costs/general contractor's bid, 2) contractor overhead, 3) site improvements, 4) landscaping costs, 5) parking/parking garage, 6) subcontractor's bids (plumbing, electrical, etc.) and finishes, 7) architectural/design fees, 8) building permits, 9) engineering costs, 10) building and monument signage, and/or 11) construction contingency.

Soft Costs include 1) land entitlement costs, 2) land closing costs, 3) financing costs including construction period interest, interest reserves, loan closing costs, 4) holding costs per and during construction (taxes, insurance, etc.), 5) soft cost contingency, 6) franchise application fee, 7) interior design fee, 8) survey, and/or 9) professional fees including accounting, consulting, legal, etc.

Furniture, Fixtures, and Equipment include 1) guestroom/guest bathroom furniture and fixtures, 2) public space furniture and fixtures, 3) technology and telecommunication equipment, and/or 4) soft-goods including carpeting, drapes, and room accessories.

Pre-opening and Working Capital include 1) supply inventories, such as linen, operating supplies, and initial purchases, 2) technical services fees, 3) pre-opening recruiting, staffing, and training, and/or 4) operating reserves.

Table 31. Income and Expense Assumptions

	<u>% Rev</u>	<u>POR</u>	<u>PAR</u>
Revenue			
Food & Beverage Revenue		\$0	
Minor Operating Departments		\$3	
Rentals & Other		\$0	
Departmental Expenses (% of Respective Income)			
Rooms	31.8%		
Food & Beverage	77.2%		
Minor Operating Departments	66.3%		
Undistributed Expenses			
Administrative & General			\$2,244
Sales & Marketing			\$1,823
Franchise Fees (% of Rooms Rev)		See Table 32. 6-Year Proforma	
Engineering			\$1,285
Utilities			\$1,228
Management Fee	3.0%		
Fixed Expenses			
Property Taxes			\$1,281
Insurance			\$537
FF&E Reserve for Replacement			
Year 1	2.0%		
Year 2	3.0%		
Year 3	4.0%		
Year 4	4.0%		
Year 5	4.0%		

Note) % Revenue (Ratio to Sales): this metric measures line items as a percentage of the respective revenue-producing line time.

POR: this metric measures line items on a Per Occupied Room basis.

PAR: this metric measures line items on a Per Available Room basis. Notably, all of the undistributed expenses and fixed expenses are aligned on a PAR basis.

FF&E: FF&E reserve for replacement is a standard line-item that deducts a % of revenues each period to reserve money in the event that the hotel needs renovations or FF&E replacements, etc.

To estimate a new hotel’s financial statement based on the comparable market data and information from the Hotel Operating Statistics (HOST) report, Table 31 shows income and expense assumptions for a new hotel development. In these assumptions, room expenses, F&B expenses, and minor operating department expenses are all aligned as a percentage of their respective revenues. Concerning FF&E Reserve for Replacement is typically “ramps-up” in a new hotel because a new hotel is in prime condition and shouldn’t need renovations or replacements for a few years. Also, the management fee of 3% is an industry standard.

More importantly, based on the income and expenses assumptions, estimated revenues and expenses are projected over the 6 years (see Table 33). Also, the Internal Rate of Return (IRR) is a metric used to measure the profitability of an investment. It is essentially the rate at which the cash flows of an asset for some time are equal to the total initial investment costs. As shown in Table 32, if the new hotel is sold at \$28,324,000 (see Appendix C for sale assumptions), the net cash flow of \$30,111,343 can be generated in 2027.

Table 32. Unlevered IRR Analysis

	Construction		Operation				
	2021	2022	2023	2024	2025	2026	2027
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Construction Costs	(\$5,431,066)	(\$4,163,110)	--	--	--	--	--
Net Operating Income	--	--	\$1,896,675	\$1,888,856	\$1,873,261	\$1,929,459	\$1,987,343
Sale Proceeds	--	--	--	--	--	--	\$28,324,000
Net Cash Flow	(\$5,431,066)	(\$4,163,110)	\$1,896,675	\$1,888,856	\$1,873,261	\$1,929,459	\$30,311,343

Note) A construction draw schedule is presented in Appendix D.

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Appendix A. Hotels within 30-Mile Radius of Diamondhead

City & State	Class	Name of Establishment	Rooms
Bay St Louis, MS	Economy Class	Economy Inn	26
	Economy Class	Motel 6 Bay St Louis	114
	Economy Class	Super 8 Bay St Louis	42
	Economy Class	Travelers Choice Motel	19
	Midscale Class	Hollywood Casino Gulf Coast Hotel	291
	Upper Upscale Class	Bay Town Inn Bed & Breakfast	12
	Luxury Class	Silver Slipper Hotel & Casino	129
Biloxi, MS	Economy Class	Motel 6 Biloxi - Beach	113
	Economy Class	Super 8 Biloxi	200
	Economy Class	Star Inn	73
	Economy Class	Balmoral Inn	10
	Economy Class	Broadway Inn Express	32
	Economy Class	Jubilee Inn	63
	Economy Class	Days Inn Biloxi Beach	54
	Economy Class	Econo Lodge Biloxi Beach North	51
	Economy Class	Bayfront Inn	40
	Economy Class	Flamingo Beach Inn	29
	Economy Class	Super 8 D'Iberville	47
	Midscale Class	Beau Rivage Resort & Casino	1740
	Midscale Class	IP Casino Resort Spa	1088
	Midscale Class	Best Western Oak Manor	116
	Midscale Class	Quality Inn Biloxi Beach	148
	Midscale Class	Edgewater Inn	65
	Midscale Class	Treasure Bay Casino And Hotel	195
	Midscale Class	Regency Inn	71
	Upper Midscale Class	Hampton Inn Biloxi Beach Boulevard	71
	Upper Midscale Class	Harrah's Gulf Coast	499
Upper Midscale Class	Holiday Inn Express Biloxi - Beach Boulevard	99	
Upper Midscale Class	La Quinta Inns & Suites Biloxi	67	

Diamondhead, MS	Economy Class	Econo Lodge Inn & Suites Diamondhead	50
	Midscale Class	Diamondhead Inn & Suites	153
D'Iberville, MS	Economy Class	Suburban Extended Stay Hotel Biloxi North Area	131
	Upper Midscale Class	Hampton by Hilton Inn & Suites D'Iberville Biloxi	89
	Upper Midscale Class	Home2 Suites by Hilton Biloxi North D'Iberville	100
	Upper Midscale Class	Comfort Inn & Suites Biloxi D'Iberville	101
	Upscale Class	Courtyard Biloxi North D'Iberville	125
	Luxury Class	Scarlet Pearl Casino Resort	300
Gulfport, MS	Economy Class	WoodSpring Suites Gulfport	105
	Economy Class	Legacy Inn & Suites	50
	Economy Class	Days Inn Gulfport	66
	Economy Class	Econo Lodge Inn & Suites Gulfport	68
	Economy Class	Motel 6 Gulfport	99
	Economy Class	Luxury Inn	152
	Economy Class	Super 8 Gulfport Near Biloxi	95
	Economy Class	InTown Suites Gulfport	128
	Economy Class	Red Roof Inn Gulfport	112
	Midscale Class	Wingate by Wyndham Gulfport	80
	Midscale Class	Sleep Inn & Suites Gulfport	71
	Midscale Class	Quality Inn Gulfport	143
	Midscale Class	Best Western Seaway Inn	178
	Midscale Class	Beachview Vacation Cottages	15
	Upper Midscale Class	Fairfield Inn & Suites Gulfport	79
	Upper Midscale Class	Home2 Suites by Hilton Gulfport I 10	107
Upper Midscale Class	Hampton Inn Gulfport	143	

Long Beach, MS	Upper Midscale Class	Holiday Inn Express Long Beach	76
Pass Christian, MS	Midscale Class	Hotel Whiskey	11
	Upper Midscale Class	Hotel Pass Christian	10
Pearl River, LA	Economy Class	Microtel Inn & Suites by Wyndham Pearl River Slidell	79
	Economy Class	Econo Lodge Picayune	51
Picayune, MS	Economy Class	Super 8 Picayune	51
	Economy Class	Picayune Motel	24
	Economy Class	Days Inn Picayune	50
	Economy Class	Heritage Inn	24
	Upper Midscale Class	Holiday Inn Express & Suites Picayune Stennis Space Center	67
Slidell, LA	Economy Class	Long Stay Motel	45
	Economy Class	Motel 6 New Orleans Slidell	153
	Economy Class	Red Roof Inn Slidell	70
	Economy Class	Super 8 Slidell	60
	Economy Class	Americas Best Value Inn & Suites Slidell	38
	Economy Class	Relax Inn	25
	Economy Class	Days Inn Slidell	56
	Midscale Class	Sleep Inn Slidell	79
	Midscale Class	Quality Inn & Suites Slidell	57
	Midscale Class	Candlewood Suites Slidell Northshore	93
	Midscale Class	Wingate by Wyndham Slidell New Orleans East Area	82
	Upper Midscale Class	TownePlace Suites Slidell	92
	Upper Midscale Class	Hampton Inn Slidell	81
	Upper Midscale Class	Best Western Plus Slidell Hotel	63
	Upper Midscale Class	Comfort Inn & Suites Slidell	75
	Upper Midscale Class	Holiday Inn Express Slidell	81
	Upper Midscale Class	La Quinta Inns & Suites Slidell North Shore Area	59
Upper Midscale Class	La Quinta Inns & Suites New Orleans Slidell	172	
Upper Midscale Class	Holiday Inn Hotel & Suites Slidell New Orleans Area	91	
Upscale Class	Homewood Suites by Hilton Slidell	84	
Waveland, MS	Economy Class	Budget Inn	22

Source: Trend Report - Smith Travel Research (2020)

Appendix B. 2017/2018 Hotel Development Cost Per Room Amounts

	Land	Building and Site Improvements	Soft Costs	FF&E	Pre-Opening and Working Capital	Total
Budget/Economy Hotels						
Average	\$7,700	\$56,000	\$5,700	\$8,600	\$3,800	\$79,300
% of Total*	10%	70%	8%	11%	5%	
Limited-Service Hotels						
Average	\$16,200	\$91,800	\$16,700	\$17,100	\$5,200	\$139,700
% of Total*	11%	66%	10%	11%	3%	
Extended-Stay Hotels (Midscale)						
Average	\$12,700	\$93,200	\$16,800	\$18,700	\$3,800	\$139,100
% of Total*	9%	67%	11%	12%	3%	
Extended-Stay Hotels (Upscale)						
Average	\$20,200	\$124,700	\$25,200	\$24,400	\$5,100	\$192,900
% of Total*	10%	66%	11%	13%	3%	
Dual-Branded Hotels						
Average	\$41,200	\$133,200	\$19,700	\$19,600	\$11,600	\$218,900
% of Total*	13%	66%	9%	10%	3%	
Select-Service Hotels						
Average	\$34,000	\$137,600	\$29,800	\$20,800	\$6,300	\$221,000
% of Total*	13%	64%	12%	11%	3%	
Full-Service Hotels						
Average	\$30,600	\$222,500	\$41,800	\$28,900	\$10,100	\$318,200
% of Total*	12%	66%	11%	11%	3%	
Lifestyle/Soft-Branded Hotels						
Average	\$47,300	\$217,400	\$42,200	\$30,200	\$12,900	\$346,300
% of Total*	11%	64%	12%	9%	4%	
Luxury Hotels						
Average	\$74,300	\$353,100	\$102,300	\$60,800	\$13,700	\$604,200
% of Total*	11%	60%	15%	12%	3%	
Redevelopment Projects						
Average	\$60,000	\$165,500	\$33,200	\$25,900	\$9,500	\$271,000
% of Total*	19%	58%	11%	11%	4%	

Source: Sahlins (2019)

Appendix C. Sale Assumptions

Year 6 NOI	\$2,046,963
Terminal Cap Rate	7.00%
Gross Sale Proceeds	\$29,200,000
<i>Per Key</i>	\$486,667
Closing Costs (%)	3.00%
Closing Costs (\$)	\$876,000
Net Sale Proceeds	\$28,324,000
<i>Per Key</i>	\$472,067

Appendix D. Construction Draw Schedule

CONSTRUCTION DRAW SCHEDULE																							
A Upper Midsaeal Hotel, Diamondhead																							
Month			0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
Year	Begin	End	Duration	Draw	0	1	1	1	1	1	1	1	1	1	1	2	2	2	2	2	2	2	
Land Acquisition Cost																							
Land Purchase Price	0	0	1	3,000,000	(\$3,000,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Closing Costs	0	0	1	90,000	(\$90,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Land Acquisition Costs					(\$3,090,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Hard Costs																							
Hard Costs	7	24	18	233,333	\$0	\$0	\$0	\$0	\$0	\$0	\$233,333	(\$233,333)	(\$233,333)	(\$233,333)	(\$233,333)	(\$233,333)	(\$233,333)	(\$233,333)	(\$233,333)	(\$233,333)	(\$233,333)	(\$233,333)	(\$233,333)
Hard Cost Contingency	7	24	18	11,667	\$0	\$0	\$0	\$0	\$0	\$0	(\$11,667)	(\$11,667)	(\$11,667)	(\$11,667)	(\$11,667)	(\$11,667)	(\$11,667)	(\$11,667)	(\$11,667)	(\$11,667)	(\$11,667)	(\$11,667)	(\$11,667)
Total Hard Costs					\$0	\$0	\$0	\$0	\$0	\$0	(\$245,000)												
Soft Costs																							
Soft Costs	1	18	18	46,667	\$0	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)	(\$46,667)
Soft Cost Contingency	1	18	18	2,333	\$0	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)	(\$2,333)
Total Soft Costs					\$0	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)	(\$49,000)
Total FF&E	13	24	12	65,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Financing Costs																							
Broker Fee	0	0	1	71,956	(\$71,956)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Loan Origination Fee	0	0	1	62,000	(\$62,000)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Capitalized Interest	1	24	24	12,426	\$0	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)
Total Financing Costs					(\$133,956)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)	(\$12,426)
Total Project Costs					(\$3,223,956)	(\$61,426)	(\$61,426)	(\$61,426)	(\$61,426)	(\$61,426)	(\$61,426)	(\$306,426)											
Year 1 Project Costs					\$5,431,066																		
Year 2 Project Costs					\$4,163,110																		
Total					\$9,594,176																		
CHECK TO CONSTRUCTION BUDGET		OKAY																					

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