FEASIBILITY STUDY

Proposed Convention Center Hotel

NEW ORLEANS, LOUISIANA

SUBMITTED TO :

Mr. Michael J Sawaya
President & General Manager Morial Convention Center
900 Convention Center Boulevard
New Orleans, Louisiana, 70130
+1 (504) 582-3001
msawaya@mccno.com

PREPARED BY:

HVS Convention, Sports & Entertainment Facilities Consulting
205 West Randolph, Suite 1650
Chicago, Illinois 60606
+1 (312) 587-9900

205 West Randolph
Suite 1650
Chicago, Illinois 60606
+1 312-587-9900
+1 312-488-3631 FAX
www.hvs.com

August 31, 2018

Mr. Michael J. Sawaya
President & General Manager
Morial Convention Center
900 Convention Center Boulevard
New Orleans, Louisiana, 70130

Re: Proposed Headquarters Hotel
New Orleans, Louisiana

Dear Mr. Sawaya:

Attached you will find our Feasibility Study of the Proposed Headquarters Hotel in New Orleans, Louisiana.

We certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

It has been a pleasure working with you. Please let us know if you have any questions.

Sincerely,
HVS Convention, Sports & Entertainment
Facilities Consulting

Thomas Hazinski

Thomas A Hazinski, MPP
Managing Director

Brian Harris
Project Manager

Jorge Cotte

Jorge Cotte
Senior Associate

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1. Executive Summary

Subject of the Feasibility Study

The Ernest N. Morial New Orleans Exhibition Hall Authority (the "Authority") engaged HVS Convention, Sports, and Entertainment Facilities Consulting ("HVS") to conduct a Feasibility Study of a proposed convention center hotel ("Proposed Hotel"). The site for the Proposed Hotel is adjacent to the Ernest N. Morial Convention Center ("MCC"), within the Convention Center District redevelopment project.

The Authority's mission is to finance, construct, and operate facilities to attract and conduct conventions, trade shows, and other events that support and expand the economy of the State of Louisiana and the New Orleans Region. The Authority issued a Request for Proposal for Hotel Developer for a headquarters hotels on the south end of the MCC. Matthews Southwest Hospitality, LLC, Convention District Development Association, LLC, Omni Hotel Corporation, Preston Hollow Capital, LLC and Provident Resources Group, LLC (the "Developer") responded to the Authority's Request on April 20th, 2018.

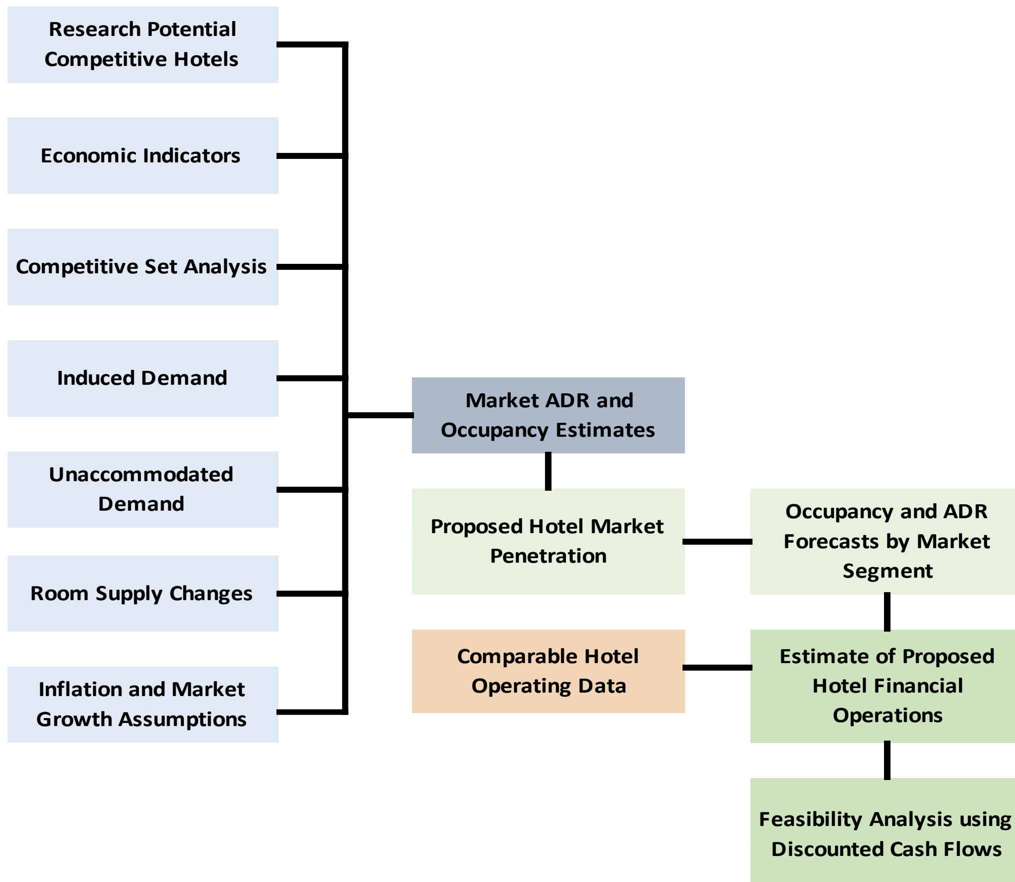
For this study, HVS assumes the property will open on January 1, 2023, as a 1200-room Omni Hotel. The property will feature a restaurant, a specialty restaurant, an entertainment bar, coffee shop, 99,903 square feet of meeting space, outdoor pool, outdoor whirlpool, fitness center, spa, business center, gift shop, guest laundry room, and a skybridge to the MCC. The hotel would also include the appropriate parking capacity and back-of-the-house space necessary to support hotel operations.

The Proposed Hotel would attract the transient & meeting and group market segments because of the national brand affiliation. Hotel guests would include price-sensitive independent travelers who are willing to pay a higher rate for a new product, groups that negotiate lower group rates for large room blocks and banquet space, and more price-sensitive leisure travelers that seek discounted room rates offered on shoulder days and weekends.

Methodology

This study employs the methodology illustrated in the figure below.

FIGURE 1-1
HOTEL FEASIBILITY STUDY METHODOLOGY



HVS 1) analyzed the historical performance of a competitive set of hotels, 2) estimated the amounts of induced and unaccommodated demand in the market, and 3) researched potential changes in room supply. Based on these hotel market trends and economic and demographic indicators of future changes in hotel demand, HVS projected the future performance of a competitive set of hotel properties. Through a market penetration analysis, we estimated the average daily room rate and occupancy of the Proposed Hotel in each of two market segments—transient, and meeting and group. An estimate of average daily room rates and occupancies generates a projection of room revenues, which, when combined with the operating data on comparable hotels, yields a ten-year estimate of financial operations. We estimated the value of the project using a discounted cash flow analysis that simultaneously evaluates the value of the debt and equity components of the project. We assessed the feasibility of the project by comparing project costs

with project value under two scenarios: 1) assuming conventional financing with debt and equity and 2) tax-exempt debt financing, as proposed by the Developer.

The methodology used to develop this study is based on the market research and valuation techniques set forth in the textbooks authored by Hospitality Valuation Services for the American Institute of Real Estate Appraisers and the Appraisal Institute, entitled *The Valuation of Hotels and Motels,*[1] *Hotels, Motels and Restaurants: Valuations and Market Studies,*[2] *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations,*[3] *Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations,*[4] and *Hotels and Motels – Valuations and Market Studies.*[5] All information was collected and analyzed by the staff of HVS Convention, Sports & Entertainment Facilities Consulting.

Pertinent Dates

The effective date of the report is August 31, 2018. Brian Harris inspected the site for the Proposed Hotel on July 10, 2018. All projections are expressed in inflated dollars.

Sites

The 8.00-acre site for the Proposed Hotel is located within the 47-acre Convention Center District redevelopment project. For the purposes of this study, we have not assumed that additional development within the Convention Center District would occur during the projection period.

[1] Stephen Rushmore, *The Valuation of Hotels and Motels*. (Chicago: American Institute of Real Estate Appraisers, 1978).

[2] Stephen Rushmore, *Hotels, Motels and Restaurants: Valuations and Market Studies*. (Chicago: American Institute of Real Estate Appraisers, 1983).

[3] Stephen Rushmore, *The Computerized Income Approach to Hotel/Motel Market Studies and Valuations*. (Chicago: American Institute of Real Estate Appraisers, 1990).

[4] Stephen Rushmore, Hotels and Motels: A Guide to Market Analysis, Investment Analysis, and Valuations (Chicago: Appraisal Institute, 1992).

[5] Stephen Rushmore and Erich Baum, *Hotels and Motels – Valuations and Market Studies.* (Chicago: Appraisal Institute, 2001).

CONVENTION CENTER DISTRICT REDEVELOPMENT PROJECT

Ownership and Management

The Developers proposed that a Special Purpose Entity ("SPE") be created by Provident Resources Group, Inc. a 501(c)(3) not-for-profit corporation that would own the hotel. The site, which is on land owned by the Authority, would be subject to a 90-year ground lease. The non-profit, single-asset, special purpose entity ("SPE") has not yet been created as of the date of this study.

Omni Hotels Management Corporation, a subsidiary of Omni Hotels & Resorts Hotel will manage the Proposed Hotel throughout the forecast period; as such, it will not be subject to franchise fees. The management agreement was not finalized as of the date of this study. We have included a market appropriate management fee of 3.0% of gross operating revenues. Other charges related to the affiliation, such as frequent guest programs, are reflected in the appropriate departmental expenses, consistent with the Uniform System of Accounts for the Lodging Industry ("USALI").

Omni Hotels is a privately-owned company headquartered in Dallas, Texas, which operates first-class and luxury hotels and resorts throughout the United States, Canada, and Mexico. The company's portfolio comprises 60 properties with a total of 21,000 rooms. Omni Hotels' strategy is to establish a global hotel brand, chiefly through ownership and management contracts of numerous full-service, luxury hotels and resorts located in key primary and secondary cities in North America.

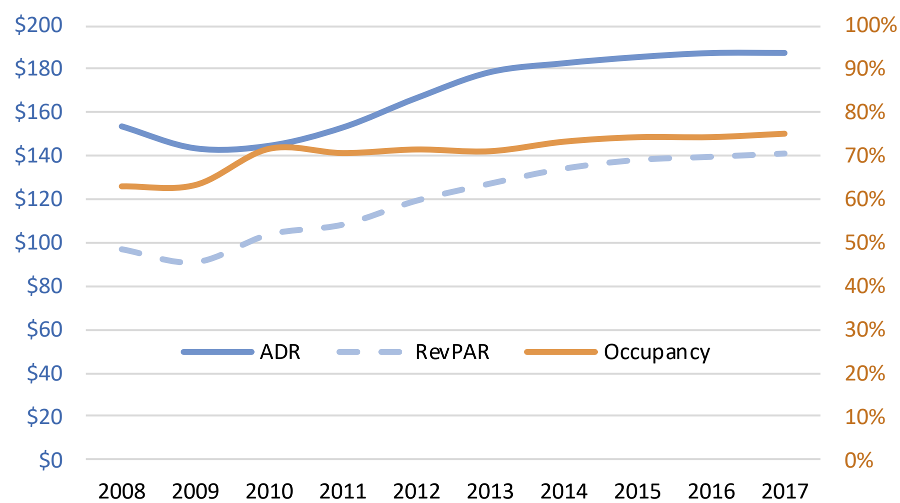
We assume that the Proposed Hotel will retain its brand affiliation throughout the holding period. Inherent in this assumption is the expectation that the property will be operated in accordance with brand standards, including requirements for services and cleanliness; that the hotel will be maintained in good condition, with all building systems in good working order; and that any necessary refurbishments or renovations will be completed in a timely manner and in accordance with the requirements of the brand.

Summary of Hotel Market Trends

HVS analyzed the performance of a set of hotels that would compete with the Proposed Hotel ("Competitive Hotels"). Five properties would compete with the Proposed Hotel on a primary basis, and 27 properties would compete on a secondary basis, for a total of 32 competitors. We weighted the room count of each secondary competitor based on its projected competitiveness with the Proposed Hotel. Section 5 of this report, Supply and Demand Analysis, provides a detailed discussion of the weighting of the secondary competitors.

The following figure provides a long-term perspective on the supply and demand trends the Competitive Hotels, with data provided by Smith Travel Research ("STR"). STR is an independent research firm that compiles data on the lodging industry.

FIGURE 1-2
HISTORICAL COMPETITIVE HOTELS TRENDS



Source: STR

Average daily room rate ("ADR") is the annual revenue of the hotel divided by the number of occupied room nights. Occupancy is a percentage calculated by dividing the annual number of occupied room nights by the annual number of available room nights. Revenue per available room, ("RevPAR") is a common hotel industry metric, calculated by multiplying the occupancy rate by ADR and provides a combined measure of rate and occupancy.

In 2017, the ADR of the Competitive Hotels did not change, but occupancy increased by 1.1%, causing RevPAR to increase by 1.1%. Demand grew by 0.9% in 2017. This increase combined with a decrease in available room nights of -0.2%, caused the occupancy rate to rise to 75%.

The following figure reflects HVS estimates of operating data of the Competitive Hotels for the years 2015 through 2017.

FIGURE 1-3
WEIGHTED HISTORICAL SUPPLY, DEMAND, OCCUPANCY, ADR, & REVPAR (2015 - 2017)

Year	Room Nights Available	Room Nights Sold	Competitive Hotels Occupancy	Competitive Hotels ADR	Competitive Hotels RevPAR
Amount					
2015	3,327,000	2,466,000	74.1%	$179.14	$132.78
2016	3,328,000	2,455,000	73.8%	$184.28	$135.94
2017	3,326,000	2,493,000	75.0%	$185.30	$138.89
Percent Change					
2016	0.0%	-0.4%	-0.5%	2.9%	2.4%
2017	-0.1%	1.5%	1.6%	0.6%	2.2%

Since 2015, accommodated room nights increased by 1.1%, while the number of available room nights remained flat. As a result, competitor occupancy increased 1.1% during the same period. ADR grew 3.4% since 2015. The combined effect of changes in occupancy and ADR caused RevPAR to grow 4.6% over the three-year period analyzed here.

Monthly Room Night Demand

HVS also analyzed changes in the Competitive Hotels over the last 12 months as reported to STR.

FIGURE 1-4
UNWEIGHTED HISTORICAL 12 MONTH COMPETITIVE DEMAND TRENDS

Month	Occupied Room Nights	Prior Year	Difference	Change in Demand
Jul-17	306,165	297,772	8,393	2.8%
Aug-17	236,731	230,836	5,895	2.6%
Sep-17	283,453	278,547	4,906	1.8%
Oct-17	301,376	330,175	-28,799	-8.7%
Nov-17	289,256	286,740	2,516	0.9%
Dec-17	292,645	252,203	40,442	16.0%
Jan-18	283,964	277,899	6,065	2.2%
Feb-18	300,270	294,066	6,204	2.1%
Mar-18	347,946	355,206	-7,260	-2.0%
Apr-18	336,416	320,607	15,809	4.9%
May-18	315,671	330,419	-14,748	-4.5%
Jun-18	297,250	299,293	-2,043	-0.7%
12 Month Total	3,591,143	3,553,763	37,380	1.1%

Source: STR

Demand within the competitive set showed modest growth of 1.1% over the last 12 months. The exceptional room night demand growth in December 2017 (16%) may have been caused by the increased popularity of New Orleans for the Christmas holidays and the start of the 2018 Tricentennial Celebration. Interviews with hotel managers indicate that the growth of short-term rentals reduced hotel room night demand growth during peak months including October 2017, March 2018, and May 2018.

Summary of Forecast Occupancy and Average Rate

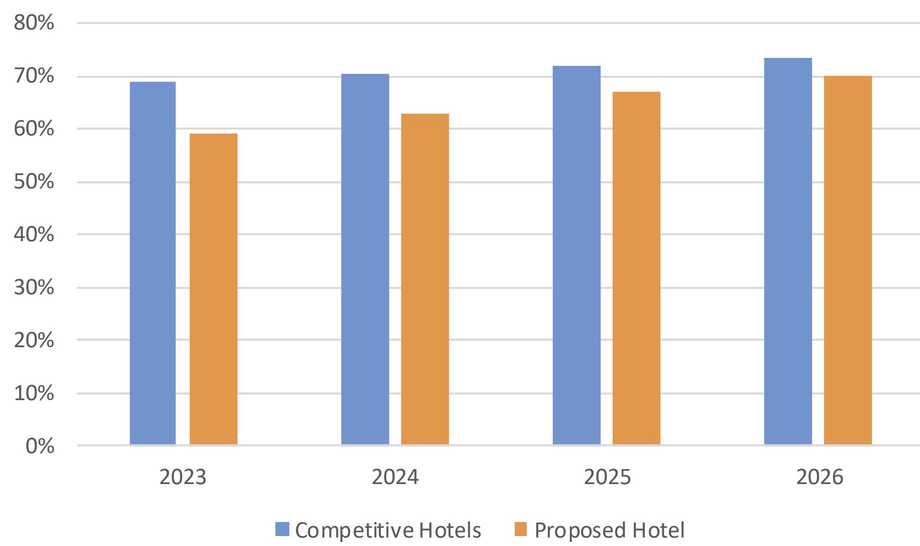
To forecast the occupancy of the Proposed Hotel, HVS performed a market penetration analysis of two market segments, transient and meeting and group. The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. For the demand analysis, the overall market is divided into two market segments based on the nature of travel. The following figure summarizes estimates of accommodated room night demand by market segment, assuming the Proposed Hotel begins operation on a calendar year starting January 1, 2023.

FIGURE 1-5
COMPETITIVE HOTELS AND PROPOSED HOTEL OCCUPANCY FORECAST

Calendar Year	2023	2024	2025	2026
Available Room Nights	438,000	438,000	438,000	438,000
Absorption by Segment				
Transient	75,900	80,800	84,200	85,000
Meeting and Group	179,700	193,500	208,100	222,000
Total Absorption	255,600	274,300	292,300	307,000
Projected Occupancy	59%	63%	67%	70%
Percent Segmentation				
Transient	30%	29%	29%	28%
Meeting and Group	70%	71%	71%	72%

The following figure compares the projected occupancy of the Proposed Hotel with the Competitive Hotels for the first four years of operation.

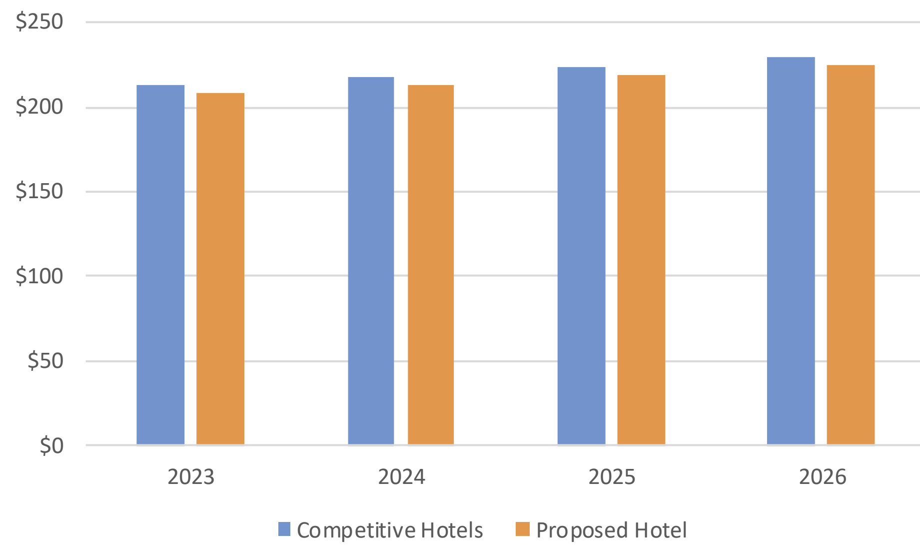
FIGURE 1-6
COMPETITIVE HOTELS AND PROPOSED HOTEL OCCUPANCY FORECAST



The Proposed Hotel would open on January 1, 2023, and for the purposes of this analysis we assume would take four years to stabilize. Based on our analysis presented in the Projection of Occupancy and Average Rate chapter, in a stabilized year of demand, the property could absorb room nights and achieve a stabilized occupancy level of 70%.

In positioning the ADR, we consider the ADR of Competitive Hotels as well as the location of the Proposed Hotel, its brand and quality, and its adjacency to the MCC. The figure below compares the estimated ADR of the Proposed Hotel with the ADR of the Competitive Hotels.

FIGURE 1-7
COMPETITIVE HOTELS & PROPOSED HOTEL AVERAGE RATE FORECAST



We positioned the ADR in the base year 2017 at $160 for transient demand and $190 for meeting and group demand for an average rate of $180. This rate would grow with inflation and in proportion to the rate of growth in the competitive set. The positioned ADR is further discounted by 3.0% in 2023 and 1.0% in 2024 to reflect typical management practices during the years before the hotel stabilizes in the market. The figure below compares the estimated ADR of the Proposed Hotel with the Competitive Hotels for calendar years starting January 1, 2023.

Summary of Forecast Income and Expense Statement

HVS supports its estimates of revenue and expense levels using data on the operations of comparable hotels and factors specific to this market. The following figure presents the HVS forecast of income and expense for a stabilized year of operation.

FIGURE 1-8
FINANCIAL OPERATIONS IN THE STABILIZED YEAR 2026

STATISTICS		
Number of Rooms	1200	
Occupied Room Nights	306,600	
Occupancy	70%	
Average Rate	$224.70	
RevPAR	$157.29	
	$000	**% of Gross**
Operating Revenue		
Rooms	$68,894	57.7%
Food	38,290	32.1%
Beverage	4,595	3.8%
Other Operated Departments	6,126	5.1%
Miscellaneous Income	1,532	1.3%
Total Operating Revenues	$119,437	100%
Departmental Expenses*		
Rooms	$15,846	23.0%
Food & Beverage	25,731	60.0%
Other Operated Departments	2,451	40.0%
Total Expenses	$44,027	36.9%
Departmental Income	$75,410	63.1%
Undistributed Operating Expenses		
Administrative & General	$7,643	6.4%
Marketing	8,093	6.8%
Prop. Operations & Maint.	4,121	3.5%
Utilities	3,147	2.6%
Info & Telecom Systems	1,199	1.0%
Total Expenses	24,203	20.3%
Gross House Profit	$51,207	42.9%
Management Fee	$3,583	3.0%
Income Before Non-Opr. Inc. & Exp.	$47,624	39.9%
Non-Operating Income & Expenses		
Property Taxes	$0	0.0%
Insurance	1,049	0.9%
Reserve for Replacement	4,777	4.0%
Total Expenses	$5,827	4.9%
EBITDA Less Reserve	$41,797	35.0%

*Departmental expense ratios are calculated as a percentage of departmental revenue.

The Proposed Hotel is expected to stabilize at a profitable level. Please refer to Section 7 of this report, Projection of Income and Expense, for a detailed explanation of the methodology used in deriving this forecast.

Approaches to Financing

Cities have participated in the financing of convention center hotels using three types of financing models, as shown in the following figure.

FIGURE 1-9
APPROACHES TO PUBLIC INVOLVEMENT IN HOTEL FINANCING

	Ownership	Capital Stack	Default Risk	Cost of Funds	Final Ownership
Option 1	Private	Debt, Equity, Public Subsidy	Private (Equity Investor and Lenders)	9% to 11%	Private
Option 2	Public	Tax Exempt Debt plus Incentives or Credit Enhancement	Bondholders & Public Sponsor	4% to 6%	Public
Option 3	Non-Profit	Tax Exempt Debt plus Incentives	Bondholders	7% to 9%	Public

Option one is the standard commercial development of a hotel with debt and equity financing. The private developer would assume all risk of development including bankruptcy of the project. Depending on the circumstances, local governmental entities may offer incentives to the developer. The site could either be owned fee simple or controlled through a long-term lease.

Option two would have the local government develop the hotel and assume all the development risk, including the risk of default on debt service payments. The local government would issue tax-exempt bonds to finance the project with little or no equity. The local government would enter into a Qualified Management Agreement ("QMA") with a national hotel brand. A QMA conforms to Internal Revenue Service guidelines for projects financed with tax-exempt debt. As a brand managed property, the hotel would not be subject to franchise fees. The site would normally be owned by the sponsoring governmental entity.

Option three would have a non-profit, single purpose, special purpose entity ("SPE") own the hotel. The SPE would bear the risk of development, including default on the repayment of debt. The SPE would issue tax-exempt bonds to finance the project with little or no equity. When the financing for the hotel is repaid, ownership would revert to the local government, which can continue to run the hotel or sell it and keep all the proceeds. The property would operate under a QMA between the non-profit owner and the management. The site could either be purchased or subject to a long-term lease.

This study analyzes project feasibility under Options one and three. The feasibility analysis of Option one determines whether conventional financing is a viable option. Feasibility Analysis of Option three models the Developer's proposed plan. The Authority has not contemplated development under Option two.

Option One: Private Development of the Proposed Hotel

In a first stabilized year of operations, $41.8 million would be available to pay debt service and provide a return on equity. We used a discounted cash flow analysis to estimate the present value of hotel net operating income and its residual value. The figure below shows the parameters and valuation of the project assuming conventional financing (Option one).

FIGURE 1-10
PRELIMINARY ASSESSMENT OF FEASIBILITY

Assumptions	
Rooms	1200
Loan-To-Value Ratio	65%
Blended Yield Senior and Mezz.	5.00%
Equity Yield	17.50%
Transaction Costs for Sale	2.00%
Sale End of Year	10
Terminal Capitalization Rate	8.50%
Total Property Yield	10.50%

The financing assumptions reflect current credit market conditions for financing full-service hotels. HVS relied on its survey of hotel transactions to determine debt–equity splits, yield requirements, and capitalization rates.

FIGURE 1-11
ESTIMATED PRESENT VALUE CONVENTIONAL FINANCING

Estimated Value at Opening	January 1, 2023
Mortgage Component	$292,294,631
Equity Component	157,389,417
Total	$449,684,047
Value per Room	$374,737
Assumptions Range of Costs	
$425 thousand per Room	$510,000,000
$475 thousand per Room	$570,000,000
$525 thousand per Room	$630,000,000
Possible Funding Surplus (Gap)	
$425 thousand per Room	($60,315,953)
$475 thousand per Room	($120,315,953)
$525 thousand per Room	($180,315,953)

Based on these assumptions, a 1200-room hotel would have a value of approximately $450 million. This value assumes that because of governmental ownership of the land, property taxes would not be payable. Development costs could range from $510 to $630 million. Consequently, the funding gap could range from $60 to $180 million. We conclude that under current market conditions, conventional financing is not feasible.

Option Three: Non-Profit Financing Plan

The Developer proposed that Preston Hollow Capital, LLC, an independent specialty finance company, would purchase tax-exempt debt from the not-for-profit SPE, which would own the Proposed Hotel during the financing period. The SPE would be established for the benefit of the Authority.

The Proposed Hotel would revert to the Authority once the debt has been repaid, which is projected to be after 40 years of operation. At that time, the Authority may choose to sell the asset and retain 100% of the proceeds or continue to own the hotel and receive the net operating income of the hotel.

To value the project under the proposed financing plan, we assumed the following parameters as proposed by the Developer.

- Non-profit ownership,
- Three tiers of tax-exempt debt,
- Private placement of subordinate bonds,
- 40-year amortization of debt,
- No MCC default risk,
- Reversion of hotel to MCC after the debt is repaid,
- MCC Capital Contribution of $41 million,
- 10% rooms tax is captured by the project on 95% of room revenues, and
- 4% sales tax is captured by the project on 60% of food and beverage sales.

The figure below shows an HVS estimate of the sources and uses of funds.

FIGURE 1-12
SOURCES AND USES OF FUNDS ($ MILLIONS)

Proposed Sources		
Senior Bond Proceeds	7.00%	$305
Mezzanine Bond Proceeds	8.50%	180
Subordinated Bond Proceeds	11.00%	107
Interest Earnings	2.00%	12
MCC Capital Contribution		41
Total Sources		$646
Proposed Uses		
Project Funding		$533
Reserve Accounts		43
Capitalized Interest		54
Working Capital		9
Issuance Costs		7
Total Uses of Funds		$646

Based on these assumptions, tax-exempt borrowing, plus a $41 million investment by the Authority in the 1200-room hotel would generate $533 million for project development costs. Development costs could range from $510 to $630 million. Consequently, the project is feasible if construction costs are in the lower range of projected costs. We conclude that under current market conditions, the proposed tax-exempt financing with the contribution of $41 million from the Authority is feasible if construction costs do not exceed $533 million.

Public Participation in Hotel Financings in Other Cities

The level of public assistance that would be required to finance the Proposed Hotel is at the low end of the range of incentives provided by other cities for similar hotel projects. See the following figure.

FIGURE 1-13
EXAMPLES OF PUBLIC INVOLVEMENT IN HOTEL FINANCING

Project	Ownership	Credit Enhancement	Year	Rooms	Cost ($ millions)	Cost Per Key ($ thousands)	Incentive ($ millions)	Incentive %
Oklahoma City Omni	Private	No	2021	605	235	388	85	36%
Loews Kansas City	Private	No	2020	800	328	410	160	49%
Portland Metro Hyatt Regency	Private	No	2019	600	224	373	74	33%
Washington Marriott Marquis	Private	No	2014	1,175	520	443	230	44%
Omni Nashville	Private	No	2013	800	247	309	150	61%
Omni Forth Worth	Private	No	2009	614	230	375	89	39%
Marriott Marquis Chicago	Public	Yes	2017	1,205	450	373	50	11%
Dallas Omni	Public	Yes	2011	1,001	500	500	100	20%
							Average	**37%**
New Orleans HQH	Non-Profit	No	2023	1,200	558	465	173	31%

Source: HVS, media reports, respective project documents

The estimated level of public participation proposed in New Orleans is lower than the average contribution by other sponsoring municipalities shown in the above figure. Many market specific factors influence the amounts of public incentives in hotel development projects. These factors include but are not limited to hotel market conditions, the cost of debt and equity, the type of hotel ownership, the creditworthiness of the sponsoring municipality, the level of risk assumed by the hotel owner or sponsoring municipality, and the economic and community benefits generated by the hotel project. Consequently, the amounts of incentives offered in other cities do not indicate the appropriate level of incentives for a project in New Orleans.

Extraordinary Assumptions

An extraordinary assumption is one which relates directly to the Proposed Hotel development and which, if found to be false, could alter our opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the Proposed Hotel, or about conditions external to the property such as market conditions or trends, or about the integrity of data used in an analysis. An extraordinary assumption may be used in the analysis only if it is required to develop credible options and conclusions; a reasonable basis exists for the assumption, use of the extraordinary assumption results in a credible analysis. HVS discloses the use of any extraordinary assumption.

In addition to the normal development assumptions that would apply to any hotel, the projections of the Proposed Hotel's occupancy and rates are dependent on the extraordinary assumption that the $557 million five-year Capital Improvement Plan for the MCC and the surrounding area is implemented as planned. The five-year Capital Improvement Plan is shown in the following figure.

FIGURE 1-14
MCC FIVE YEAR CAPITAL IMPROVEMENT PLAN

Investment	($ millions)
MCC Capital Improvements	
Meeting Rooms/Pre-function Space	$195
Capital Equipment	109
Restroom Renovation	16
Interior Modernization	50
Morial Memorial	2
Lighting Retrofit	8
Sub-Total	$379
Related Capital Improvements	
Retail/Residential	$25
Linear Park	79
Skybridge & Related Infrastructure	33
Convention Center Headquarters Hotel	41
Sub-Total	$178
Total Five Year Investment	$557

Source: The Authority

Our analysis does not address unforeseeable events that could alter the financial performance of the proposed project and the market conditions reflected in the analyses. We assume that no significant changes, other than those anticipated and explained in this report, would take place from the date of inspection to the date of this report. Our findings are subject to all the assumptions and limiting conditions described herein. The reader should contact the authors with any questions after reading the report.

2. Description of Site and Proposed Hotel

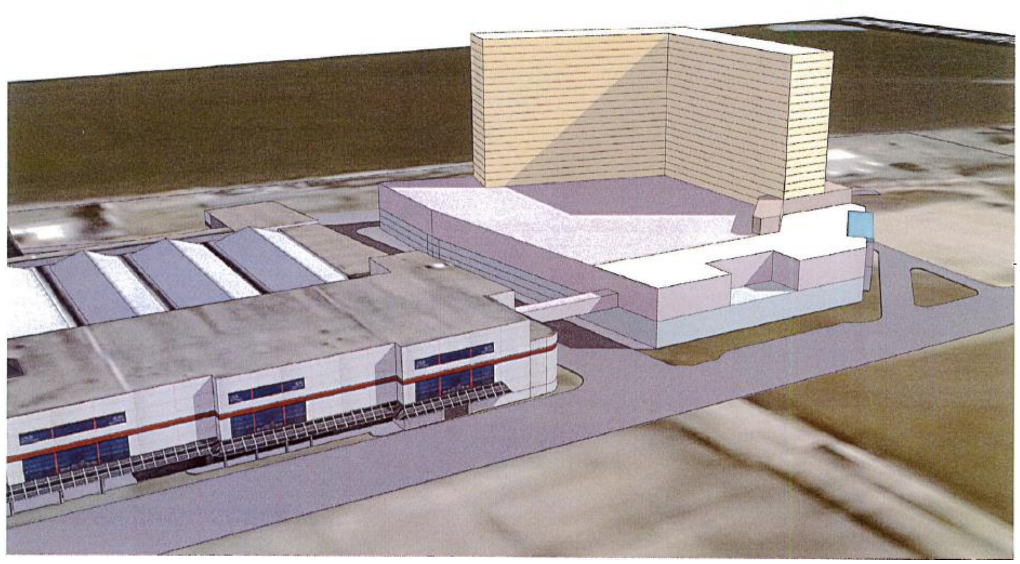
The suitability of the land for the operation of a lodging facility is an important consideration affecting the economic viability of a property and its ultimate marketability. The site for the Proposed Hotel will be adjacent to the MCC. The key site characteristics that affect the viability of a hotel property include its capacity to accommodate the project, accessibility, visibility, and supporting road and utility infrastructure. The quality of a lodging facility's physical improvements has a direct influence on marketability, occupancy, and average room rate. The design and functionality of the structure can also affect operating efficiency and overall profitability.

Description of the Proposed Hotel

On April 20th, 2018 Matthews Southwest Hospitality, LLC, Convention District Development Association, LLC, Omni Hotel Corporation, Preston Hollow Capital, LLC and Provident Resources Group, LLC ("Developer") responded to the Authority's Request for Proposal for Hotel Developer.

HVS assumes that the hotel will be an Omni Hotels and Resorts, conforming at a minimum to the brand specific guidelines. Our forecast assumes that the property will be maintained in a competitive condition, undergoing regular renovations of soft goods and case goods funded primarily by a reserve for replacement.

RENDERING OF EXTERIOR OF THE PROPOSED HOTEL



Source: Developer

The following figure shows the features of the Proposed Hotel.

FIGURE 2-1
PROPOSED HOTEL FACILITIES

Guestroom Configuration		**Bay/Key**	**Keys**
Kings		500	500
Queen/Queen		650	650
2-Bay Hospitality Suites & Guest Suites		62	31
3-Bay Hospitality Suites & Guest Suites		51	17
4-Bay Suites		4	1
5-Bay Suites		5	1
Total (ADA-Compliant Rooms per Local Code)		1,272	1,200
Food & Beverage Facilities			**Seating Capacity**
Restaurant			TBD
Specialty Restaurant			TBD
Entertainment Bar			TBD
Coffee Shop			TBD
Indoor Meeting & Banquet Facilities			**Square Feet Combined**
Grand Ballroom			30,000
Ballroom			20,020
Ballroom			15,010
Meeting Rooms			34,873
Total Square Feet of Meeting			99,903
Amenities & Services			
Outdoor Pool	Spa		
Outdoor Whirlpool	Gift Shop		
Fitness Center	Guest Laundry Room		
Business Center			
Infrastructure			
Parking Spaces Hotel	1,000		
Elevators	12 Guest/6 Service		
Life Safety Systems	Sprinklers, Smoke Detectors		
Construction Details	Steel/Concrete		

The lobby is anticipated to be large and appropriate for a full-service hotel with extensive meeting space. The Proposed Hotel is expected to offer a large restaurant, specialty restaurant, lounge, room service, and banquet operations. The hotel will feature standard and suite-style guestroom configurations. Guestroom bathrooms will be of a standard size, with a shower-in-tub, commode, and single sink with vanity area, featuring a stone countertop. The property will be attached to the MCC. The Proposed Hotel is expected to become one of the premier lodging and meeting facilities in the City of New Orleans.

Ample parking will be available in the underground lot under the Proposed Hotel. The hotel structure is a single building, which will be constructed of steel and poured concrete.

The Proposed Hotel's generous ballroom and meeting space will allow the property to host one event while simultaneously setting up for the next group.

FIGURE 2-2
PROPOSED HOTEL MEETING SPACE CAPACITY

Function Space	Floor Area (square feet)	Approximate Guest Capacity		
		Banquet	Classroom	Reception
Grand Ballroom	30,000	1,875	1,200	2,250
Ballroom	20,020	1,251	801	1,502
Ballroom	15,010	938	600	1,126
Meeting Rooms	34,873	2,180	1,395	2,615

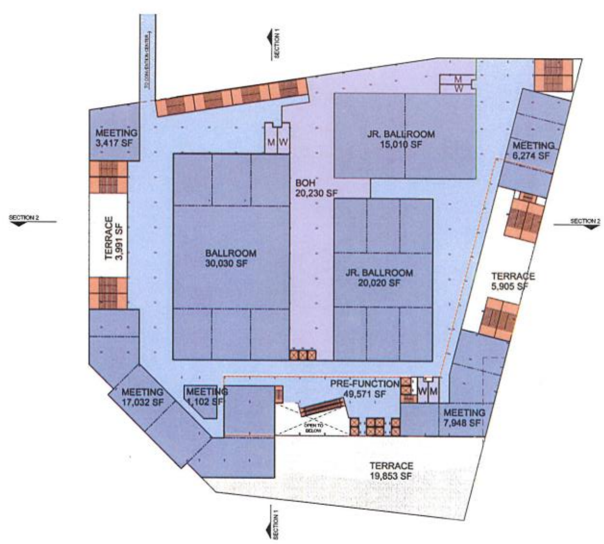
LOBBY LEVEL

Source: Omni Hotels and Resorts

UNDERGROUND GARAGE

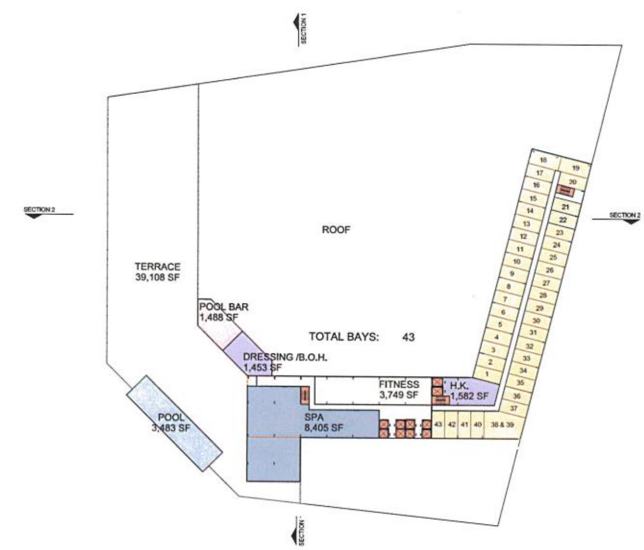
Source: Omni Hotels and Resorts

BALLROOM LEVEL



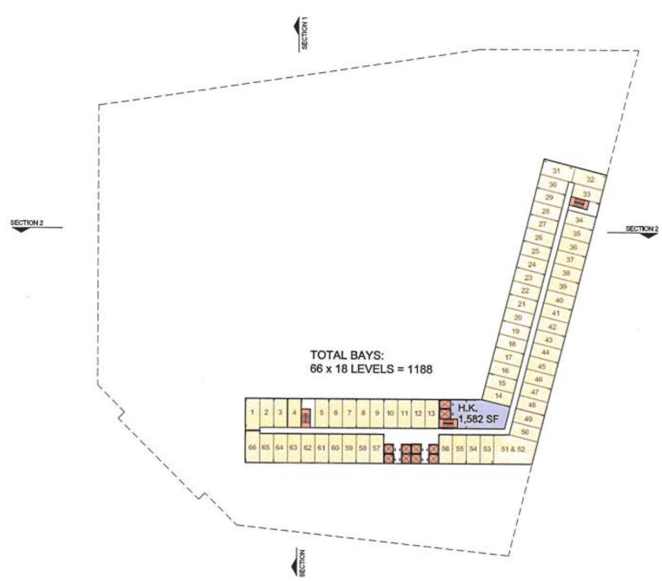
Source: Omni Hotels and Resorts

AMENITY LEVEL



Source: Omni Hotels and Resorts

HOTEL LEVEL



Source: Omni Hotels and Resorts

The Proposed Hotel will have the largest ballroom among the primary competitors, as shown in the following figure.

FIGURE 2-3
COMPARISON OF BALLROOMS IN PROPOSED HOTEL AND PRIMARY COMPETITORS

Venue	Location	Square Feet
Proposed Hotel	Grand Ballroom	30,000
Marriott New Orleans	Grand Ballroom	27,089
Hilton New Orleans Riverside	Grand Ballroom	26,894
Sheraton New Orleans	Napoleon Ballroom	22,551
Hyatt Regency New Orleans	Celestin Ballroom	22,538
New Orleans Downtown Marriott at the Convention Center	Blaine Kern Ballroom	6,912

For this study, we assume the following:

- The Proposed Hotel would offer a well-designed, functional layout of support areas, restaurant & lounge, ballroom & meeting space, and guestrooms.
- The hotel staff would be adequately trained to allow for a successful opening.
- Pre-marketing efforts would have introduced the product to major local accounts for at least six months in advance of the opening date.
- The Proposed Hotel would meet all pertinent codes and brand standards.
- The Proposed Hotel would be fully open and operational on the assumed opening date and would meet all local building codes.
- Construction would not create any environmental hazards.
- The Proposed Hotel would fully comply with the Americans with Disabilities Act.

Capital Expenditures

After its opening, the Proposed Hotel would require ongoing upgrades and periodic renovations to maintain its competitive level in this market. The forecasted reserve for replacement should adequately fund these costs if the hotel's staff employs a successful, ongoing maintenance program.

Site Utility

The topography of the site is generally flat, and the shape permits efficient use of the site for building and site improvements, including ingress and egress. The site will not contain any significant portion of undeveloped land that could be sold, entitled, and developed for alternate use. The site will be fully developed with building and site improvements.

According to property ownership, the site is served by all necessary utilities.

Soil and Subsoil Conditions

Geological and soil reports were not provided to us or made available for our review during the preparation of this report. We are not qualified to evaluate soil conditions other than by visual inspection of the surface; no extraordinary conditions were apparent.

Nuisances and Hazards

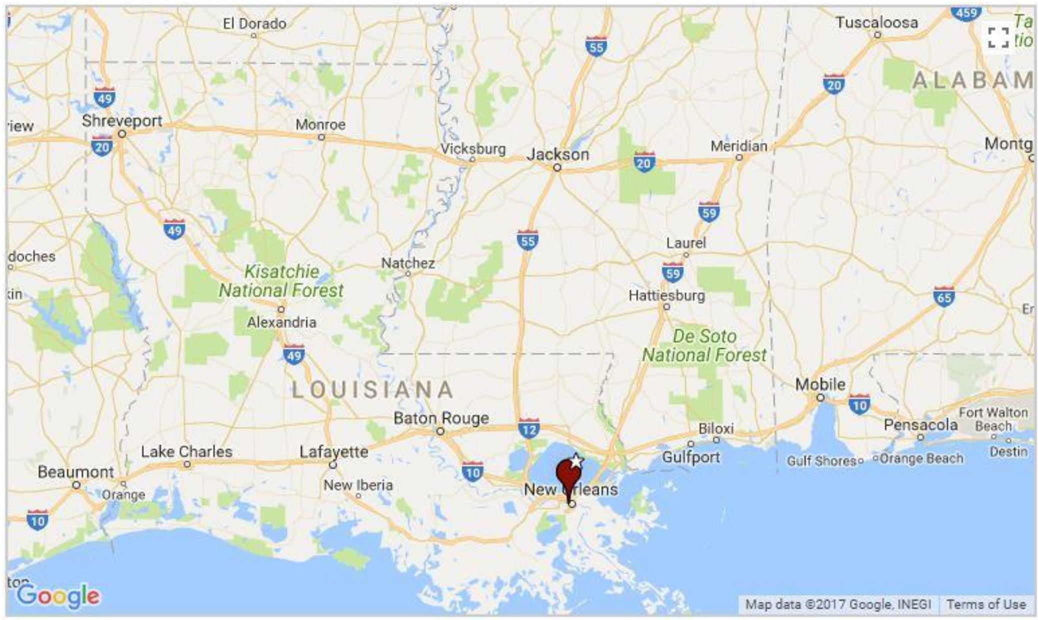
The Developer did not inform HVS of any site-specific nuisances or hazards at the proposed site, and there were no visible signs of toxic ground contaminants at the time of our inspection. Because we are not experts in this field, we do not warrant the absence of hazardous waste and urge the reader to obtain an independent analysis of these factors.

VIEW OF AREA SURROUNDING THE SITE

Access and Visibility

Primary regional access through the area is provided by east/west Interstate 10, which extends to Mobile, Alabama, to the east and such cities as Baton Rouge and Houston, Texas, to the west. North/south Interstate 55, which originates near New Orleans, provides access to Jackson, Mississippi, and Memphis, Tennessee, to the north. North/south Interstate 59, which also originates near New Orleans, provides access to central Mississippi, including Hattiesburg and Meridian. U.S. Highway 90 extends eastward to Gulfport, Mississippi, and westward to Lafayette. A variety of regional routes serve the Proposed Hotel's market, as illustrated on the following map.

REGIONAL ACCESS



Airport Access

The Proposed Hotel will be well served by the Louis Armstrong New Orleans International Airport, which is located approximately ten miles to the west of the site for the Proposed Hotel.

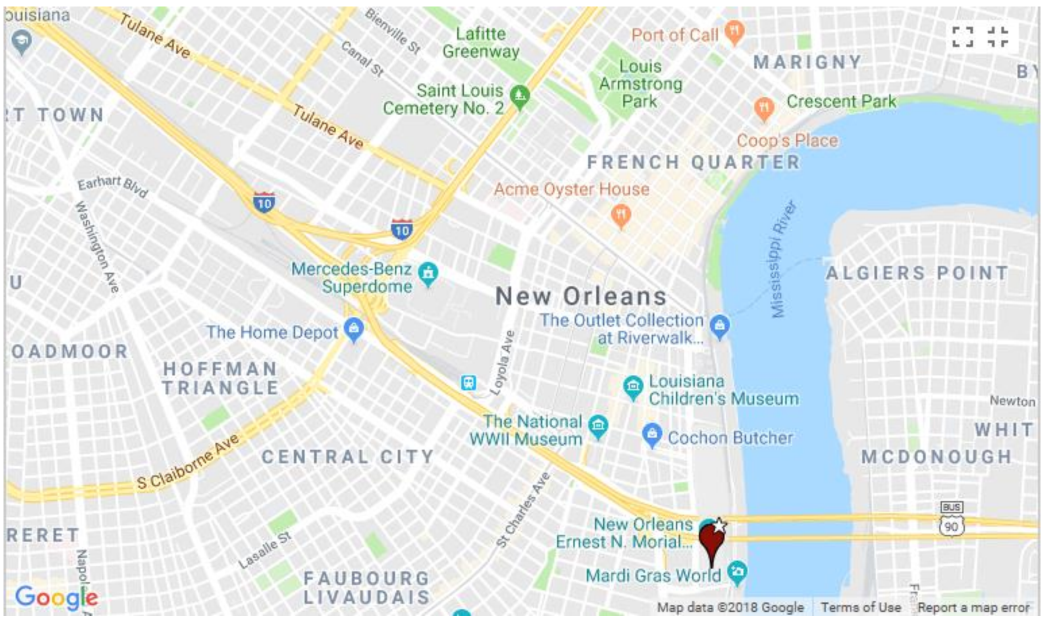
Neighborhood

The neighborhood surrounding a lodging facility often has an impact on a hotel's status, image, class, style of operation, and sometimes its ability to attract and properly serve a market segment.

The Proposed Hotel's neighborhood is generally defined by the boundaries of Canal Street to the northeast, Interstate 10 to the northwest, U.S. Highway 90/Pontchartrain Expressway to the southwest, and the Mississippi River to the east. The neighborhood is characterized by high-rise office and residential buildings, hotels, world-renowned restaurants, upscale shopping centers and retail shops, entertainment venues, and tourist attractions. Some specific entities and businesses in the area include the MCC, the Mercedes-Benz Superdome, the Smoothie King Center, Entergy Corporation, Shell Pipeline Corporation, and Capital One. The proximity of numerous restaurants is considered supportive of the operation of a full-service lodging property. Hotels near the site include the Hampton Inn & Suites New Orleans-Convention Center, Hilton Garden Inn New Orleans Convention Center, Hyatt Place New Orleans Convention Center, and New Orleans Downtown Marriott at the Convention Center.

Convention Center Boulevard provides the Proposed Hotel's primary vehicular access. The site is easily accessed from Interstate 10 and the Pontchartrain Expressway, which are the nearest major highways. The site will provide convenient regional access for guests.

NEIGHBORHOOD

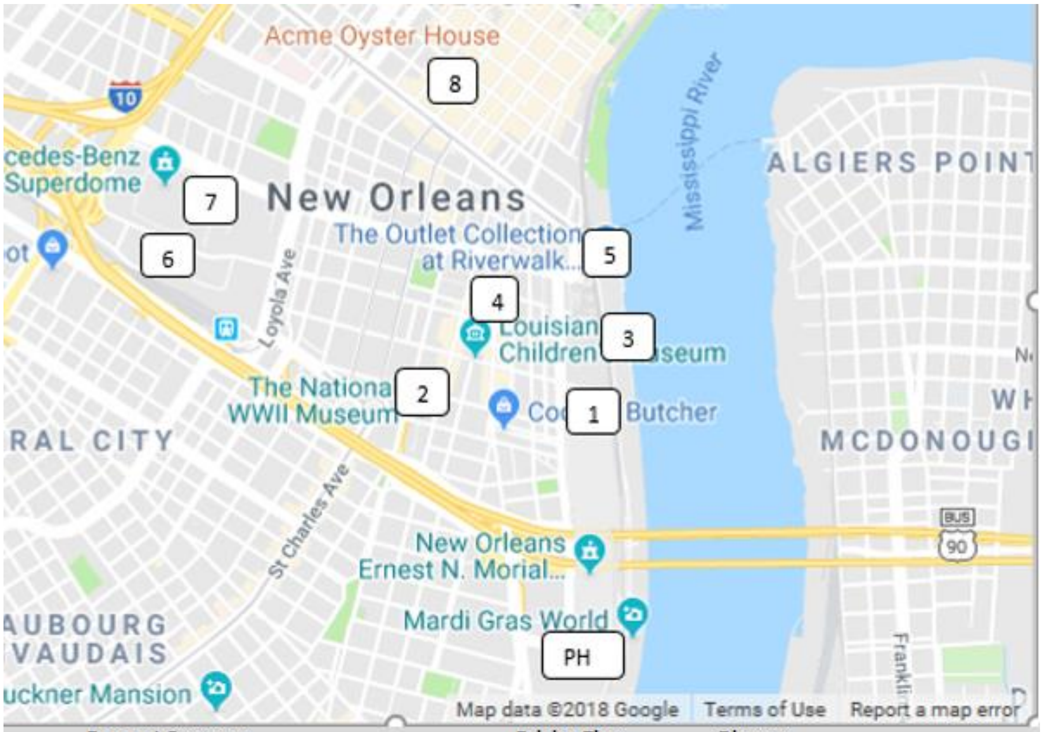


Proximity to Local Demand Generators and Attractions

The Proposed Hotel will be located near the area's primary generators of lodging demand. A sample of these demand generators is reflected on the following map, including respective distances from and drive times to the Proposed Hotel. The hotel is within walking distance of major event venues such as the Mercedes-Benz Superdome, National WWII Museum, and the Smoothie King Center. Overall, the Proposed Hotel will be situated south of most local demand generators, including the MCC.

HVS

ACCESS TO DEMAND GENERATORS AND ATTRACTIONS

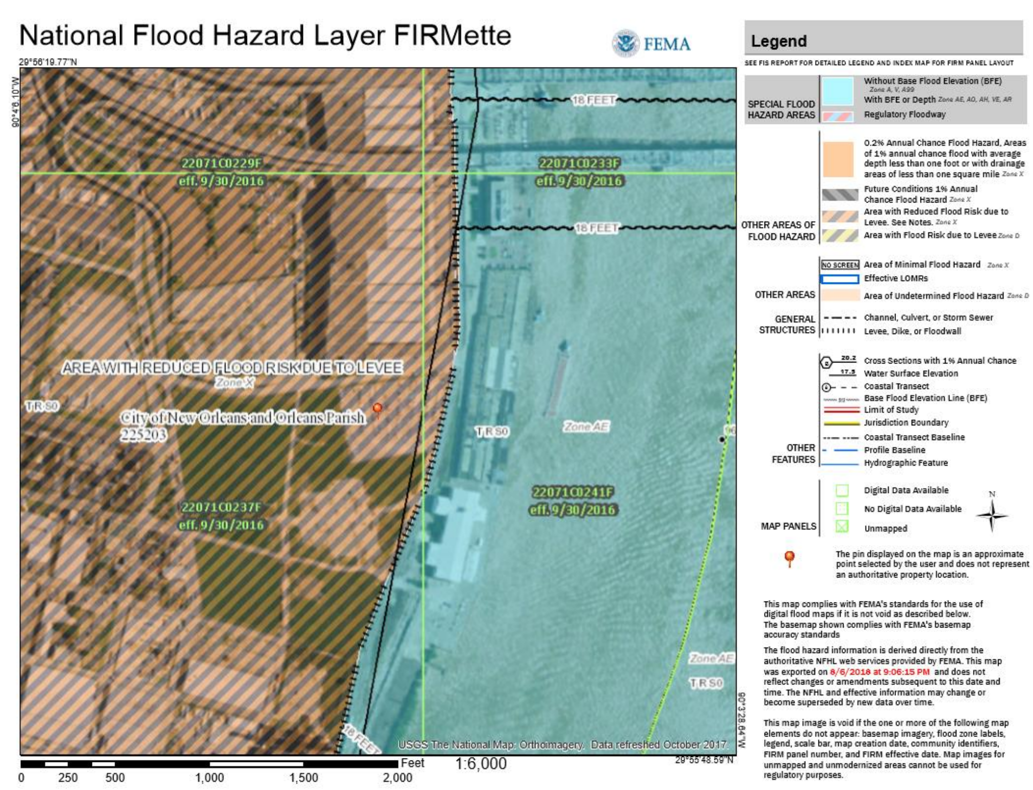


	Demand Generator	Driving Time	Distance
PH	Proposed Hotel	-	-
1	Ernest N. Morial Convention Center	Adjacent	Adjacent
2	The National WWII Museum	4 Minutes	1 Miles
3	Cruise Ship Terminals	6 Minutes	1.5 Miles
4	Harrah's New Orleans Casino	5 Minutes	1.5 Miles
5	Audobon Aquarium of the Americas	6 Minutes	1.5 Miles
6	Smoothie King Center	8 Minutes	2 Miles
7	Mercedes Benz Superdome	8 Minutes	2 Miles
8	French Quarter	9 Minutes	2 Miles

Flood Zone

According to the Federal Emergency Management Agency map illustrated below, the site is in flood zone X (shaded).

COPY OF FLOOD ZONE MAP



The flood zone definition for the X (Area with Reduced Flood Risk Due to Levee) designation is as follows: areas outside the 500-year floodplain; areas of the 500-year flood; areas of the 100-year flood with average depths of less than one foot or with drainage areas less than one square mile and areas protected by levees from the 100-year

Zoning

The site is zoned MU-2, high-intensity mixed-use district. The MU-2 high-intensity mixed-use district is intended to encourage walkable neighborhood centers and corridors conducive to transit, with a mix of residential and supportive commercial and office uses. Buildings may contain vertical mixed-use, as well as single-purpose uses designed to be located both at neighborhood centers and along major arterial corridors.

We assume that all necessary permits and approvals will be secured (including the appropriate liquor license, if applicable) and that the Proposed Hotel will be constructed following local zoning ordinances, building codes, and all other applicable regulations. Our zoning analysis should be verified before any physical changes are made to the site.

Easements and Encroachments

We are not aware of any easements attached to the possible sites that would significantly affect the utility of the property or marketability of this project.

Convention Center District Development Project

The 8.00-acre site for the Proposed Hotel is located within the 47-acre Convention Center District redevelopment project. The development of the Convention Center District Project will create dining and entertainment options within walking distance of the Proposed Hotel, as shown in the following diagram.

CONVENTION CENTER DISTRICT REDEVELOPMENT PROJECT

The site is well suited for future hotel use, with acceptable access, visibility, and topography for effective operation.

Ownership, Franchise, and Management Assumptions

The single-asset, special purpose entity ("SPE"), which will own the Proposed Hotel has not yet been created as of the date of this study.

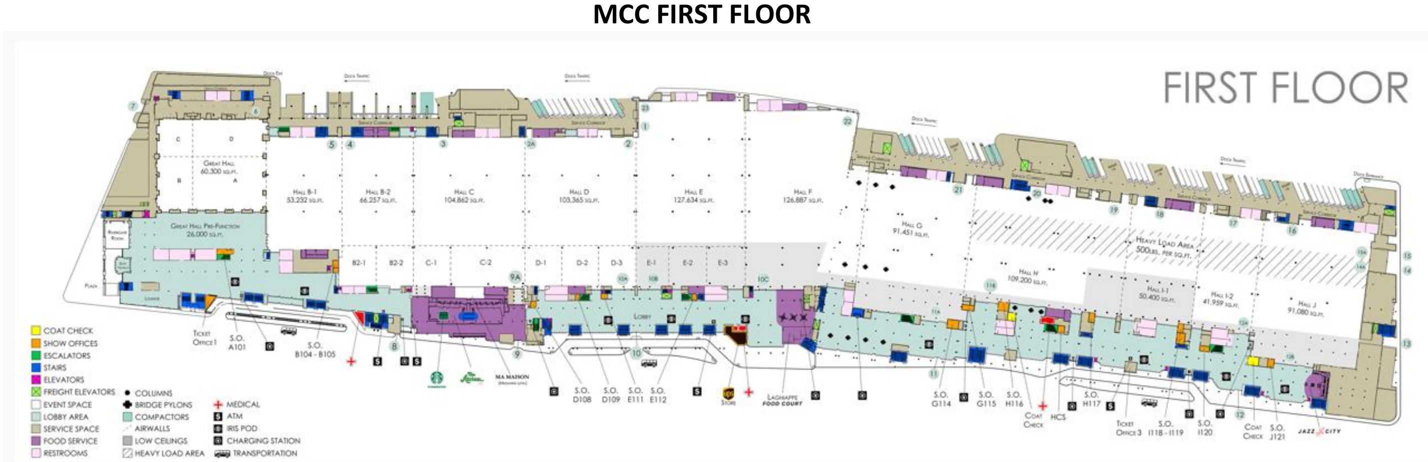
Omni Hotels Management Corporation, a subsidiary of Omni Hotels & Resorts Hotel will manage the Proposed Hotel; as such, it will not be subject to franchise fees. A management agreement has not been finalized as of the date of this study.

Ernest N. Morial Convention Center

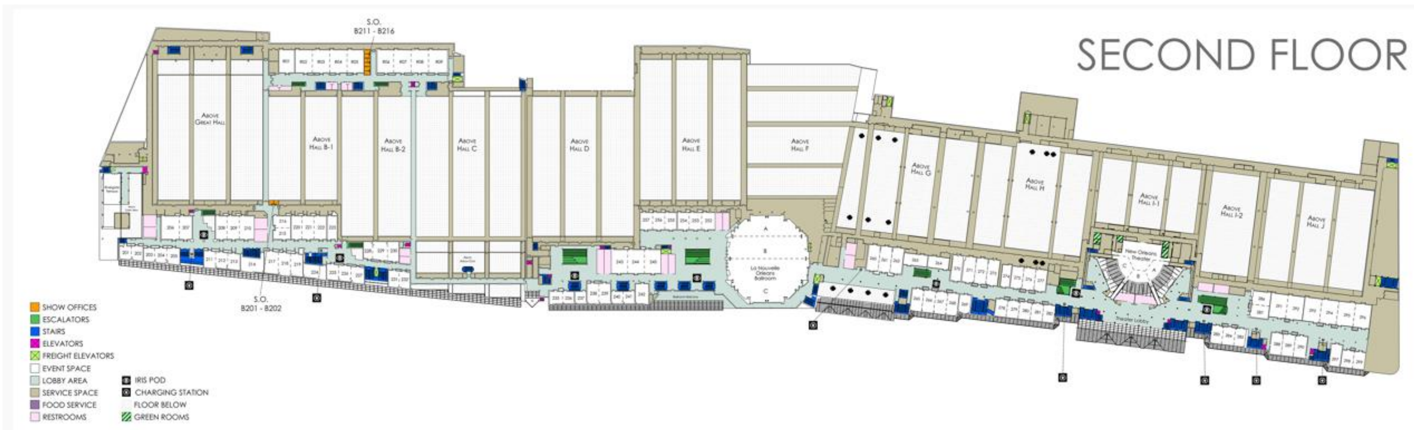
Constructed in conjunction with the 1984 World's Fair, the New Orleans Ernest N. Morial Convention Center ("MCC") is the primary convention facility serving Southeast Louisiana. The MCC offers a total of 1.1 million square feet of contiguous space and is the sixth-largest convention facility in the United States. The MCC also houses a 4,000-seat theater, divisible into four parts—a feature that no other convention center in the country currently offers. The size of the center allows it to host citywide conventions back to back by minimizing downtime between events. A $50-million renovation officially opened before Super Bowl XLVII in January 2013. The project included reconfiguring the existing Hall A into a new "Great Hall"; the updated space contains a 60,000-square-foot ballroom, a 4,660-square-foot junior ballroom with a rooftop terrace, and a 4,700-square-foot executive lounge.

In June 2014, the Louisiana State Legislature approved, and Governor Bobby Jindal signed, a bill that enables the convention center to issue up to $142 million in bond offerings for its Phase V expansion. Plans for the expansion project include a five-acre riverfront park, retail space, condominiums, a people mover, a convention headquarters hotel, and the redevelopment of Convention Center Boulevard to include a linear park. The site for the Proposed Hotel is adjacent to Hall J of the MCC. With 1.1 million square feet of exhibit space, in an entirely contiguous hall, the MCC provides the largest single exhibit space in the country.

MCC FIRST FLOOR



MCC SECOND FLOOR



MCC THIRD FLOOR

In May of 2018, the Authority adopted a $557 million five-year capital improvement plan that includes renovations of the MCC and lays the foundation for the development of new facilities that include a convention center headquarter hotel with a physical connection to the Center. Approximately $379 million from the capital improvement plans are allocated for improvements to the MCC, including upgrades to public areas, meeting rooms, restrooms, audiovisual equipment, and escalators and elevators.

FIGURE 2-4
MCC FIVE YEAR CAPITAL PLAN

Investment	($ millions)
MCC Capital Improvements	
Meeting Rooms/Pre-function Space	$195
Capital Equipment	109
Restroom Renovation	16
Interior Modernization	50
Morial Memorial	2
Lighting Retrofit	8
Sub-Total	$379
Related Capital Improvements	
Retail/Residential	$25
Linear Park	79
Skybridge & Related Infrastructure	33
Convention Center Headquarters Hotel	41
Sub-Total	$178
Total Five Year Investment	$557

Other major capital improvement projects approved by the Authority include the development of a 7.5-acre pedestrian park that spans the length of the Center along Convention Center Boulevard The pedestrian park project scope includes the creation of a transportation center connected to the Center via a covered walkway as well as outdoor entertainment spaces, seating areas, public art, and water features. Construction on Convention Center Boulevard is scheduled for completion in 2020.

PLANNED PEDESTRIAN PARK ALONG CONVENTION CENTER BOULEVARD

Source: Authority

Work is beginning in 2018 on a new transit drop-off facility next to the MCC at the U.S. Business 90 overpass. The facility will consist of a covered surface lot with a covered walkway leading into Hall G and will become be the new drop-off point for all Convention Center traffic, including buses, taxis, and ride-share.

PLANNED TRANSIT FACILITY UNDER U.S. BUSINESS 90 OVERPASS

Source: Authority

Hotel Construction Budget and Schedule

The construction budget for the 1200-room Proposed Hotel, as provided by the Developer, is approximately $507 million. Additional funding will be required for financing costs. See Section 9 of this report for an analysis of sources and uses of funds.

The Developer's cost estimate could vary significantly from the final cost of the project. The project is in the early stages before significant investment has been made to obtain a detailed estimate of costs. The Authority and the Developer will need to discuss several issues including the level of fit and finish, size of rooms, and amount of public space. Other variables that could impact the estimate are inflations, materials cost, interest rates, labor costs, and other issues.

For this analysis, we assume that the Proposed Hotel would be financed sometime in 2019 and after a two and a half year design and construction period, the hotel would open on January 1, 2023.

3. New Orleans Market Overview

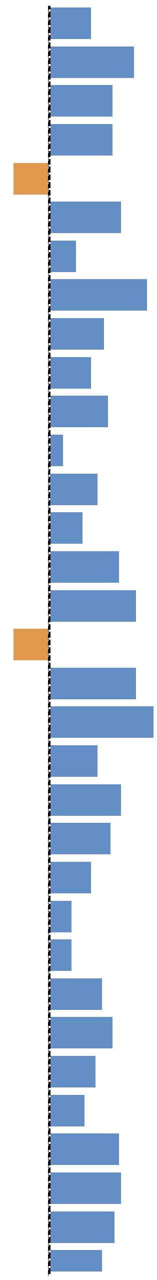
HVS explored economic and demographic factors that affect the level of lodging demand in the market including: population, income, employment, retail sales, business presence, major tourist attractions, and transportation access. We relied on third-party data sources to review historical trends and provide forecasts of the rate of growth or decline of the local economy. We also assessed whether the neighborhood surrounding the site would support the development of the Proposed Hotel. This market overview provides a framework for projections of lodging demand and revenue growth in the local market.

National Economic Trends

Our analysis of the outlook for this specific market also considers the broader context of the national economy. The U.S. economy expanded during the last three years, with a relatively low point in growth occurring during the fourth quarter of 2015 and the first quarter of 2016, as well as the first quarter of 2017. Most recently, the U.S. economy expanded by 2.9% and 2.3% in the fourth quarter of 2017 and the first quarter of 2018, respectively. The recent growth reflected strong nonresidential fixed investments, personal consumption expenditures (PCE), exports, private inventory investments, federal government spending, and state and local government spending.

FIGURE 3-1
UNITED STATES GDP GROWTH RATES

2010	Q1	1.6
	Q2	3.9
	Q3	2.8
	Q4	2.8
2011	Q1	-1.3
	Q2	3.2
	Q3	0.8
	Q4	4.6
2012	Q1	2.3
	Q2	1.6
	Q3	2.5
	Q4	0.1
2013	Q1	1.9
	Q2	1.1
	Q3	3.1
	Q4	4.0
2014	Q1	-1.2
	Q2	4.0
	Q3	5.0
	Q4	2.0
2015	Q1	3.2
	Q2	2.7
	Q3	1.6
	Q4	0.5
2016	Q1	0.6
	Q2	2.2
	Q3	2.8
	Q4	1.8
2017	Q1	1.2
	Q2	3.1
	Q3	3.2
	Q4	2.9
2018	Q1	2.2



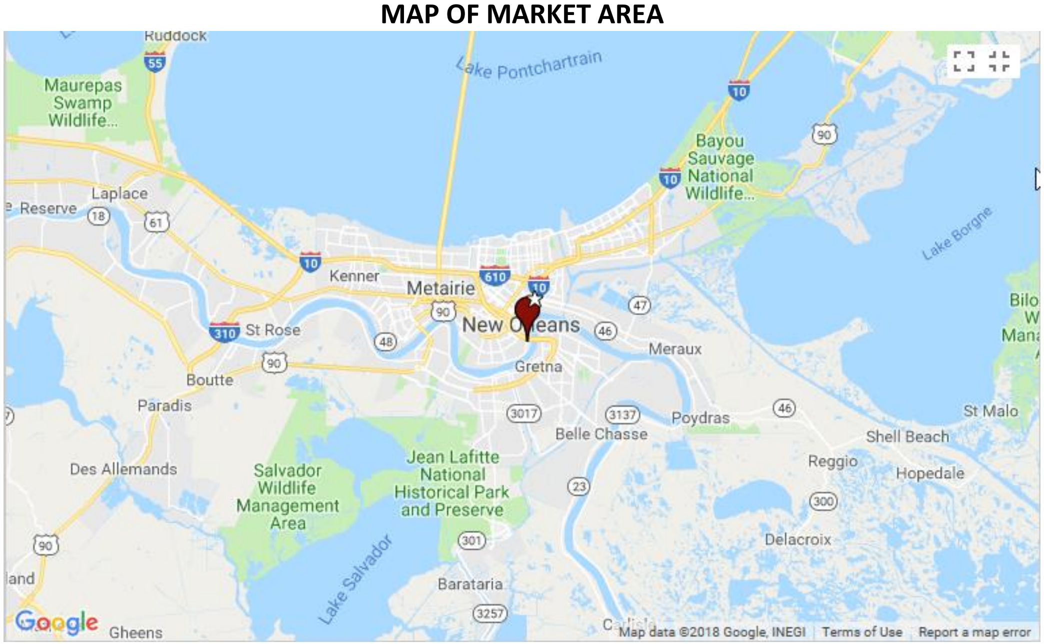
Source: Bureau of Economic Analysis

U.S. economic growth continues to support the expansion of lodging demand. In 2017, demand grew 2.7% through November, higher than the 1.6% level recorded in 2016 during the same period. The economic growth, low unemployment, higher levels of personal income, and stability in the U.S. economy as of mid-year 2018 is helping to maintain strong interest in hotel investments by a diverse array of market participants.

Market Area Definition

Known for its multicultural heritage and world-famous music and cuisine, New Orleans is predominantly recognized as a tourist destination. In addition to tourism, the greater New Orleans area is a significant logistics center, owing to its access to the Mississippi River, the Gulf of Mexico, and numerous railways. New Orleans serves as an access point for offshore drilling rigs, as well as an administrative hub for the companies that operate them. Although the area suffered greatly following Hurricane Katrina in 2005, the ongoing recovery from the storm has spurred significant investment in the city's infrastructure and has opened the door to new industries like bioscience and sustainable energy. The city's strategic geographical location, a healthy mix of business and tourism, and transportation connectivity have allowed it to rebound strongly from the negative effects of Hurricane Katrina, the 2009 economic recession, and the Deepwater Horizon oil spill. The market area includes all of New Orleans, Louisiana and the surrounding area, as illustrated in the following map.

MAP OF MARKET AREA



Economic and Demographic Review

HVS used the *Complete Economic and Demographic Data Source* published by Woods & Poole Economics, Inc., a well-regarded forecasting service based in Washington, D.C. as a source of economic and demographic data. Using a database containing more than 900 variables for each county in the nation, Woods & Poole employs a sophisticated regional model to forecast economic and demographic trends. Census data and information published by the Bureau of Economic Analysis provide the basis for historical statistics. Woods & Poole formulates the projections, and all dollar amounts have been adjusted for inflation, thus reflecting real change. The following figure summarizes this data.

FIGURE 3-2
ECONOMIC AND DEMOGRAPHIC DATA SUMMARY

Economic Indicator/Area	Beginning Amount	2000	2010	2018	2025	Ending Amount	Estimated Annual Compound Change 2018 to 2025
Resident Population (millions)							
Orleans County	0.49					0.38	-0.2%
New Orleans-Metairie, LA MSA	1.3					1.3	0.5%
New Orleans-Metairie-Hammond, LA-MS CSA	1.5					1.6	0.6%
State of Louisiana	4.47					4.99	0.7%
United States	282.16					350.94	0.9%
Per-Capita Personal Income* (thousands)							
Orleans County	$31.74					$49.6	1.5%
New Orleans-Metairie, LA MSA	$32.34					$48.8	1.3%
New Orleans-Metairie-Hammond, LA-MS CSA	$31.14					$46.7	1.3%
State of Louisiana	$28.50					$43.7	1.3%
United States	$36.81					$50.2	1.2%
W&P Wealth Index							
Orleans County	$86.29					$100.87	0.2%
New Orleans-Metairie, LA MSA	$88.08					$97.08	0.1%
New Orleans-Metairie-Hammond, LA-MS CSA	$84.81					$92.53	0.1%
State of Louisiana	$78.65					$86.18	0.1%
United States	$100.00					$100.00	0.0%
Food and Beverage Sales* (billions)							
Orleans County	$1.07					$1.54	0.2%
New Orleans-Metairie, LA MSA	$2.26					$3.51	0.9%
New Orleans-Metairie-Hammond, LA-MS CSA	$2.43					$3.85	1.0%
State of Louisiana	$5.35					$9.88	1.3%
United States	$368.83					$662.61	1.5%
Total Retail Sales* (billions)							
Orleans County	$4.90					$4.98	0.2%
New Orleans-Metairie, LA MSA	$17.63					$21.93	1.0%
New Orleans-Metairie-Hammond, LA-MS CSA	$19.84					$25.28	1.0%
State of Louisiana	$55.09					$79.22	1.2%
United States	$3,902.83					$5,598.24	1.4%

* Inflation Adjusted

Source: Woods & Poole Economics, Inc.

Workforce Characteristics

The characteristics of an area's workforce indicate the type and amount of transient visitation likely to be generated by local businesses. Sectors such as finance, insurance, and real estate ("FIRE"); wholesale trade; and services produce a considerable number of visitors who are not particularly rate-sensitive. The government sector often generates transient room nights, but per-diem reimbursement allowances often limit the accommodations selection to budget and mid-priced lodging facilities. Contributions from manufacturing, construction, transportation, communications, and public utilities ("TCPU") employers can also be important, depending on the company type.

The following figure shows the estimated change in employment in the top ten sectors in the Orleans Parish workforce distribution by the various business sectors in 2000, 2010, and 2018, and a forecast for 2025.

FIGURE 3-3
TOP TEN EMPLOYMENT SECTORS IN ORLEANS PARISH

Sector/Geographic Area Employment	Beginning Amount (thousands)	2000	2010	2018	2025	Ending Amount (thousands)
Orleans Parish						
Accommodation And Food Services	35.3					46.6
Health Care And Social Assistance	30.9					31.9
State And Local Government	44.0					25.9
Educational Services	15.1					25.6
Professional And Technical Services	20.2					23.8
Retail Trade	24.0					19.4
Other Services, Except Public Administration	16.1					18.1
Administrative And Waste Services	20.7					16.5
Real Estate And Rental And Lease	8.8					16.4
Finance And Insurance	13.1					12.9
Other	94.1					66.4
Total Orleans Parish	322.3					303.4
U.S.	165,372					223,254

Source: Woods & Poole Economics, Inc.

Growth in tourism visitation should drive more accommodation, food service, and retail sales. The health care, finance, insurance, transportation, and government sectors of the economy should continue to expand along with the overall growth in the local economy. The construction sector has continued to recover from the significant decline due to the last recession.

Unemployment Statistics

The following figure presents historical unemployment rates for the Proposed Hotel's market area.

FIGURE 3-4
UNEMPLOYMENT STATISTICS

Year	City	MSA	State	Country
2008	6.0 %	4.9 %	4.9 %	5.8 %
2009	7.9	6.7	6.8	9.3
2010	8.7(r)	7.7(r)	8.0	9.6
2011	8.6(r)	7.7(r)	7.8	8.9
2012	7.9(r)	7.1(r)	7.1	8.1
2013	7.3(r)	6.6(r)	6.7(d)	7.4
2014	6.9(r)	6.4(r)	6.4(d)	6.2
2015	6.5(r)	6.0(r)	6.3(d)	5.3
2016	5.8(r)	5.5(r)	6.0(d)	4.9
2017	5.1(r)	4.8(r)	5.1(d)	4.4
Recent Month - May				
2017	5.0 %	4.7 %	5.1 %	4.3 %
2018	4.7	4.4	4.7	3.8

* Letters shown next to data points (if any) reflect revised population controls and/or model re-estimation.

Source: U.S. Bureau of Labor Statistics

Unemployment rose in 2008 as the national economy weakened, and this trend continued in 2009 and 2010 as the recession deepened and the BP oil spill caused a temporary moratorium on offshore oil activity. Unemployment rates remained stable in 2011 and then decreased in 2012, and this positive trend continued through 2017. The most recent comparative period of 2018 illustrates a positive trend in unemployment. Employment in New Orleans remains strong in the tourism industry, and the continued ramp-up should bolster employment in staffing and operations of the University Medical Center, which opened in August 2015, and the VA Medical Center, which opened in November 2016

Major Business and Industry

The figure below shows the largest employers in the region.

FIGURE 3-5
TOP EMPLOYERS

Rank	Firm	Number of Employees
1	Ochsner Health System	16,771
2	Jefferson Parish School Board	6,387
3	Tulane University	4,200
4	East Jefferson General Hospital	3,000
5	ACME Truck Line, Inc.	2,500
6	Al Copeland Investments Inc.	2,200
7	Laitram, LLC	2,065
8	Children's Hospital	1,809
9	Touro Infirmary	1,700
10	West Jefferson Medical Center	1,526

Source: GNO, JEDCO, & St. Tammany Eco. Dev. Foundation, 2016

Major demand generators for this market include the following.

- **Tourism** – The tourism industry is the largest demand generator in the New Orleans area. According to the Convention & Visitors Bureau (CVB), New Orleans' tourism industry employed more than 87,000 people in 2016 and had an economic impact of over $7.4 billion. In early 2018, the New York Times selected New Orleans as the top destination to visit in 2018 in honor of the city's tricentennial; subsequent accolades included ranking fifth on Condé Nast Traveler's "18 Best Places to Travel in 2018," inclusion on Travel + Leisure's "50 Best Places to Travel in 2018," listing on Fodor's Travel "Go List," and mention on Frommer's Travel Guides "Best Places to Go in 2018." Despite suffering infrastructure damage and a loss of reputation because of Hurricane Katrina, the tourism industry has recovered well. In recent years, the city's upgraded venues have hosted numerous national events, including NBA All-Star Games, the NCAA Final Four, WWE's WrestleMania XXX, and Super Bowl XLVII. New Orleans is also a primary cruise port for the Gulf Coast. Reports from early 2018 indicate that the port surpassed 1.1 million cruise passengers in 2017, the fourth year in a row that the port has received over one million passengers. The renovated American Duchess steamboat marked its inaugural New Orleans sail in August 2017, and Royal Caribbean will return to the market, with cruises scheduled for late 2018 through 2019. Moreover, New Orleans will host the College Football Playoff National Championship Game in January 2020 and the NCAA Men's Final Four in 2022.

- **Employers** – The largest employer for the market is the Ochsner Health System, a healthcare provider offering patient care, education, and research throughout the local community. Ochsner is a national leader in medical research and one of the largest non-university-based physician training centers in the nation. Ochsner Medical Center and Ochsner Medical Center – West Bank Campus were ranked among the top 50 "Best Hospitals in America" in six specialties by U.S. News & World Report in its 2015/16 list. Additionally, Ochsner Medical Center joined with Louisiana State University (LSU) Health Sciences Center-New Orleans, Tulane University Health Sciences Center, and Xavier University of Louisiana as part of the Louisiana Cancer Research Consortium (LCRC), a group comprising leading medical research institutions that work together and coordinate cancer research development; LCRC opened a $105-million cancer research facility in January 2013. In January 2016, a $360-million expansion for Ochsner was announced in partnership with Select Medical; the North, South, and West campuses are set for completion in 2019 and are projected to create nearly 2,500 jobs across the state in ten years' time. The 1,500-acre BioDistrict New Orleans is being developed in Mid-City and Downtown New Orleans; the 446-bed, 2.3-million-square-foot University Medical Center (UMC) opened on August 1, 2015, and the VA Hospital opened in November 2016.

- **Motion Picture Industry** – New Orleans has become known as "Hollywood South," due largely to a combination of the city's picturesque setting and the Motion Picture Tax Credit program implemented by the State of Louisiana to provide an incentive for filming in the region. Many large-budget and critically acclaimed feature films and television series have been made in and around New Orleans, including 12 Years a Slave, Django Unchained, Dallas Buyers' Club, JFK, The Pelican Brief, Interview with the Vampire, Monster's Ball, The Curious Case of Benjamin Button, Jurassic World, Terminator Genisys, and HBO's Treme and True Detective. According to the Mayor's Office of Cultural Economy, 60 tax-credit projects were filmed in the city in 2014, resulting in $509 million in direct spending. Furthermore, the nonprofit organization FilmLA reported in its 2013 Feature Film Production Study that the state of Louisiana had overtaken California in film production for the first time, with the state serving as the primary filming site for 18 of 108 major studio films surveyed. In 2015, the Louisiana state legislature approved reforms to the state's film tax-credit program, including a $180-million annual cap on incentives for three years. From 2009 to 2014, at least 20 features were filmed in New Orleans, although this number fell below 20 in 2015 and 2016; the number of television shows filmed in the city has remained relatively steady since 2013. In 2018, Deep South Studios opened a new facility in Algiers; the project is the first to take advantage of the

Qualified Entertainment Company program, which provides tax credits for job creation.

Following the devastation left by Hurricane Katrina in 2005, the greater New Orleans area entered a period of recovery and rebuilding, which was fueled by a variety of state and federal aid and incentive programs, including the Gulf Opportunity Zone Act of 2005. Thus, the area's economy rebounded in the years immediately after the disaster and was sheltered temporarily from the national recession in 2008. Despite the deepening of the recession in 2009 and the negative effects of the Deepwater Horizon oil spill in 2010, a steady stream of recovery projects kept unemployment levels in the New Orleans area well below the national average. The multimillion-dollar renovations of both the Hyatt Regency and the Mercedes-Benz Superdome in 2011 and several high-profile events, including the BCS National Championship and NCAA Final Four (2012), Super Bowl XLVII (2013), and the NBA All-Star Game (2014), have further bolstered tourism to New Orleans. In January 2018, the Mercedes-Benz Superdome hosted the Sugar Bowl. Additionally, ongoing and recently completed development projects in the healthcare sector, including the University Medical Center and the VA Medical Center, as well as future events to be held in the area, bode well for this market. The New Orleans economy is based on a diverse and expanding employment base anchored by the tourism and medical industries. Per the CVB, the city's tourism industry employs more than 80,000 people and has an economic impact of over $6.8 billion

Airport Traffic

Louis Armstrong New Orleans International Airport (MSY) is located approximately twelve miles west of Downtown New Orleans. The airport, formerly known as Moisant Field Airport, was renamed in 2001 in honor of the famous native musician's 100th birthday. The airport houses four concourses with almost forty gates and provides three runways. The airport was closed to commercial air-traffic on August 28, 2005, shortly before Hurricane Katrina struck New Orleans, and reopened to commercial flights on September 13, 2005. A $74-million consolidated rental car facility (CONRAC) and cosmetic upgrades were completed in February 2013, in conjunction with the city's hosting of Super Bowl XLVII. These projects are part of a multi-year capital improvement program, which also includes the expansion of Concourse D and renovation of the main ticketing area. In December 2015, the construction budget was approved for an $826-million redevelopment of MSY, and construction began in January 2016. By March 2017, the construction budget had increased to $993 million for the project; the scope was expanded to include a 972,000-square-foot terminal, a 2,190-car garage, and 35 gates. The project is intended to make MSY a world-class airport by 2019.

FIGURE 3-6
AIRPORT PASSENGERS
LOUIS ARMSTRONG NEW ORLEANS INTERNATIONAL AIRPORT

Year	Passenger Traffic	Annual Percentage Change
2008	7,967,997	
2009	7,781,678	-2.3%
2010	8,203,305	5.4%
2011	8,548,375	4.2%
2012	8,600,989	0.6%
2013	9,207,636	7.1%
2014	9,785,394	6.3%
2015	10,673,301	9.1%
2016	11,139,421	4.4%
2017	12,009,512	7.8%

Source: Louis Armstrong New Orleans International Airport

Passenger traffic has increased for the last eight years after several years of decline. Through May of 2018, passenger traffic has increased to 3,159,342 from 2,772,203 in May 2017, an increase of 14.0%.

Tourist Attractions

The market benefits from a variety of tourist and leisure attractions in the area. The city features a distinct culture, heritage, and cuisine that have been indigenous to the area for more than two centuries. New Orleans' numerous festivals and events draw millions of visitors to the city each year. Additionally, New Orleans is home to four professional sports franchises and is considered a prime venue for world-renowned sporting events. Primary attractions in the area include the following:

- Dating back to the founding of New Orleans in 1718, the French Quarter, or "Vieux Carré," is the city's oldest neighborhood and a National Historic Landmark. The French Quarter comprises 85 square blocks of hotels, bars, restaurants, and museums, as well as the outdoor French Market. The French Quarter is home to world-renowned attractions and landmarks, including Bourbon Street, Jackson Square, and the St. Louis Cathedral, and is famous for its distinct architectural style, which was influenced by the city's French and Spanish colonial rulers.

- New Orleans' numerous events and festivals draw millions of visitors from around the world to the city each year. The city's annual Mardi Gras celebration is one of the most famous and visited carnival celebrations in the world, reflecting New Orleans' rich cultural heritage. Citywide Mardi Gras festivities, attended by over a million people, generate nearly one-half billion dollars for the local economy, arguably the greatest economic impact of any event in the city. Additionally, New Orleans hosts music and cultural festivals throughout the year, including the New Orleans Jazz & Heritage Festival, the Essence Music Festival, and the French Quarter Festival, which attract several hundred thousand visitors.

- The Mercedes-Benz Superdome (previously known as the Louisiana Superdome), a multipurpose sports and exhibition facility, is in the heart of the New Orleans Central Business District. The Superdome is home to the NFL's New Orleans Saints and has housed numerous major sporting events, including six Super Bowls and four NCAA Basketball Final Four tournaments. Annual events include the Essence Music Festival, the Mardi Gras Marathon, and the New Orleans Auto Show. The Superdome underwent a three-phase, $336-million renovation that was completed in June 2011; upgrades included new exterior siding, seating, and concourses, as well as two new club lounges, party suites, and a party deck. The Superdome is the site of the annual Allstate Sugar Bowl, which is part of the two-year rotation for the NCAA's College Football Playoff National Semifinal Games. The stadium hosted the 2012 NCAA Men's Final Four and Super Bowl XLVII in February 2013, which marked the tenth time the city played host in the game's 47-year history. Moreover, the Superdome will host the College Football Playoff National Championship Game in January 2020 and the NCAA Men's Final Four in 2022.

- The National World War II Museum opened in New Orleans in 2000 to honor more than one million Americans who took part in the war, featuring various exhibits and artifacts that commemorate the men and women who brought victory to the world. The museum is undergoing a multi-year, $370-million expansion. The 4-D Solomon Victory Theater, the Stage Door Canteen entertainment hall, and the American Sector restaurant were completed in 2009; the John E. Kushner Restoration Pavilion opened in 2011; the Campaigns of Courage Pavilion's "The Road to Berlin: European Theater Galleries" opened to the public in 2014, and "The Road to Tokyo" opened in December 2015. As of late 2016, the $33-million Hall of Democracy and the $12-million Bollinger Canopy of Peace were under construction; further expansions include a new Home Front exhibit, a renovation of the Louisiana Memorial Pavilion, and construction of the Liberation Pavilion. In January 2016, museum officials announced that a $65-million hotel would also be added to the campus. The 234-room hotel, expected to open in 2019, will offer about 22,000 square feet of conference space.

FRENCH QUARTER

Conclusion

New Orleans is experiencing a period of economic strength spurred in large part by a combination of private and public investment, the return of tourism to the area, and a steady influx of new development in the years since Hurricane Katrina in 2005. The market benefits from a well-established, diverse economy anchored by the tourism industry and healthcare sector. Additionally, the entrance of new industries, such as biosciences and sustainable energy, and ongoing investment in the area's business infrastructure are expected to bolster the market. The outlook for the area is optimistic.

4. MCC Demand Analysis

HVS based event demand projections at the Ernest N. Morial Convention Center ("MCC") on the following research and analysis:

- The hotel building program recommendations presented in Section 6 and on Authority plans for improvement to the MCC,
- Historical MCC demand data,
- Industry data and trends reports,
- Key market and economic indicators outlined in Section 2,
- Comparable venue program and demand data, and
- Discussions with representatives from the current MCC management and the Visit New Orleans.

In developing the demand projections, HVS assumes that all recommendations throughout this report are completed by January 1, 2023. HVS estimates that event demand would stabilize in the fourth year of operation—calendar year 2026. Demand projections also assume the continued presence of a highly qualified, professional sales and management team for the MCC.

For the purpose of this analysis, event demand projections include events that would take place in the renovated and the existing meeting and convention spaces at the MCC.

Historical Demand

The MCC provided HVS with a summary of the events and corresponding total attendance that occurred at the facility from 2014 through June 2018. We also included all events booked for 2018 due to the likelihood that no more events would be booked in this period. The following figure presents the event and attendance history at the MCC for the past five years.

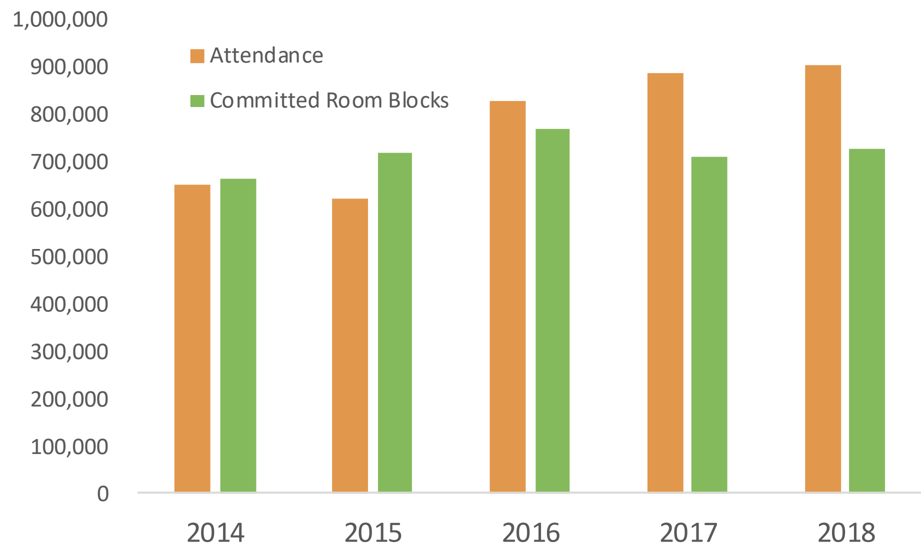
FIGURE 4-1
SUMMARY OF DEMAND HISTORY

	2014	2015	2016	2017	FORECAST 2018
Events					
Citywide Convention	16	17	20	17	23
Trade Show	9	10	16	15	11
Small Convention	40	47	47	49	41
Public Show	6	5	5	3	5
Banquets/Social	37	26	25	31	26
Athletics/Competition	6	9	7	8	10
Meeting/Conference	25	13	12	8	11
Performance	2	1	1	2	3
Internal	na	1	na	1	4
Total	141	129	133	134	134
Attendees					
Citywide Convention	243,183	166,500	232,000	217,906	241,213
Trade Show	119,000	107,150	149,900	135,343	112,242
Small Convention	92,070	140,260	132,200	163,076	129,797
Public Show	65,500	75,500	200,500	198,700	155,000
Banquets/Social	65,800	56,500	47,700	79,820	82,875
Athletics/Competition	55,250	64,500	27,000	38,006	77,600
Meeting/Conference	9,050	10,300	8,340	8,096	17,361
Performance	2,750	2,500	2,500	5,000	43,000
Internal	na	50	na	44,465	47,700
Total	652,603	623,260	800,140	890,412	906,788
Committed Room Block					
Citywide Convention	429,085	397,665	494,939	390,469	476,213
Trade Show	38,405	25,282	54,889	45,323	26,421
Small Convention	141,493	188,264	173,663	225,334	129,649
Public Show	37,560	38,050	38,050	38,050	37,515
Banquets/Social	1,700	1,700	1,700	5,634	16,717
Athletics/Competition	11,220	66,300	8,150	8,473	34,457
Meeting/Conference	5,880	2,181	660	406	7,781
Performance	na	na	na	na	10
Internal	na	na	na	na	600
Total	665,343	719,442	772,051	713,689	729,363

Source: MCC

The following figure illustrates the five-year trends of attendance and room blocks booked at the MCC from 2014 through 2018. Room blocks are the group of hotel rooms put on hold for an event and may not reflect actual pick up or room nights.

FIGURE 4-2
EVENTS AND ROOM BLOCKS

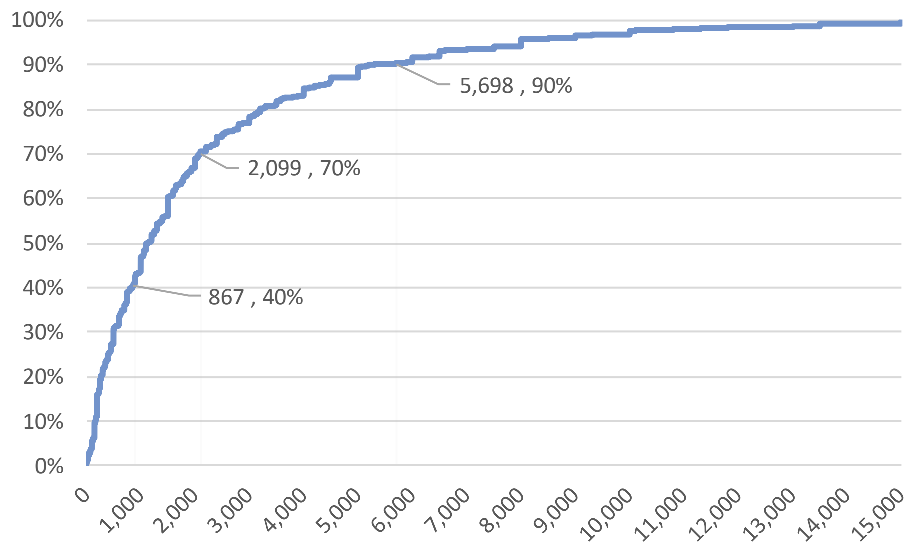


Source: MCC

Attendance has continued to grow from 2014 through 2018, but room block commitments have remained stable.

The following figure shows the distribution of peak room nights for MCC events from 2014 through 2018.

FIGURE 4-3
PEAK ROOM NIGHT DISTRIBUTION



Source: MCC

As is typical in the industry, most convention center events are small, and some do not generate any room blocks. Almost 70% of events require 2,000 peak room nights or less. This distribution of events could allow the MCC to build on its historical performance by booking more simultaneous events on either end of the building.

This demand pattern demonstrates the need to host simultaneous smaller events during peak event demand seasons. The development of an adjacent hotel should enable the MCC to operate the two ends of the exhibit hall more efficiently and simultaneously host mid-sized events that require between 1,500 and 5,000 peak room nights.

Historical Exhibit Hall Usage

HVS summarized the exhibit hall usage for 2013 through 2018. While the halls on the north side have strong occupancies, the halls on the south end of the building have capacity for more events.

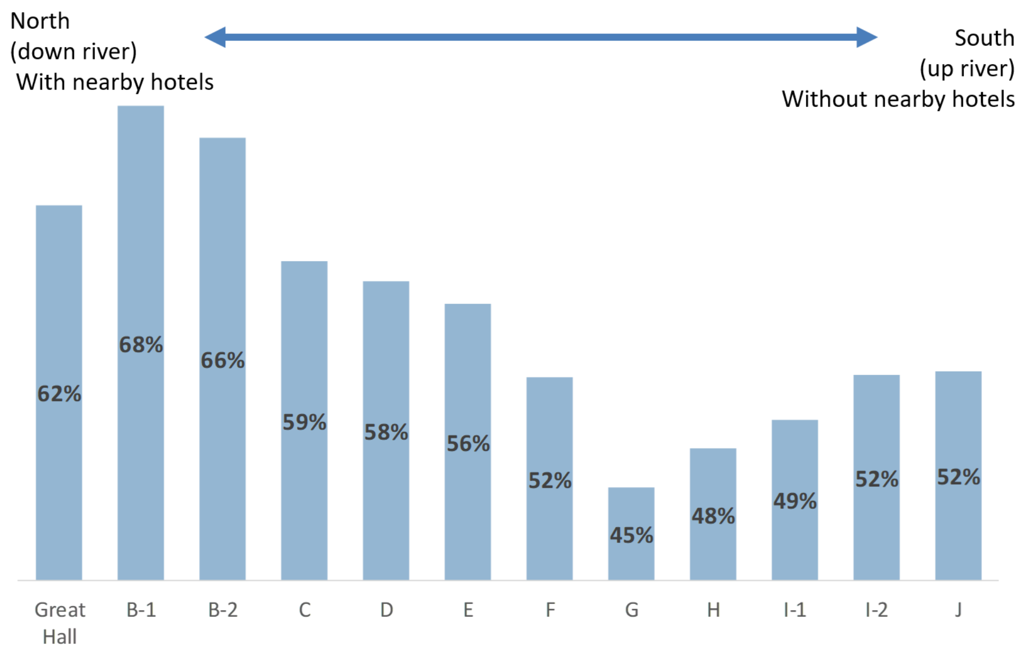
FIGURE 4-4
HISTORICAL EXHIBIT HALL OCCUPANCY

Year	Great Hall	B-1	B-2	C	D	E	F	G	H	I-1	I-2	J
2013	52%	61%	62%	63%	58%	55%	49%	42%	42%	52%	48%	51%
2014	63%	67%	63%	53%	55%	58%	54%	42%	38%	43%	46%	43%
2015	65%	79%	76%	57%	52%	56%	53%	42%	42%	45%	50%	49%
2016	65%	67%	66%	59%	56%	60%	60%	59%	63%	67%	66%	60%
2017	71%	71%	69%	64%	65%	60%	56%	48%	56%	49%	53%	52%
2018*	57%	62%	61%	58%	60%	49%	40%	39%	46%	42%	49%	59%

Source: MCC

The following figure shows the overall average exhibit hall occupancy for the same period.

FIGURE 4-5
AVERAGE EXHIBIT HALL OCCUPANCY (2013-2018)



From 2013 through 2018, the MCC has had an overall exhibit hall occupancy of 55%. According to the PwC Convention Center Report Survey, this is in line with U.S. convention center averages of exhibit hall occupancies that have ranged from 51%

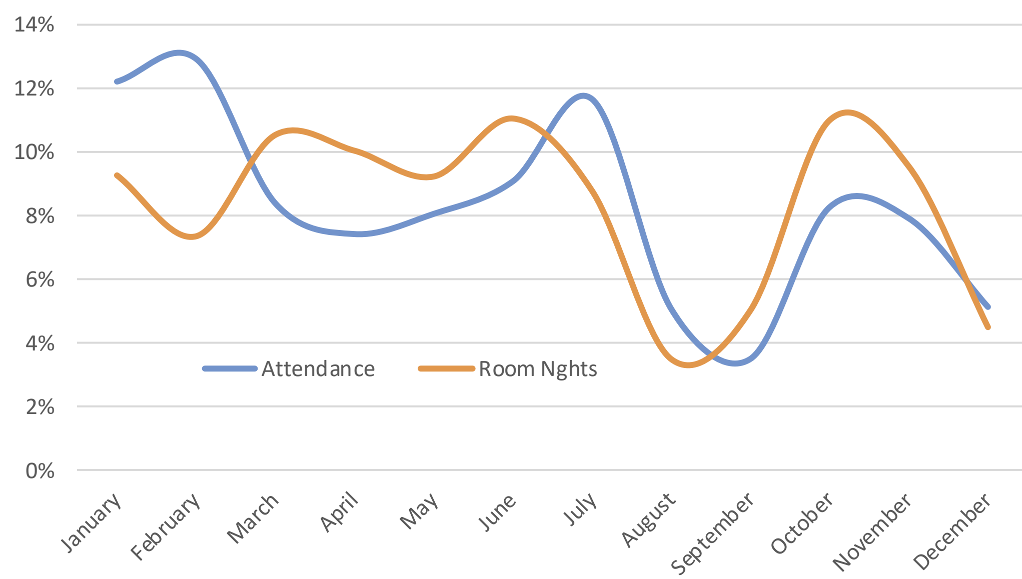
to 55% in the past five years. However, there is the potential for growth in hall occupancies, especially in the halls on the South side of the building.

Given the seasonal nature of convention business, the lack of event demand during holiday periods, and inevitable gaps between events, 70% is the maximum practical occupancy of exhibition hall space.

Seasonal Patterns of Demand

The following figure shows the seasonality of MCC events from 2013 through 2018.

FIGURE 4-6
SEASONALITY OF ATTENDANCE AND ROOM NIGHTS



Source: MCC

Attendance is highest from March through June and October. The months of August and September are relatively weak due to weather concerns and meeting industry trends. The ability to host simultaneous events with twin headquarter hotels would allow the MCC to add events during high demand periods.

Lost Business Analysis

The MCC provided HVS with a list of lost convention center business for events occurring from 2014 through June 2018. In this period, the MCC lost approximately 1,400 events.

For the events lost in 2017 through June 2018, HVS was provided with projected attendance and the reason for the lost business. HVS categorized the lost events reasons into summary categories. We determined that events lost due to general facility quality and available hotel rooms or hotel package could be recovered if the Proposed Hotel is developed along with a renovation of the MCC.

The following figure summarizes the distribution of lost reasons converted to an annual average.

FIGURE 4-7
EVENTS LOST BY CATEGORY (2017 – 2018 YTD)

Lost Reason	Events	Attendance	% of Lost Attendance
Known Reasons			
Destination	93	706,000	46%
Facility Quality	43	276,000	18%
Hotel package/availability	33	235,000	15%
Other	28	109,000	7%
Rotation	6	23,000	1%
Sub-total	238	1,538,759	
Unknown Reason	35	190,000	12%
Total	273	1,728,759	

Source: MCC and HVS

Approximately 76 events lost annually would be available for recapture if the Proposed Hotel is developed. HVS estimates that the MCC could recover approximately 25% of events that are lost due to facility quality or the lack of hotel availability as shown in the following table.

FIGURE 4-8
ESTIMATED RECOVERY OF LOST EVENTS

	Annual Lost Events	Recoverable Events	Estimated Recovered
Meeting/Conference/Conventions	216	65	17
Trade Show	0	0	0
Public Show	3	0	0
Banquets/Social	2	1	1
Competition	8	7	0
Other	10	3	1
Total	**239**	**76**	**19**

Demand Projections

HVS projected event demand under two scenarios, with and without the Proposed Hotel development. The difference between the levels of event demand, attendance and room night generation provides the basis for estimating the impact of the Proposed Hotel. Under the no development scenario, we expect the MCC will remain stagnant in its event attendance and room night commitments. In the hotel development scenario, the MCC will retain existing business, attract new large events, and recover a substantial amount of business previously lost due to facility quality and hotel availability.

The figure below compares the attendance projections for the two scenarios.

FIGURE 4-9
SUMMARY OF EVENTS AND ATTENDANCE PROJECTIONS

Event Type	Events		Total Attendance	
	Without Hotel Development	With Hotel Development	Without Hotel Development	With Hotel Development
Citywide Convention	19	22	223,000	264,000
Trade Show	12	12	128,000	128,000
Small Convention	45	57	131,000	166,000
Public Show	5	5	157,000	157,000
Banquets/Social	29	30	67,000	70,000
Athletics/Competition	8	8	52,000	52,000
Meeting/Conference	14	16	12,000	14,000
Performance	2	2	8,000	9,000
Internal	2	2	23,000	23,000
Total	135	154	801,000	883,000

Room Night Projections

HVS calculated the potential generation of room nights by the MCC. These room nights represent new, induced demand into New Orleans as a direct result of the expansion of the MCC. The following figure presents the assumptions used to generate room night estimates after the hotel development.

FIGURE 4-10
ASSUMPTIONS FOR ROOM NIGHTS

Event Type	Committed Room Block Parameters		
	Percent Lodgers	Length of Stay	Lodgers per Room
Citywide Convention	86%	2.7	1.20
Trade Show	31%	1.1	1.20
Small Convention	72%	2.2	1.20
Public Show	36%	1.0	1.50
Banquets/Social	8%	1.6	1.50
Athletics/Competition	75%	1.3	2.00
Meeting/Conference	20%	1.6	1.20
Performance	1%	1.0	2.00

The following figure presents the resulting room night generation with and without the potential hotel development for a stabilized year.

FIGURE 4-11
ROOM NIGHT ESTIMATES

	Without Hotel Development	With Hotel Development
Committed Room Block		
Citywide Convention	438,000	519,000
Trade Show	38,000	38,000
Small Convention	172,000	218,000
Public Show	38,000	38,000
Banquets/Social	5,000	6,000
Athletics/Competition	26,000	26,000
Meeting/Conference	3,000	4,000
Total	720,000	849,000

In a stabilized year, HVS estimates that, with the Proposed Hotel development, the MCC would generate approximately 849,000 room nights in New Orleans related to convention center events.

The following figure shows the demand projections after the opening of the Proposed Hotel in 2023 until a stabilized year in 2026.

FIGURE 4-12
SUMMARY OF DEMAND PROJECTIONS WITH HOTEL DEVELOPMENT

	Base Year 2019	Opening 2023	2024	2025	Stabilized 2026
Events					
Citywide Convention	19	20	20	21	22
Trade Show	12	12	12	12	12
Small Convention	45	48	51	54	57
Consumer Show	5	5	5	5	5
Banquets/Social	29	29	30	30	30
Athletics/Competition	8	8	8	8	8
Meeting/Conference	14	14	15	15	16
Performance	2	2	2	2	2
Internal	2	2	2	2	2
Total	135	140	144	149	154
Attendees					
Citywide Convention	223,000	236,000	243,000	255,000	264,000
Trade Show	128,000	128,000	128,000	128,000	128,000
Small Convention	131,000	140,000	148,000	157,000	166,000
Consumer Show	157,000	157,000	157,000	157,000	157,000
Banquets/Social	67,000	68,000	69,000	69,000	70,000
Athletics/Competition	52,000	52,000	52,000	52,000	52,000
Meeting/Conference	12,000	13,000	13,000	14,000	14,000
Performance	8,000	9,000	9,000	9,000	9,000
Internal	23,000	23,000	23,000	23,000	23,000
Total	801,000	826,000	842,000	864,000	883,000
Committed Room Block					
Citywide Convention	438,000	466,000	479,000	501,000	519,000
Trade Show	38,000	38,000	38,000	38,000	38,000
Small Convention	172,000	183,000	195,000	206,000	218,000
Consumer Show	38,000	38,000	38,000	38,000	38,000
Banquets/Social	5,000	6,000	6,000	6,000	6,000
Athletics/Competition	26,000	26,000	26,000	26,000	26,000
Meeting/Conference	3,000	4,000	4,000	4,000	4,000
Performance	0	0	0	0	0
Internal	0	0	0	0	0
Total	720,000	761,000	786,000	819,000	849,000

HVS intends for demand projections to show the expected levels of event numbers and attendance. Projections show smooth growth over time. However, event demand and booking cycles do not always run smoothly. Unpredictable local and national economic factors can affect businesses. Event demand often moves in cycles based on rotation patterns and market conditions. Therefore, HVS recommends interpreting the demand projections as a mid-point of a range of possible outcomes and over a multi-year period, rather than relying on projections for any one specific year.

5. Supply and Demand Analysis

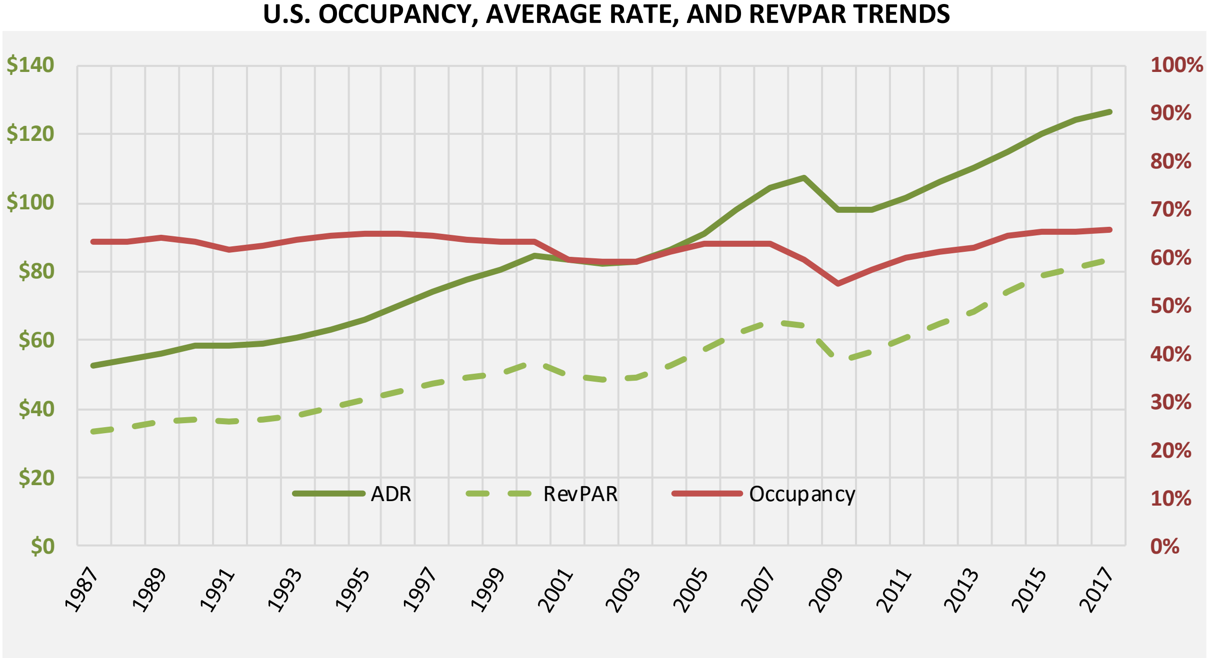
National Hotel Market Trends

Changes in the national lodging market indirectly affect local markets. We reviewed national lodging trends to provide context for the forecast of the supply and demand for the Proposed Hotel's competitive set.

Figure 5-1 presents annual hotel occupancy and average rate data since 1987. Figure 5-2 illustrates hotel performance, categorized by geography, price point, type of location, and chain scale. RevPAR, the product of occupancy and average rate provides a combined measure of rate and occupancy.

The figure below shows the hotel occupancy, average rate, and RevPAR throughout the U.S.

FIGURE 5-1
U.S. OCCUPANCY, AVERAGE RATE, AND REVPAR TRENDS



Source: STR

Following the significant RevPAR decline experienced during the last recession, demand growth resumed in 2010, led by select markets that had recorded growth trends in the fourth quarter of 2009. A return of business travel and some group activity contributed to these positive trends. The resurgence in demand was partly fueled by the significant price discounts that were widely available in the first half of 2010. These discounting policies were largely phased out in the latter half of the year, balancing much of the early rate loss. Demand growth remained strong, but decelerated from 2011 through 2013, increasing at rates of 4.7%, 2.8%, and 2.0%, respectively. Demand growth then surged to 4.0% in 2014, driven by a strong economy, a robust oil and gas sector, and limited new supply, among other factors. By 2014, occupancy had surpassed the 64% mark. Average rate rebounded similarly during this time, bracketing 4.0% annual gains from 2011 through 2014.

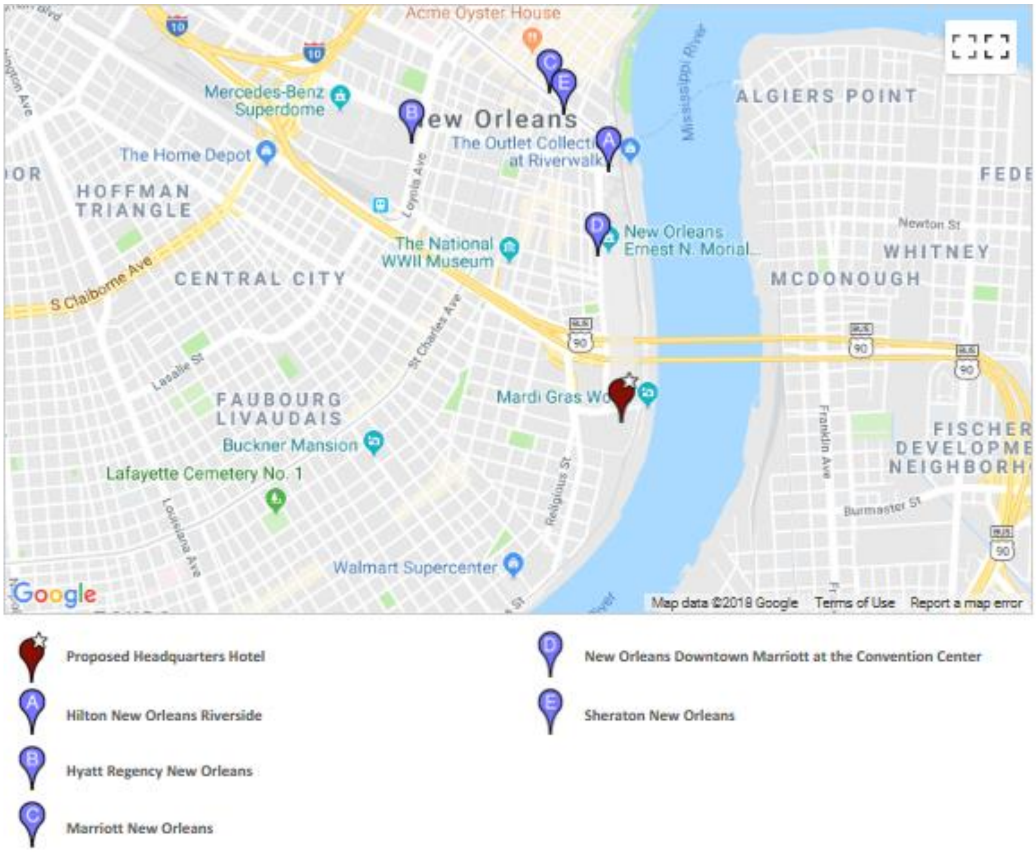
In 2015, demand growth continued to outpace supply growth, a relationship that has been in place since 2010. With a 2.9% increase in room nights, the nation's occupancy level reached a record high of 65.4% in 2015. Supply growth intensified modestly in 2015 (at 1.1%), following annual supply growth levels of 0.7% and 0.9% in 2013 and 2014, respectively. Average rate posted another strong year of growth, grew at 4.7% in 2015, in at pace with the annual growth of the last four years. Robust job growth, heightened group and leisure travel, and waning price-sensitivity all contributed to the gains. In 2016, occupancy showed virtually no change, as demand growth kept pace with supply additions. Occupancy then moved even higher in 2017, to a new peak of 65.9%. Average rate increased roughly 3% and 2% in 2016 and 2017, respectively. By year-end 2017, the net change in RevPAR was 3.0%, reflecting a healthy lodging market overall. However, we note that industry experts report that the strong 2017 industry performance was enhanced by demand generated by the hurricanes, floods, and fires experienced throughout the U.S. in September and October. The performance of several major markets indicates that many areas continue to benefit in 2018 from the demand generated by insurance adjusters, displaced residents, and contractors. Year-to-date statistics through May reflect a 0.5-point occupancy increase, while average rate increased by just over $3.00, resulting in a 3.6% increase in RevPAR.

Defining the Competitive Set

HVS selected a set of competitive local hotels. Five properties would compete with the Proposed Hotel on a primary basis and 27 properties on a secondary basis, for a total of 32 competitors (“Competitive Hotels”). We weighted the room count of each secondary competitor based on its projected competitiveness with the Proposed Hotel.

The following map illustrates the locations of the Proposed Hotel and its primary competitors.

MAP OF PRIMARY COMPETITION BY HVS



HVS relied on STR data and market research to determine the room count of each hotel. The weighted competitive set currently includes 5,589 rooms in primary competitors and 7,512 rooms in the secondary competitors with a weighted room count of 3,525. The total number of primary and weighted secondary competitors is 9,114 rooms as shown in the figure below

FIGURE 5-2
THE WEIGHTED COMPETITIVE SET

Hotel	Number of Rooms	Competitive Level	Weighted Room Count
Five Primary Competitors			
Hilton New Orleans Riverside	1,622	100%	1,622
Hyatt Regency New Orleans	1,193	100%	1,193
Marriott New Orleans	1,333	100%	1,333
New Orleans Downtown Marriott at the Convention Center	331	100%	331
Sheraton New Orleans	1,110	100%	1,110
Totals	5,589	100%	5,589
27 Secondary Competitors	7,512	47%	3,525
32 Primary & Secondary Competitors Total	**13,101**	**70%**	**9,114**

Sources: STR and HVS

Our survey of the local market shows a range of lodging types and facilities. We inspected the primary competitors and evaluated all the Competitive Hotels

Primary Competitors

The figure below presents a summary of the operating performance of the primary competitors for the past two years.

FIGURE 5-3
2016 & 2017 PERFORMANCE OF THE PRIMARY COMPETITIVE SET

Property	Number of Rooms	Estimated 2016			Estimated 2017		
		Occ.	ADR	RevPAR	Occ.	ADR	RevPAR
Hilton New Orleans Riverside	1,622	70 - 75 %	$190 - $200	$140 - $150	70 - 75 %	$190 - $200	$140 - $150
Hyatt Regency New Orleans	1,193	65 - 70	180 - 190	125 - 130	65 - 70	180 - 190	125 - 130
Marriott New Orleans	1,333	75 - 80	180 - 190	130 - 140	75 - 80	170 - 180	130 - 140
Marriott at the Convention	331	70 - 75	180 - 190	125 - 130	70 - 75	170 - 180	125 - 130
Sheraton New Orleans	1,110	70 - 75	170 - 180	125 - 130	75 - 80	170 - 180	130 - 140
Totals	5,589	73.5%	$182	$134	74.1%	$182	$135

Sources: STR and HVS

HVS ranked the primary competitors on four criteria related to the attractiveness of the property to potential customers.

1. Access – the ease with which customers can gain vehicular or pedestrian access to the property. Simple and direct access routes are rated higher than more complicated routes.
2. Visibility – particularly important to hotels that attract walk-in customers who do not have prior reservations. Signage and building facades typically provide visibility.
3. Neighborhood – means the quality of the surrounding neighborhood, the compatibility of adjacent land uses, the perceived safety of the neighborhood.
4. Physical condition – refers to the overall physical condition of the hotel. Based on an inspection of each property, HVS rated the physical condition of each hotel in comparison to other hotels of a similar scale or class.

Each criterion was rated from one to five, with one indicating very poor compliance with the criteria and five meaning excellent compliance. The figure below summarizes the results of the rankings for each criterion and shows an aggregate rating that is the average of all criteria.

FIGURE 5-4
RANK OF PRIMARY COMPETITORS ON CUSTOMER SELECTION CRITERIA*

Access	Access	Visibility	Neighbor-hood	Physical Condition	Aggregate Rating
Hyatt Regency New Orleans	4	5	5	5	4.75
Proposed Hotel	**4**	**5**	**3**	**5**	**4.25**
Sheraton New Orleans	4	4	4	4	4.00
Marriott at the Convention Center	4	4	4	4	4.00
Marriott New Orleans	4	4	4	4	4.00
Hilton New Orleans Riverside	4	4	4	3	3.75

*Ranked on a Scale of 1 to 5 where: 1 = Very Poor, 2 = Poor, 3 = Average, 4 = Good, 5 = Excellent

The Proposed Hotel ranks superior or equal to all of the primary competitors on customer selection criteria except its neighborhood. For the purposes of this study, we have not assumed that the adjacent neighborhood, which is currently vacant land, will be developed during the projection period. The Proposed Hotel ranks well on physical condition due to new construction.

The following figure sets forth the pertinent operating characteristics of the combined secondary competitors.

HVS

FIGURE 5-5
RECENT PERFORMANCE OF THE SECONDARY COMPETITIVE SET

Property	Number of Rooms	Competitive Weight	Weighted Rooms	Estimated 2017		
				% Occupancy	ADR	RevPAR
Bourbon Orleans	218	30%	65	80 - 85	$210 - $220	$170 - $180
Embassy Suites Convention Center	370	70%	259	70 - 75	170 - 180	120 - 125
Hilton Garden Inn Convention Center	286	80%	229	70 - 75	170 - 180	125 - 130
InterContinental	484	80%	387	75 - 80	160 - 170	125 - 130
JW Marriott	501	60%	301	80 - 85	190 - 200	150 - 160
Le Méridien	410	60%	246	75 - 80	160 - 170	125 - 130
Old No 77 Hotel & Chandlery	167	70%	117	75 - 80	150 - 160	115 - 120
Renaissance Arts Warehouse District	219	70%	153	75 - 80	150 - 160	115 - 120
Renaissance Pere Marquette	275	50%	138	70 - 75	250 - 260	180 - 190
Ritz-Carlton New Orleans	527	60%	316	70 - 75	290 - 300	210 - 220
W French Quarter	97	40%	39	85 - 90	250 - 260	210 - 220
Westin Canal Place	437	50%	219	75 - 80	180 - 190	140 - 150
Whitney Hotel	93	30%	28	65 - 70	140 - 150	100 - 105
Other Hotels	3,428	30%	1,028	75 - 80	180 - 190	130 - 140
Total	7,512		3,525	76.2%	$191	$145

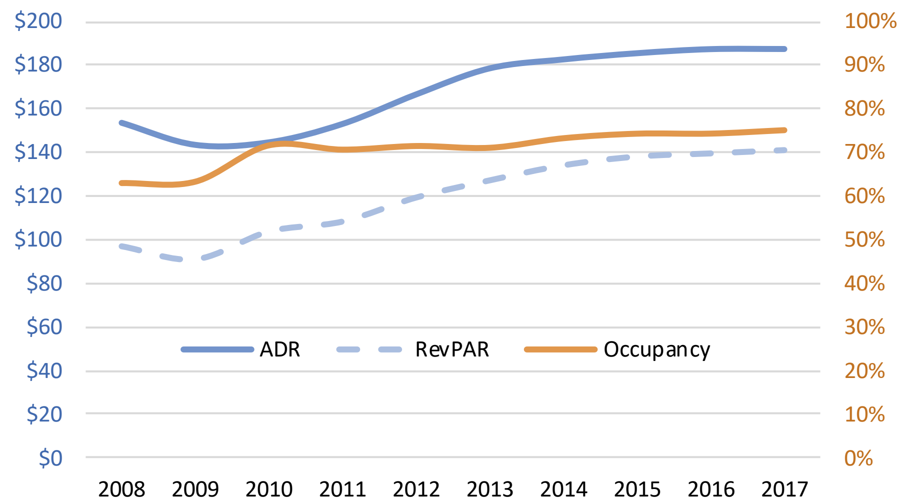
The category "Other Hotels" in the prior figure includes the Dauphine Orleans, Maison Dupuy Hotel, Hyatt French Quarter, Holiday Inn New Orleans Chateau Lemoyne, Le Pavillon Hotel, Omni Riverfront Hotel, Royal Crescent Hotel, The Hotel Modern, Loews New Orleans, Hilton New Orleans St Charles Avenue, Omni Royal Orleans, Wyndham New Orleans French Quarter, Royal Sonesta New Orleans, and the Windsor Court.

Historical Market Performance

STR data have certain limitations. Hotels are occasionally added to or removed from the sample and not every property reports data in a consistent and timely manner. These factors can influence the overall quality of the information. These inconsistencies may also cause the STR data to differ from the results of our competitive survey. Nonetheless, STR data provide the best indication of aggregate growth or decline in existing supply and demand; thus, our analysis considers these trends.

The figure below shows the historical performance of the competitive set including the occupancy rates, ADR, and RevPAR.

FIGURE 5-6
COMPETITIVE HOTELS
HISTORICAL ROOM NIGHT DEMAND, ADR, AND REVPAR



Source: STR

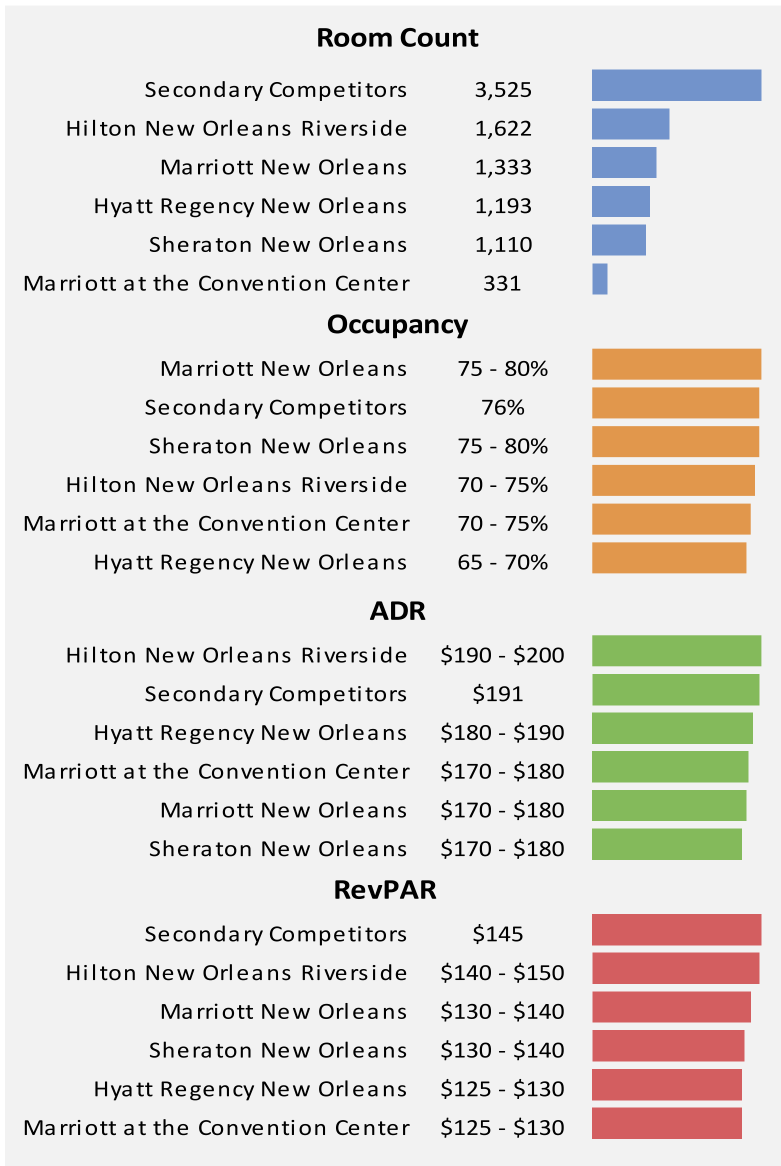
The competitive market occupancy reached 75% in 2017, an increase of 1% from 2016. The overall average occupancy level for the period shown in the above figure was 71%. The economic downturn of 2008 through 2009 resulted in lower demand and occupancy rates in the Competitive Hotels. Occupancy increased in 2010, then held relatively steady until 2016, and modestly increased in 2017.

The overall competitive market average daily rate increased to $187.45 in 2017 from $187.39 in 2016. The average rate across to the period has fluctuated from a low of $143.46 to a high of $187.45 from 2008 to 2017.

Historical Supply and Demand Data

The figures below summarize aggregate competitive set performance in the base year. Since 2017 was the most recent complete year of available data at the time of this study, we used it as the base year of our analysis. Performance analyses include guest room count, occupancy rate, average daily room rate ("ADR"), and revenue per available room, ("RevPAR"). RevPAR, a common hotel industry performance metric, is the product of occupancy rate and ADR.

FIGURE 5-7
THE WEIGHTED COMPETITIVE SET HISTORICAL PERFORMANCE



Sources: STR and HVS

The figure below shows year-to-date through June occupancy and average daily room rates compared to the prior year for the Competitive Hotels.

FIGURE 5-8
CURRENT YEAR DEMAND, OCCUPANCY, ADR, AND REVPAR

	Year-to-Date Through June		
	2017	2018	Percent Change
Room Night Demand	1,877,490	1,881,517	0.2%
Available Room Nights	2,375,444	2,359,154	-0.7%
Occupancy	79.0%	79.8%	0.9%
ADR	$200.91	$203.35	1.2%
RevPAR	$158.79	$162.18	2.1%

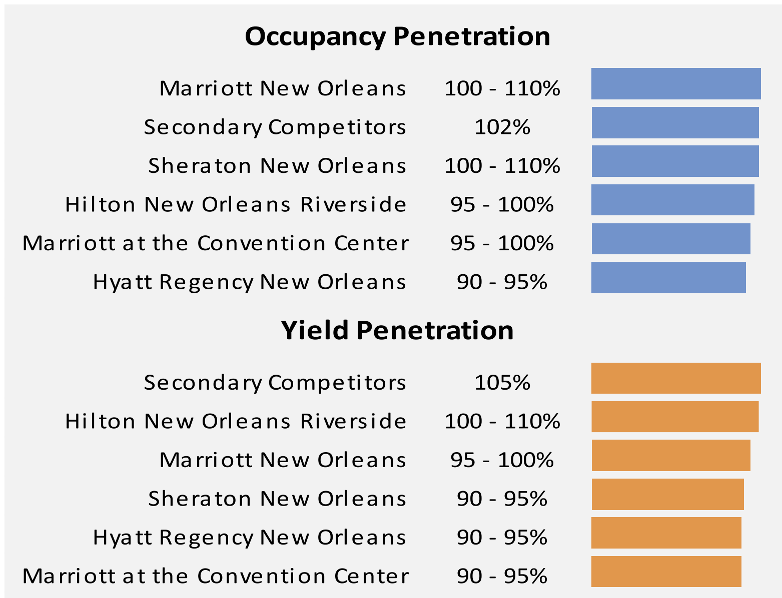
Source: STR

The Competitive Hotel's occupancy and ADR increased from 2017 levels for the same period.

Occupancy and Yield Penetration

Market penetration measures how an individual hotel property performs in comparison to the market. Occupancy penetration is the occupancy of the hotel divided by the market occupancy. Yield penetration is the RevPAR of a hotel divided by the RevPAR of the market. A penetration factor of greater than one indicates a property is performing better than the market. A penetration factor of less than one indicates that a property is underperforming the market. The following figure shows occupancy and yield penetrations of the hotels in the competitive set.

FIGURE 5-9
COMPETITIVE HOTEL'S OCCUPANCY AND YIELD PENETRATION

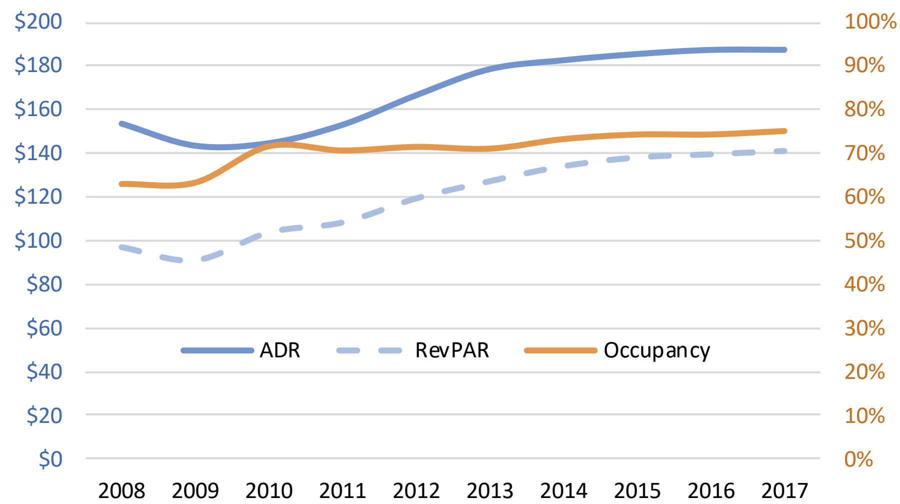


Sources: STR and HVS

Seasonality

The competitive hotel market shows significant seasonal variation, with spring displaying the highest average daily rates and occupancy and December and January having the lowest occupancy.

FIGURE 5-10
SEASONALITY GRAPH OF THE WEIGHTED COMPETITIVE SET

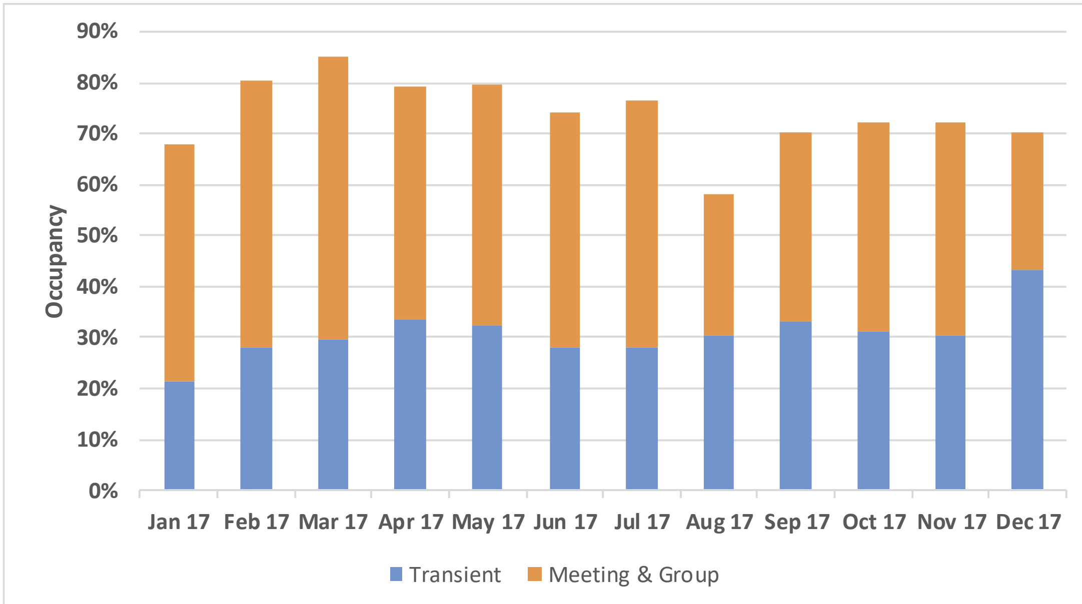


Source: STR

The following figure shows the breakdown of demand by market segments for the Competitive Hotels.

HVS

FIGURE 5-11
COMPETITIVE HOTELS
2017 MONTHLY DEMAND BY MARKET SEGMENT



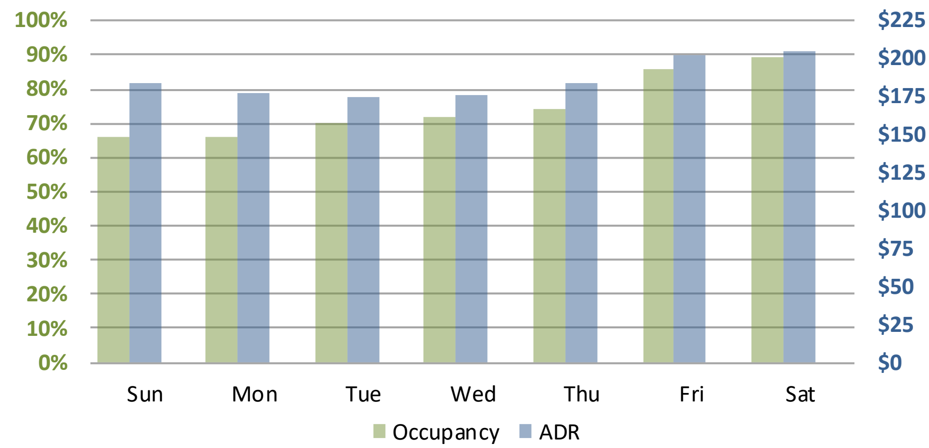
Source: STR

Group demand is strongest in the late winter/early spring and late fall months, and tourists drive transient demand during its peak in the spring, fall, and early winter.

Weekly Patterns of Lodging Demand

A review of the trends in occupancy, average rate, and RevPAR by the night of the week over the past three years provides some insight into the impact that the current economic conditions have had on the competitive lodging market. The figure below shows the data provided by Smith Travel Research.

FIGURE 5-12
OCCUPANCY AND AVERAGE RATE BY DAY OF WEEK



Source: STR

Leisure travelers and non-business-related groups generate high occupancy on Saturday nights and the peak rate. Commercial travel generates strong demand on Tuesday and Wednesday nights. The following figure shows the daily and monthly occupancy rates. Green shaded areas indicate above average occupancy rates, and red shaded areas indicate below average occupancy rates.

FIGURE 5-13
DAY-OF WEEK OCCUPANCY BY MONTH

Month	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Jul - 17	68.5%	61.9%	65.7%	68.8%	77.5%	90.8%	93.8%	75.3%
Aug - 17	42.6%	44.9%	50.9%	54.3%	57.7%	77.9%	81.9%	58.2%
Sep - 17	73.8%	68.6%	65.9%	63.9%	66.1%	74.8%	86.5%	72.0%
Oct - 17	62.0%	64.8%	72.0%	76.8%	80.4%	86.6%	85.9%	74.6%
Nov - 17	62.7%	56.4%	59.7%	71.2%	78.7%	94.1%	94.6%	74.0%
Dec - 17	70.9%	58.2%	62.9%	67.6%	72.5%	81.1%	88.2%	72.4%
Jan - 18	63.7%	72.1%	62.4%	65.6%	67.1%	78.1%	85.6%	70.3%
Feb - 18	73.5%	81.1%	84.9%	80.1%	76.8%	88.8%	90.7%	82.3%
Mar - 18	80.0%	83.5%	85.0%	81.1%	81.7%	93.1%	95.4%	86.1%
Apr - 18	77.3%	81.2%	79.9%	87.3%	91.0%	94.0%	95.1%	86.0%
May - 18	73.7%	69.6%	81.5%	76.7%	74.1%	83.3%	88.3%	78.1%
Jun - 18	70.2%	71.1%	74.4%	71.0%	74.5%	81.9%	85.2%	76.0%
Total Year	68.3%	67.9%	70.1%	71.6%	74.7%	85.2%	89.3%	75.4%

Below Average
Average
Above Average

Source: STR

The Competitive Hotels show definite patterns of demand, with higher early spring and lower early winter demand, high demand on the weekends and lower demand Sunday through Thursday. The occupancy rate on Friday and Saturday exceeds 80% approximately 88% of the time, and on Tuesday and Wednesday, it exceeds 80% approximately 25% of the time.

The combination of high spring demand with already high weekend demand allows properties to charge a premium during certain periods of high occupancy, as shown in the figure below.

FIGURE 5-14
OCCUPANCY AND AVERAGE RATE BY DAY OF WEEK

Month	Sun	Mon	Tue	Wed	Thu	Fri	Sat	Total Month
Jul - 17	$157	$132	$138	$143	$152	$158	$179	$154
Aug - 17	116	117	120	124	129	134	136	127
Sep - 17	153	155	159	157	157	162	166	159
Oct - 17	193	191	193	195	215	235	243	210
Nov - 17	203	188	170	188	208	237	237	208
Dec - 17	196	148	148	152	153	174	189	170
Jan - 18	171	213	171	174	165	178	182	180
Feb - 18	219	206	203	199	207	240	244	217
Mar - 18	209	214	222	222	220	228	233	222
Apr - 18	211	204	194	201	224	263	263	223
May - 18	190	182	189	187	199	219	224	199
Jun - 18	174	171	163	159	164	178	180	171
Average	186	181	176	177	186	201	206	189

Below Average
Average
Above Average

Source: STR

Demand

The following figure presents data on the performance of the weighted competitive set. HVS estimated performance results and in some cases weighted data on secondary competitors. In this respect, this information differs from the previously presented STR data.

FIGURE 5-15
COMPETITIVE SET RECENT MARKET PERFORMANCE

Year	Room Nights Available	Room Nights Sold	Competitive Hotels Occupancy	Competitive Hotels ADR	Competitive Hotels RevPAR
Amount					
2015	3,327,000	2,466,000	74.1%	$179.14	$132.78
2016	3,328,000	2,455,000	73.8%	$184.28	$135.94
2017	3,326,000	2,493,000	75.0%	$185.30	$138.89
Percent Change					
2016	0.0%	-0.4%	-0.5%	2.9%	2.4%
2017	-0.1%	1.5%	1.6%	0.6%	2.2%

In 2017, growth in demand (1.5%) grew faster than available room nights (-0.1%), causing occupancy to rise to 75.0%.

Demand Analysis Using Market Segmentation

The purpose of segmenting the lodging market is to define each major type of demand, identify customer characteristics, and estimate future growth trends. For the demand analysis, the overall market is divided into two segments based on the nature of travel. Based on our fieldwork and knowledge of the local lodging market, we estimate the 2017 distribution of accommodated room night demand as shown in the figure below.

FIGURE 5-16
COMPETITIVE HOTELS
ACCOMMODATED ROOM NIGHT DEMAND

Market Segment	Room Nights	Percent of Total Demand
Meeting and Group	1,404,173	56%
Transient	1,088,971	44%
Total	**2,493,144**	**100%**

Meeting and Group demand is the largest market segment, generating 56% of total room night demand.

Meeting and Group Demand

The meeting and group demand (56% of total demand) include meetings, seminars, conventions, trade shows, and similar gatherings of ten or more people. Peak convention demand typically occurs in the spring and fall. Although there are numerous classifications within the meeting and group segment, the primary categories considered in this analysis are corporate groups, associations, and SMERFE (social, military, educational, religious, fraternal, and ethnic) groups. Corporate groups typically meet during the business week most commonly in the spring and fall months. These groups often are the most profitable for hotels, as they typically pay higher rates and usually generate ancillary revenues including food, beverage, and banquet revenue. SMERFE groups are typically price-sensitive and tend to meet on weekends or during the summer months or holiday season when greater discounts are usually available. They generate limited ancillary revenues. The profile and revenue potential of associations varies depending on the group and the purpose of their meeting or event.

Factors related to group demand considered in our development of growth rates for this segment include the market's local corporate sources, which generate some group business. In the greater market area, the SMERFE sub-segment within the meeting and group segment is the strongest. The same companies that create commercial demand also generate meeting and group demand through training activities and corporate social events. High school and collegiate sports teams, SMERFE groups, and social events, such as weddings and family reunions, also contribute to this demand segment. We have also considered the Proposed Hotel's anticipated ability to market itself as a convention center hotel with the availability of ample meeting space. The property will also benefit from room night demand generated by events held at the MCC.

The meeting and group market segment contribute a significant amount of lodging demand to the market. New Orleans offers one of the nation's largest and most flexible convention centers, surrounded by many additional hotels and attractions. This segment includes significant room-night contributions from citywide conventions held at the MCC, association meetings, SMERFE-related demand, civic groups, professional societies, and corporate groups holding training sessions, small exhibits, product announcements, meetings, and seminars. Also, the area's educational and medical facilities, such as Tulane University, Xavier University of Louisiana, Loyola University, and Louisiana State's Health Sciences Center, also generate demand for area hotels. Since the reopening of the convention center in 2006, following Hurricane Katrina, convention activity has recovered significantly. Although compression from the convention center has been somewhat limited in recent years given the longer booking cycles for major conventions and fewer major citywide events (10,000+ peak room nights), many hotels have been able to offset this trend with greater in-house group demand. The continued ramp-up of the BioDistrict is expected to increase demand related to training sessions and in-house groups. Construction on the new airport is anticipated to be complete by 2019, allowing for more direct flights and international travel.

Transient Demand

Transient demand (44% of total demand) consists of both leisure and commercial demand.

Leisure demand is from individuals and families spending time in an area or passing through in route to other destinations. Travel purposes include sightseeing, recreation, or visiting friends and relatives. Leisure demand also includes room nights booked through Internet sites such as Expedia, Hotels.com, and Priceline; however, leisure may not be the purpose of the stay. This demand may also include business travelers and group and convention attendees who use these channels to take advantage of any discounts that may be available on these sites. Leisure demand is strongest on Friday and Saturday nights and all week during holiday periods and the spring months. Future leisure demand is related to the overall economic health of the region and the nation. Trends showing changes in state and regional unemployment and disposable personal income correlate strongly with leisure travel levels.

The typical length of stay ranges from one to four days, depending on the destination and travel purpose, and the rate of double occupancy typically ranges from 1.8 to 2.5 people per room. Price sensitivity tends to vary with the product type. All-suite properties with inclusive food and beverage would tend to drive strong leisure room rates while highway properties with limited amenities typically offer more discounted leisure room rates.

New Orleans offers a diverse array of leisure attractions, anchored by its famed French Quarter, which withstood Hurricane Katrina remarkably well. Mardi Gras is the city's biggest event, bringing in thousands of tourists from around the world during February and March. The New Orleans Jazz & Heritage Festival (held each May) is another major event in the city. Harrah's New Orleans, the city's largest and most popular casino, reopened in early 2006 and has been instrumental in convincing potential visitors that New Orleans is back and ready for business. The cruise ships that utilize the Port of New Orleans as an embarkation and debarkation point also generate lodging demand in the leisure segment. Cruise ship passengers typically require hotel accommodations if they choose to arrive in New Orleans before their cruise or if they stay in the city after their cruise.

Commercial demand is mainly individual business people passing through the local market or visiting area businesses, in addition to high-volume corporate accounts generated by local firms. Brand loyalty (particularly frequent-traveler programs), as well as location and convenience concerning businesses and amenities, influence lodging choices in this segment. Companies typically designate hotels as “preferred” accommodations in return for more favorable rates. Commercial demand is strongest Monday through Thursday nights, declines significantly on Friday and Saturday, and increases somewhat on Sunday night. In markets where the weekday occupancy often exceeds 90%, some unaccommodated commercial demand is likely to be present. It is relatively constant throughout the year, with marginal declines in late December and during other holiday periods.

The commercial market consists of individual business travelers visiting the numerous firms located in New Orleans. Large firms that generate lodging demand include Shell, BellSouth Communications, First National Bank of Commerce, and Entergy. Industries with a significant presence in the city include oil and gas, transportation, and healthcare. In recent years, the city’s medical and research institutions began to generate more commercial demand. Government travelers are also included in this market segment. Commercial demand in New Orleans is strongest from Monday through Thursday nights, and the city’s hotels typically accommodate a fair amount of commercial demand on these nights. The diversity and depth of companies in the area should provide stability over the long term as the U.S. economy continues to improve. Increases in demand should be bolstered by the openings of the University Medical Center and VA Medical Center beginning in

2015, as new corporate accounts and individual business travelers directly associated with each facility enter the market

Summary of the Competitive Properties

The following figure shows a summary of the historical performance of the competitive set. Although local demand has grown, supply has grown at a faster rate, causing a modest decline in occupancy.

FIGURE 5-17
HISTORICAL SUPPLY, DEMAND, OCCUPANCY, ADR, AND REVPAR

Year	Available Room Nights	Annual Change	Occupied Room Nights	Annual Change	% Occ	Annual Change	ADR	Annual Change
2008	4,345,325		2,737,936		63.0%		153.57	
2009	4,345,325		2,751,694		63.3%		143.46	
2010	4,340,663		3,106,457		71.6%		144.62	
2011*	4,446,671		3,139,137		70.6%		153.06	
2012	4,763,042		3,401,596		71.4%		166.61	
2013	4,781,227		3,395,640		71.0%		178.58	
2014	4,782,170		3,499,623		73.2%		182.67	
2015	4,786,406		3,552,119		74.2%		185.51	
2016	4,790,260		3,555,809		74.2%		187.39	
2017	4,781,980		3,587,116		75.0%		187.45	

*Hyatt Regency New Orleans reopens with almost 1,200 rooms.

Source: STR Global

The number of available room nights decreased due to the damage from Hurricane Katrina in 2005. Supply did not grow significantly until the Hyatt Regency reopened in late 2011. Room night demand grew in 2010 as the market recovered from the recession, then spiked again in 2012 when the Hyatt Regency induced new demand into the market. This is an example of how a meeting and group-oriented full-service property can attract substantial new demand to a market. Since 2013, occupancy has grown, reaching a peak of 75% in 2017, well above the long-term historical average. In response to higher demand, hotels were able to increase room rates through 2016. ADR remained flat in 2017. The lack of ADR growth in 2017 may reflect the impact of growth short-term rentals that siphon room demand from hotels during peak months.

The historical market is the base upon which the projection of performance of the market and the Proposed Hotel is built. Next, we will discuss expected changes in the market and the Competitive Hotels.

Projecting the Performance of the Local Market

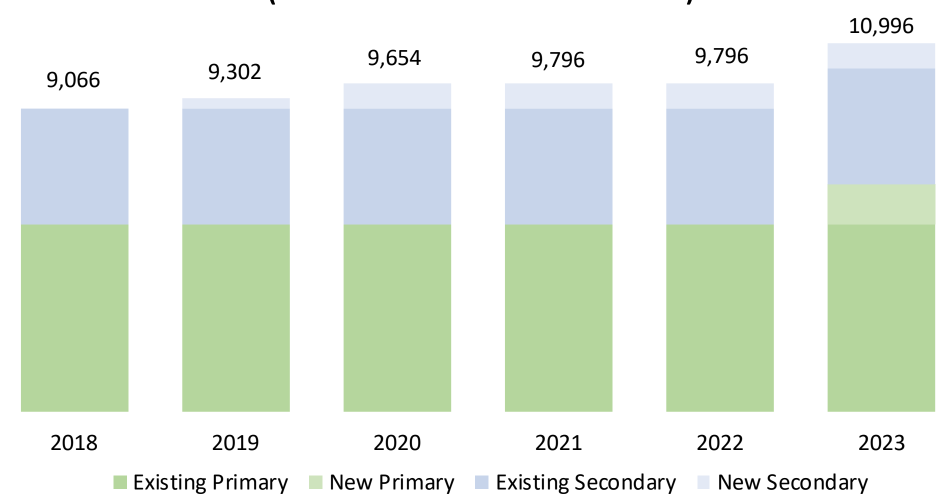
Historical data and market interviews provided an understanding of the condition and recent changes in the Competitive Hotels and overall market. Next, we project the market over the next ten years based on:

- Changes in supply,
- Base growth in room night demand,
- Unaccommodated demand, and
- Induced demand.

Supply Changes

New hotels may affect the Proposed Hotel's operating performance. Based on our research and inspection (as applicable), new supply considered in our analysis is presented in the following figure.

FIGURE 5-18
ROOM SUPPLY PROJECTIONS
(WEIGHTED DAILY ROOM COUNTS)



The figure below summarizes our assumptions regarding new supply.

FIGURE 5-19
NEW SUPPLY

Year	Proposed Property	Competitive Weight	Proposed Rooms	Weighted Room Count	Cumulative Weighted Room Count
2019	Proposed Four Seasons World Trade Center	30%	350	105	
2019	Proposed World War II Museum Hotel	80%	234	187	
2020	Proposed Warehouse Convention Center Hotel	70%	215	151	
2020	Proposed Hard Rock Hotel and Residences	50%	350	175	
2020	Proposed Virgin Hotel	50%	225	113	
2023	Proposed Hotel	100%	1,200	1,200	
	Totals		**3,373**	**2,373**	

Other potential new hotels were not factored directly into our analysis due to their location, market orientation, and size. Though not directly competitive, new hotel supply could affect absorption of room night demand in the competitive set. By 2023, we anticipate six additional hotels with a cumulative increase of 3,373 available rooms of which 2,373 will be weighted competitive.

While we have taken reasonable steps to investigate proposed hotel projects and their status, due to the nature of real estate development, it is impossible to determine with certainty every hotel that would open in the future. Future improvement in market conditions would raise the risk of increased competition. Our forecasts reflect this risk.

Estimated Demand Growth by Market Segment

HVS applies growth rates to each segment to determine the level of future demand. HVS based demand growth rate estimates on interviews with hotel managers, assessment of occupancy trends, economic and demographic data, and identification of demand generators.

The figure below shows estimated base growth rates by market segment through the stabilization of demand.

FIGURE 5-20
ESTIMATED ANNUAL BASE GROWTH RATES BY MARKET SEGMENTS

Segment	2018	2019	2020	2021	2022	2023	2024	2025	2026	Average
Transient	0.5%	1.5%	1.5%	1.0%	0.8%	1.0%	1.0%	1.0%	0.8%	1.1%
Meeting and Group	0.5%	1.0%	1.0%	1.0%	0.8%	1.0%	1.0%	1.0%	0.8%	0.9%
Weighted Overall Change	**0.5%**	**1.2%**	**1.2%**	**1.0%**	**0.8%**	**1.0%**	**1.0%**	**1.0%**	**0.8%**	**0.9%**

Latent Demand

Latent demand reflects potential room night demand that has not been realized by the existing competitive supply. Unaccommodated demand and induced demand make up latent demand.

Unaccommodated Demand

Unaccommodated demand refers to individuals who are unable to secure accommodations in the market because all the local hotels are filled. These travelers must defer their trips, settle for less desirable accommodations, or stay in properties located outside the market area. Because this demand did not yield occupied room nights, it is not included in the estimate of historically accommodated room night demand. If additional lodging facilities are expected to enter the market, it is reasonable to assume that these guests would be able to secure hotel rooms in the future, and it is, therefore, necessary to quantify this demand.

The seasonality of the market indicates that although year-end occupancy may not average more than 70%, the market sells out many nights during the year, indicating unaccommodated demand. The primary source of unaccommodated demand is the popular spring season, which has historically had the highest occupancy rates. The following figure presents our estimate of unaccommodated demand.

FIGURE 5-21
UNACCOMMODATED DEMAND ESTIMATE

Market Segment	Total Room Nights	Unaccommodated Demand	
		% of Total	Room Nights
Transient	1,088,971	4.7%	51,216
Meeting and Group	1,404,173	0.9%	12,804
Total	**2,493,144**	**2.6%**	**64,020**

Utilizing monthly and weekly peak demand and sell-out trends, we estimate that 2.6% of the base-year demand is unaccommodated.

Induced Demand

Induced demand represents the additional room nights attracted to the market following the introduction of a new demand generator. Situations that can result in induced demand include the opening of a new manufacturing plant, the opening or expansion of a convention center, or the addition of a new hotel with a distinct chain affiliation or unique facilities.

The following figure shows estimated induced demand for room nights that would enter the competitive set over a four-year ramp-up period.

FIGURE 5-22
TIMING OF INDUCED DEMAND

Year	Meeting and Group	Total Induced
2023	53,940	53,940
2024	87,286	87,286
2025	126,788	126,788
2026	160,003	160,003

The MCC induces an additional 12,000 room nights to hotels outside of the competitive set, as a result of the Proposed Hotel opening, for a total of 172,000 room nights into the local market when combined with the induced demand in the prior figure.

Accommodated Demand and Market-wide Projected Occupancy

Four variables make up accommodated demand: 1) base demand—sources currently generating room nights, 2) previously unaccommodated demand absorbed due to growth in room supply, and 3) induced demand that is new to the market. These estimates are adjusted by 4) residual demand—the estimated number of room nights not accommodated due to supply constraints. The figure below breaks down room night demand by these sources.

FIGURE 5-23
ANNUAL ROOM NIGHT DEMAND BY SOURCE FOR THE COMPETITIVE HOTELS

Source	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Base Accommodated	2,493,000	2,506,000	2,536,000	2,567,000	2,593,000	2,612,000	2,638,000	2,665,000	2,691,000	2,712,000
Previously Unaccommodated	64,000	64,000	64,000	64,000	64,000	64,000	64,000	64,000	64,000	70,000
Induced	0	0	0	0	0	0	54,000	87,000	127,000	160,000
Total Available Demand	2,557,000	2,570,000	2,600,000	2,631,000	2,657,000	2,676,000	2,756,000	2,816,000	2,882,000	2,942,000
(Less Residual Demand)	(64,000)	(75,000)	(79,000)	(48,000)	(43,000)	(43,000)	0	0	0	0
Total Accommodated Demand	2,493,000	2,495,000	2,521,000	2,583,000	2,614,000	2,633,000	2,756,000	2,816,000	2,882,000	2,942,000
Accommodated Demand Change	1.6%	0.1%	1.1%	2.5%	1.2%	0.8%	4.7%	2.2%	2.4%	1.9%
Available Room Night Change	-0.1%	-0.5%	2.6%	3.8%	1.5%	0.0%	12.2%	0.0%	0.0%	0.0%
Marketwide Occupancy	75%	75%	74%	73%	73%	74%	69%	70%	72%	73%

Over the projection period for demand growth, which ends in the first stabilized year, room night demand is estimated to grow at a compound average annual rate of 1.7%. HVS used these demand projections to forecast the Proposed Hotel's occupancy and average rate.

Conclusion

The projected growth in room night demand within the Competitive Hotels provides the foundation for the development of additional hotel rooms. Six new hotels including the Proposed Hotel will enter the competitive set. Market demand growth and supply growth are balanced resulting in little change in occupancy rates after the Proposed Hotel has stabilized. In the next chapter, the Proposed Hotel will be positioned by market demand segment to determine the stabilized occupancy rate for the Proposed Hotel.

6. Projection of Occupancy and Average Rate

Along with average rate results, the occupancy levels achieved by the Proposed Hotel would be the foundation of the property's financial performance. To a certain degree, management can manipulate the level of occupancy. For example, hotel operators may choose to lower rates to maximize occupancy. Our forecasts reflect an operating strategy that we believe would be implemented by a typical professional hotel management team to achieve an optimal mix of occupancy and average rate.

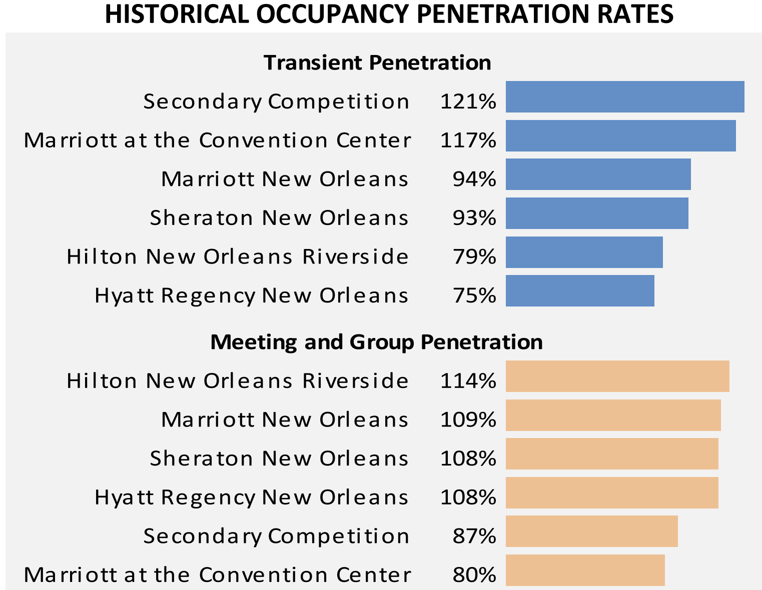
Penetration Rate Analysis

The Proposed Hotel's forecasted market share and occupancy levels are based upon its anticipated competitive position within the market, as quantified by its penetration rate. The penetration rate is the ratio of a property's market share to its fair share. A hotel achieves a fair share when its share of occupied room nights equals its share of available room nights.

Market Penetration

HVS analyzed the market penetration of each of the properties in the competitive set. The following figure ranks the market penetration of each hotel by market segment.

FIGURE 6-1
HISTORICAL OCCUPANCY PENETRATION RATES



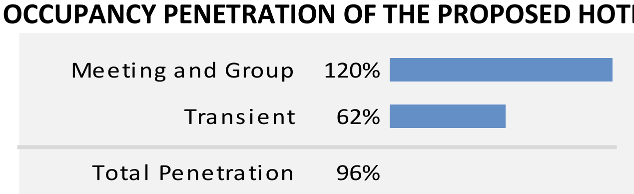
The Secondary Competitors had the highest transient penetration due to the concentration of properties in the French Quarter, strong brands, and quality accommodations. The Hilton New Orleans Riverside had the highest penetration of the Meeting and Group segment due to extensive meeting space, adjacency to the MCC, large room count, extensive food and beverage facilities, and a strong brand.

HVS positioned the Proposed Hotel within each market segment. The Proposed Hotel would:

- over-penetrate the meeting and group segment due to the adjacent MCC,
- over-penetrate the commercial segment due to new construction, superior facilities, and strong brand, and
- under-penetrate leisure segment due to the property being marketed for meeting and group activities.

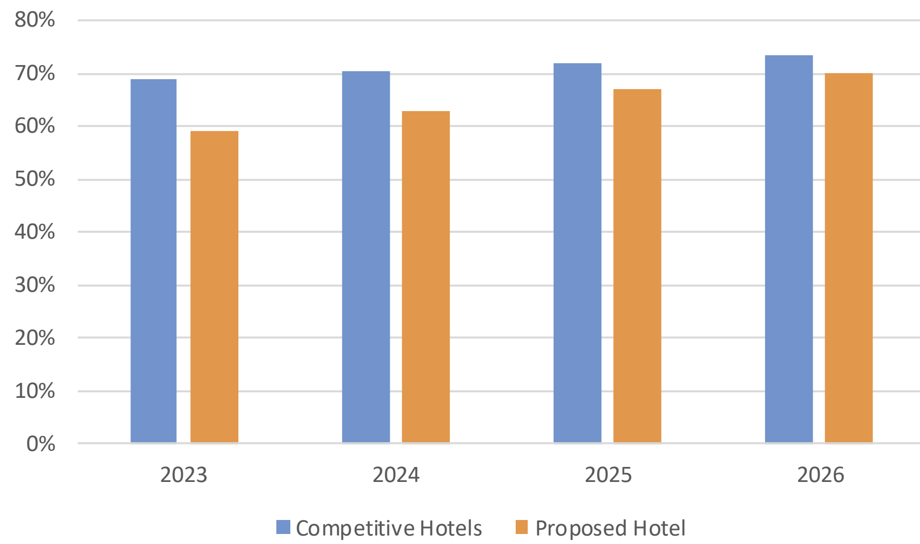
The figure below shows our estimates of market penetration of the Proposed Hotel.

FIGURE 6-2
OCCUPANCY PENETRATION OF THE PROPOSED HOTEL



We estimate that the Proposed Hotel would achieve 95.5% overall occupancy penetration in a stabilized year of operation in 2026. As is typical of new hotels, it may take several years to ramp-up to its stabilized occupancy level. HVS assumes a four-year ramp up after the opening of the Proposed Hotel. At stabilization in 2026, the Proposed Hotel could achieve an occupancy rate as shown in the figure below. The occupancy rate is rounded to the nearest percentage when projecting room revenues in the Pro Forma.

FIGURE 6-3
PROPOSED HOTEL OCCUPANCY PROJECTION



The following figure shows the segmented forecast of occupancy for the Proposed Hotel.

FIGURE 6-4
PROPOSED HOTEL
ROOM NIGHT ABSORPTION AND OCCUPANCY ESTIMATES

Calendar Year	2023	2024	2025	2026
Available Room Nights	438,000	438,000	438,000	438,000
Absorption by Segment				
Transient	75,900	80,800	84,200	85,000
Meeting and Group	179,700	193,500	208,100	222,000
Total Absorption	255,600	274,300	292,300	307,000
Projected Occupancy	59%	63%	67%	70%
Percent Segmentation				
Transient	30%	29%	29%	28%
Meeting and Group	70%	71%	71%	72%

The stabilized occupancy reflects the anticipated results of the property over its remaining economic life, given all changes in the life cycle of the hotel. Thus, the stabilized occupancy excludes from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusually high or low occupancies. Although the Proposed Hotel may operate at occupancies above this stabilized level, new competition, and temporary economic downturns could force the occupancy below our stabilized projection.

Average Rate Analysis

The average rate is calculated by dividing the total rooms revenue achieved during a specified period by the number of rooms sold during the same period. The projected average rate and the anticipated occupancy percentage are used to forecast rooms revenue, which in turn provides the basis for estimating most other income and expense categories.

Market Segmentation Method

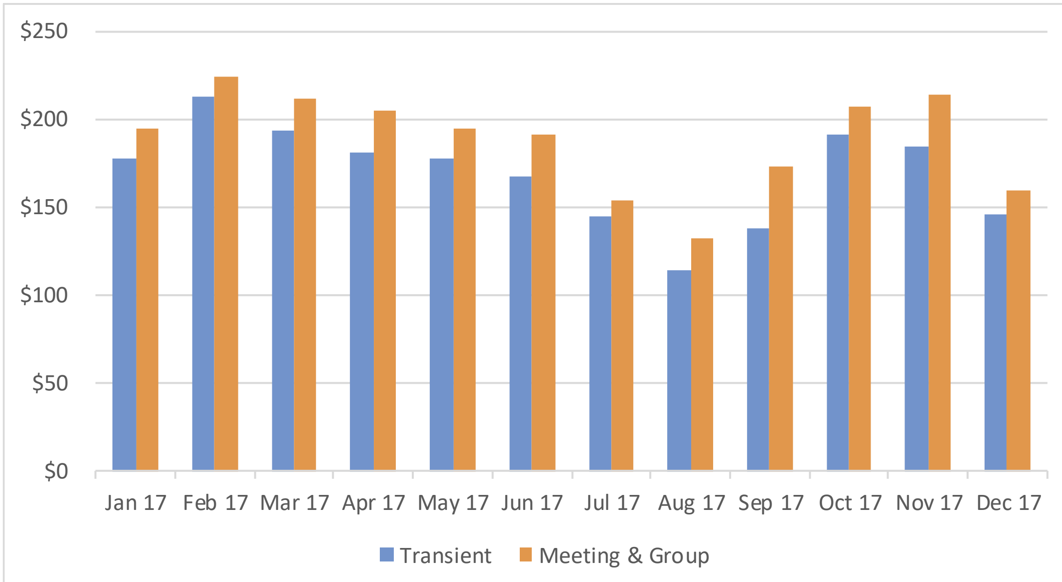
In the market segmentation method, the average room rate is projected by individual market segment. This is the preferred method for forecasting average rate, based on the operational and marketing practices of hotel operators. Consistent with hotel management's tracking of historical average rates by market segment and their own budgeting methods, segmentation of demand and average rate allows for yield management, resulting in the maximization of room revenue.

The average rates achieved in 2017, in each market segment, by the primary competitors serve as the basis for our average rate projection. Each market segment's average rate is projected out through the stabilized year based upon the annual rate of change anticipated for that market segment. For each forecast year, the segmented average rate is multiplied by the number of occupied rooms previously projected to be captured in that segment; this results in a forecast of total rooms revenue for each market segment. The segmented rooms revenue is summed, resulting in a forecast of the total rooms revenue. Dividing the total rooms revenue by the total number of occupied rooms results in the overall weighted average room rate.

Competitive Hotel's Base Year Monthly Segmented ADR

The Competitive Hotels generated a higher ADR in late winter and early spring and late fall, as shown in the following figure.

FIGURE 6-5
COMPETITIVE HOTELS
2017 ADR BY MARKET SEGMENT



Source: STR

The Competitive Hotels consistently generate a higher ADR on meeting and group demand as compared to transient demand.

Primary Hotel's 2017 ADR and RevPAR

The following figure summarizes the historical average rate and the RevPAR of the Proposed Hotel's future primary competitors.

FIGURE 6-6
BASE-YEAR AVERAGE RATE AND REVPAR OF THE COMPETITORS

Property	2017 Average Room Rate	ADR Penetration	RevPAR	RevPAR Penetration
Hilton New Orleans Riverside	$130 - $140	104%	$142.82	103%
Hyatt Regency New Orleans	190 - 200	99%	128.80	93%
Marriott New Orleans	210 - 220	95%	135.52	98%
New Orleans Downtown Marriott at the Convention Center	140 - 150	96%	128.16	92%
Sheraton New Orleans	172.00	93%	130.72	94%
Average - Primary Competitors	$181.84	98%	$134.81	97%
Average - Secondary Competitors	190.63	103%	145.32	105%
Overall Average	**$185.30**		**$138.88**	

The primary competitors realized an overall average rate of $181.84 in the 2017 base year, improving from the 2016 level of $181.82.

Primary Hotels and Proposed Hotel ADR Forecast

The primary competitors have a greater spread in ADR between meeting and group and transient demand, as shown in the following figure.

FIGURE 6-7
2017 ADR BY MARKET SEGMENT

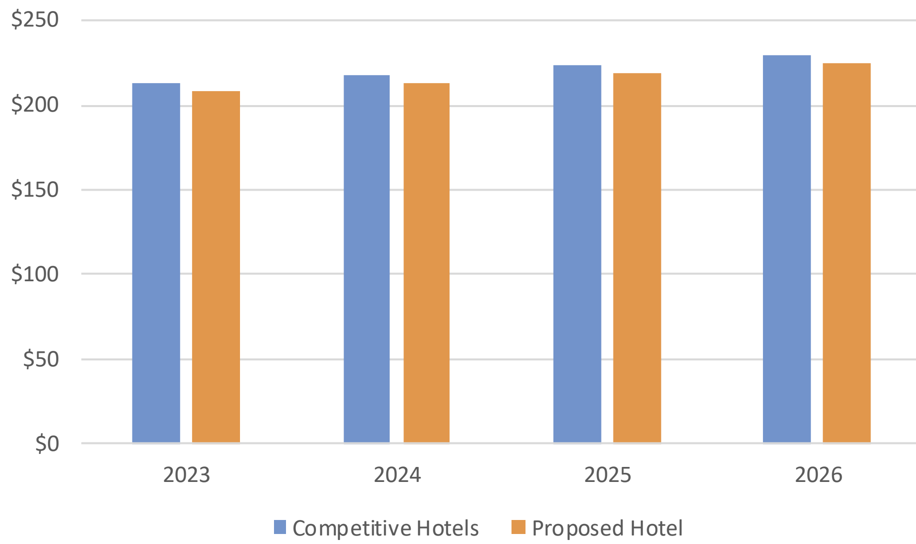
Market Segment	STR Primary Competitors *	Proposed Hotel Positioned ADR
Meeting and Group	$192.09	$190.00
Transient	$168.04	$160.00

* 2017 Segmented ADR STR Trend

The positioned ADR for the Proposed Hotel in the market segments as compared the primary competitors is modestly lower in both the meeting and group and transient segment. The Proposed Hotel's distance from the French Quarter has a greater impact on the meeting and group segment.

The following figure illustrates the projected ADR in a calendar year. The projected ADR for the Proposed Hotel is before the discount of 3.0% in 2023, and 1.0% in 2024 during the stabilization period. As a context for the average rate growth factors, note that we have applied a base underlying inflation rate of 2.5% annually throughout our projection period.

FIGURE 6-8
COMPETITIVE HOTELS AND PROPOSED HOTEL AVERAGE RATE FORECAST



The average rate of growth for the Proposed Hotel increases in 2025 and 2026 is due to a larger percentage of demand from the meeting and group segment at a higher ADR, as compared to transient demand, as the property stabilizes in the market.

The positioning of the ADR for the Proposed Hotel is supported by extensive features of the property including:

- Significant demand from the attached MCC,
- New construction,
- Strong brand,
- Convenient location,
- Restaurants and lounge, and
- Spa.

The Proposed Hotel's 2017 base year market segments would increase by 2.0% in 2018. HVS projects growth rates of 2.0% and 2.5% in 2019 and 2020 through 2026, respectively as the market absorbs upcoming increases in supply. The Proposed Hotel would achieve an ADR penetration rate of 98.1% by stabilization.

The following figure presents the forecast for ADR and Occupancy for the Proposed Hotel during the first ten years of operations.

FIGURE 6-9
PROPOSED HOTEL
FORECAST OF OCCUPANCY, ADR, AND REVPAR

Year	Occupancy	ADR	RevPAR	Annual RevPAR Increase
2023	59%	$201.73	$119.02	
2024	63%	211.12	133.01	11.7%
2025	67%	218.81	146.60	10.2%
2026	70%	224.70	157.29	7.3%
2027	70%	230.32	161.22	2.5%
2028	70%	236.08	165.26	2.5%
2029	70%	241.98	169.39	2.5%
2030	70%	248.03	173.62	2.5%
2031	70%	254.23	177.96	2.5%
2032	70%	260.59	182.41	2.5%

The Proposed Hotel's forecast of occupancy demonstrates the property will provide significant support of the meeting and group activity based on the projected high room night demand in that market segment. Due to location, the RevPAR of the Proposed Hotel is positioned below the Hilton and in the mid-range of other large meeting and group-oriented hotels in New Orleans.

HVS

7. Projection of Income and Expenses

Methodology

Estimates of average rate and occupancy allow the projection of room revenue, which forms the basis of income and expense projections. The number of guests drives other revenue sources of the Proposed Hotel such as food, beverages, and telephone income. Many expense levels also vary with occupancy.

We assume operation would begin on January 1, 2023. The forecast of income and expense is stated in current dollars for each operating year. We expect hotel operations to ramp up for four years after opening. The stabilized year reflects the anticipated operating results of the property over its remaining economic life. Thus, income and expense estimates from the stabilized year forward exclude from consideration any abnormal relationship between supply and demand, as well as any nonrecurring conditions that may result in unusual revenues or expenses.

The projections of revenue (other than room revenue) and expense for the Proposed Hotel rely on comparable operating statements from the HVS database. We carefully selected comparable operating statements based on similarities with the Proposed Hotel including room count, property type, location in urban markets, amounts of function space, occupancy rates, and average daily room rates. A full year's data on each property is available within the last four years.

The following figure shows the room count, meeting space, occupancy, average rate, and RevPAR of the comparable hotels and compares them with the Proposed Hotel.

FIGURE 7-1
OVERVIEW OF COMPARABLE OPERATING STATEMENTS

	Comp A	Comp B	Comp C	Comp D	Comp E	Subject Hotel
Year	2016/17	2016/17	2015/16	2015/16	2013/14	*
Number of Rooms:	890 to 1100	1070 to 1320	720 to 890	990 to 1210	1270 to 1560	1200
Meeting Space:	100,800	200,000	60,000	60,600	200,000	99,903
Sq Ft Meetng Space per Room:	275	200	50	76	182	83
Occupied Rooms:	286,440	305,415	236,226	298,332	365,289	306,600
Average Rate:	$208	$182	$219	$193	$167	$180
RevPAR:	$163	$128	$176	$143	$118	$126

*A stabilized year of operation. Dollar amounts shown in 2017 dollars.

Sources: Respective Venues and HVS

Further analysis of the comparable hotels provides benchmarks used in our forecast of income and expense. The three most common measures of industry performance: ratio to sales ("RTS"), amounts per available room ("PAR"), and amounts per occupied room night ("POR") are used to present the financial data. The following figure compares our forecasts for the Proposed Hotel to the comparable properties on each of these metrics.

FIGURE 7-2
COMPARABLE OPERATING STATEMENTS--RATIO TO SALES

RANK - PERCENTAGES	1	2	3	4	5	6
REVENUE						
Rooms	65.6	60.9	59.6	**57.7**	56.5	45.7
Food & Beverage	47.6	40.5	**35.9**	35.2	32.4	29.5
Other Operated Departments	5.2	**5.1**	4.1	3.7	0.1	0.0
Miscellaneous Income	6.5	2.9	2.5	**1.3**	1.1	0.0
DEPARTMENTAL EXPENSES						
Rooms	25.4	24.8	23.7	**23.0**	21.0	18.2
Food & Beverage	**60.0**	59.9	58.0	56.5	51.3	49.3
Other Operated Departments	506.3	43.6	**40.0**	38.0	35.5	0.2
Total	39.2	36.9	**36.9**	36.7	31.9	28.5
OPERATING EXPENSES						
Administrative & General	7.1	6.4	**6.4**	6.3	5.8	5.8
Info. and Telecom. Systems	2.0	1.8	**1.0**	0.0	0.0	0.0
Marketing	7.8	7.0	**6.8**	6.1	6.1	5.2
Property Operations & Maintenance	4.0	3.5	3.5	3.5	**3.5**	3.2
Utilities	3.7	3.4	2.9	**2.6**	2.3	1.6
Total Operating Expenses	21.2	20.7	**20.3**	19.7	18.7	18.4
HOUSE PROFIT	50.3	48.4	44.9	**42.9**	42.4	42.1

indicates position of Proposed Headquarters Hotel
indicates position of comparable hotels

House profit ranged from 50.3% to 42.1% of operating revenues for the comparable properties.

FIGURE 7-3
AMOUNTS PER AVAILABLE ROOM

	AMOUNTS PER AVAILABLE ROOM					
RANK - INCOME PER ROOM	**1**	**2**	**3**	**4**	**5**	**6**
REVENUE						
Rooms	64,578	59,670	52,350	46,577	**45,971**	43,143
Food & Beverage	62,193	33,432	29,053	**28,616**	27,854	25,483
Other Operated Departments	**4,088**	3,799	3,658	3,564	188	33
Miscellaneous Income	8,517	2,419	2,125	1,102	**1,022**	0
Total	130,568	98,390	85,894	82,462	**79,697**	72,426
DEPARTMENTAL EXPENSES						
Rooms	14,150	13,316	11,737	11,552	**10,573**	9,065
Food & Beverage	36,048	18,900	**17,170**	16,685	14,914	12,560
Other Operated Departments	**1,635**	1,555	1,444	1,299	951	0
Total	51,149	31,556	30,452	**29,378**	28,035	23,070
OPERATING EXPENSES						
Administrative & General	9,248	6,190	5,474	**5,100**	4,757	4,199
Info. and Telecom. Systems	1,610	1,524	**800**	0	0	0
Marketing	8,026	7,632	**5,400**	5,094	5,034	4,440
Property Operations & Maintenance	4,205	3,437	3,269	2,974	**2,750**	2,508
Utilities	3,631	2,967	2,472	2,403	**2,100**	1,411
Total Operating Expenses	24,446	20,890	17,074	**16,150**	15,823	14,272
HOUSE PROFIT	54,973	49,465	38,515	35,084	34,936	**34,169**

indicates position of Proposed Headquarters Hotel
indicates position of comparable hotels

House profit ranged from $54,973 to $34,169 per room for the comparable properties. Other Operated Department income is significant for the Proposed Hotel due to the large amount of parking offered by the property.

FIGURE 7-4
AMOUNTS PER OCCUPIED ROOM NIGHT

RANK - PER OCCUPIED ROOM	1	2	3	4	5	6
REVENUE						
Rooms	219	208	193	182	**180**	167
Food & Beverage	217	131	**112**	103	99	99
Other Operated Departments	**16**	15	13	12	1	0
Miscellaneous Income	30	9	8	**4**	4	0
Total	455	334	322	317	**312**	281
DEPARTMENTAL EXPENSES						
Rooms	49	49	45	**41**	40	35
Food & Beverage	126	74	**67**	62	51	49
Other Operated Departments	**6**	6	6	4	3	0
Total	178	119	116	**115**	95	89
OPERATING EXPENSES						
Administrative & General	32	21	20	**20**	19	16
Info. and Telecom. Systems	6	6	**3**	0	0	0
Marketing	28	26	**21**	20	20	16
Property Operations & Maintenance	15	13	12	11	**11**	10
Utilities	12	10	10	9	**8**	5
Total Operating Expenses	85	71	67	**63**	58	55
HOUSE PROFIT	192	168	142	136	136	**134**

indicates position of Proposed Headquarters Hotel
indicates position of comparable hotels

House profit ranged from $192 to $134 per occupied room for the comparable properties.

Fixed and Variable Component Analysis

HVS uses a fixed and variable component model to project a lodging facility's revenue and expense levels. The following figure illustrates the revenue and expense categories that can be projected using this fixed and variable component model.

FIGURE 7-5
RANGE OF FIXED AND VARIABLE RATIOS

Category	Percent Fixed	Percent Variable	Index of Variability	Fixed Ratio
Revenues				
Food	25 - 50 %	50 - 75 %	Occupancy	25 %
Beverage	0 - 30	70 - 100	Occupancy	25
Other	30 - 70	30 - 70	Occupancy	70
Rentals & Other Income	30 - 70	30 - 70	Occupancy	70
Departmental Expenses				
Rooms	50 - 70	30 - 50	Revenue	60
Food & Beverage	35 - 60	40 - 65	Revenue	60
Other	30 - 70	30 - 70	Beverage Revenue	70
Undistributed Operating Expenses				
Administrative & General	65 - 85	15 - 35	Other	75
Marketing	65 - 85	15 - 35	Other	75
Prop. Operations & Maint.	55 - 75	25 - 45	Occupancy	75
Utilities	75 - 95	5 - 25	Occupancy	75

HVS uses a fixed and variable component model to project a lodging facility's revenue and expense levels. Hotel revenues and expenses have one component that is fixed and another that varies directly with occupancy and facility usage. A projection can be made by taking a known level of revenue or expense and calculating its fixed and variable components. The fixed component is then increased in tandem with the underlying rate of inflation, while the variable component is adjusted for a specific measure of volume such as total revenue.

The actual forecast is derived by adjusting each year's revenue and expense by the amount fixed (the fixed expense multiplied by the inflated base-year amount) plus the variable amount (the variable expense multiplied by the inflated base-year amount) multiplied by the ratio of the projection year's occupancy to the base-year occupancy (in the case of departmental revenue and expense) or the ratio of the projection year's revenue to the base year's revenue (in the case of undistributed operating expenses). Fixed expenses remain fixed, increasing only with inflation. Our discussion of the revenue and expense forecast in this report is based upon the output derived from the fixed and variable model. This forecast of revenue and expense is accomplished through a systematic approach, following the format of the *Uniform System of Accounts for the Lodging Industry*. Each category of revenue and expense is estimated separately and combined in the final statement of income and expense.

Forecast of Income and Expense

The Proposed Hotel would reach a stabilized level of operation in 2026. The forecast is based on calendar years beginning January 1, 2023, for each year.

Rooms

The estimated number of occupied room nights and the average daily room rate determine room revenue in any given year. The Proposed Hotel would stabilize at an occupancy level of 70%, with an average daily rate of $224.70 in 2026. Following the stabilized year, the Proposed Hotel's average rate would increase with the rate of inflation.

Food and Beverage Revenue

A hotel's restaurants, lounges, coffee shops, snack bars, banquet rooms, and room service generate the food and beverage income. In addition to providing a source of revenue, these outlets serve as an amenity that assists in the sale of guestrooms. In the case of the Proposed Hotel, the food and beverage department will include a restaurant, a specialty restaurant, an entertainment bar, and a coffee shop.

Function Space

Function space in the Proposed Hotel includes 99,903 square feet of ballroom and meetings space as shown in the figure below.

FIGURE 7-6
MEETING SPACE

Indoor Meeting & Banquet Facilities	Square Feet
Grand Ballroom	30,000
Ballroom	20,020
Ballroom	15,010
Meeting Rooms	34,873
Total	99,903

Although a portion of food and beverage revenue varies directly with changes in occupancy, the portion generated by banquet sales from local social events does not depend on hotel room occupancy.

Other Operated Departments Revenue

Other operated departments include any major or minor operated department other than rooms and food and beverage. Telephone revenue and expense are now considered a component of other operated departments. The Proposed Hotel will include a small spa and significant amounts of parking. Based on our review of operations with similar other department operations, we have determined an appropriate revenue level for the Proposed Hotel at 5.1% of gross revenues.

Rentals & Other Income

The in-room movie and game charges will generate the Proposed Hotel's rentals and other income revenue. Based on our review of operations with a similar extent of offerings, we determined an appropriate revenue level for the Proposed Hotel at 1.3% of gross revenues.

Department Expenses

Rooms expense consists of items related to the sale and upkeep of guestrooms and public space. Salaries, wages, and employee benefits account for a substantial portion of this category. Although payroll varies somewhat with occupancy and managers can scale the level of service staff on hand to meet an expected occupancy level, much of a hotel's payroll is fixed. Hotel operations require a base level of front desk personnel, housekeepers, and supervisors always. As a result, salaries, wages, and employee benefits are only moderately sensitive to changes in occupancy. The rooms department is projected to average 23.0% of department revenues by the first stabilized year.

Food and beverage departmental expenses consist of items necessary for the primary operation of a hotel's food and banquet facilities. Most of the cost of food and beverage sales and related payroll vary with the level of food revenues; however, this departmental operation has a fixed component. We have projected a stabilized expense ratio of 60% in the Proposed Hotel’s food & beverage.

Other operated departments expense includes all expenses for the divisions associated with these categories. The other operated department's expense would average 40% of department revenues in the first stabilized year of 2026.

In 2026, department level expenses average 36.9% of gross revenues, which would generate a department income of $75.4 million.

Undistributed Operating Expenses

Administrative and general expense includes the salaries and wages of all administrative personnel not directly associated with a department. Other costs include management and operation of the property. These expenses would average 6.4% of gross revenues in the first stabilized year of 2026 for the Proposed Hotel.

Information and telecommunications systems expense consists of all costs associated with a hotel’s technology infrastructure. The costs include cell phones, telephone, and Internet services. Expenses in this category are typically organized by type of technology, or the area benefitting from the technology solution. These expenses would average 1.0% of gross revenues in the first stabilized year of 2026 for the Proposed Hotel.

Marketing expense consists of costs associated with advertising, sales, and promotion; these activities focus on attracting and retaining customers. Marketing creates an image, develops customer awareness, and stimulates patronage of a property's various facilities. Management controls the level of marketing expenditures. These expenses would average 6.8% of gross revenues by the first stabilized year of 2026 for the Proposed Hotel.

The Proposed Hotel will be operated by the brand throughout the projection period. The costs of the affiliation are reflected in our forecast. Other charges related to the affiliation, such as the brand's loyalty program, are reflected in the appropriate departmental expenses, consistent with the Uniform System of Accounts for the Lodging Industry (“USALI”).

Property operations and maintenance expenditures maintain the functionality and appearance of the property. Management has certain discretion over this expense category due to the ability to delay certain maintenance. These expenses would average 3.5% of gross revenues in the first stabilized year of 2026 for the Proposed Hotel.

The consumption of various utilities by a lodging facility takes several forms, including water and space heating, air conditioning, lighting, cooking fuel, and other miscellaneous power requirements. The most common sources of hotel utilities are electricity, natural gas, fuel oil, and steam. This category also includes the cost of water service. These expenses would average 2.6% of gross revenues in the first stabilized year of 2026 for the Proposed Hotel.

Undistributed operating expenses are expected to average 20.3% of gross revenues by the stabilized year of 2026, which generates a house profit of $51.21 million or 42.9% of gross revenues for the Proposed Hotel.

Management Fees

Omni will brand manage the Proposed Hotel. The terms of the agreement have not been finalized. We have assumed a market-appropriate total management fee of 3.0% of gross operating revenues for the Proposed Hotel.

Property Taxes

The Proposed Hotel is not expected to be subject to property taxes due to ownership by a not-for-profit entity.

Insurance

The insurance expense covers the hotel and its contents against damage or destruction by fire, weather, sprinkler leakage, boiler explosion, plate glass breakage, and so forth. General insurance costs also include premiums relating to liability, fidelity, and theft coverage. Insurance rates consider many factors, including building design and construction, fire detection and extinguishing equipment, fire district, distance from the firehouse, and the area's fire experience. Insurance and related expenses projected at 0.9% of gross revenues for the Proposed Hotel.

Reserve for Replacement

The reserve for replacement for furniture, fixtures, and equipment are essential to the operation of a lodging facility, and their quality often influences a property's class. The furniture, fixtures, and equipment of a hotel experience heavy use and need replacement at regular intervals. The reserve for replacement expenses projected at 4.0% of gross revenues for the Proposed Hotel.

Summary of Projections

The following figure presents a forecast for the first stabilized year, followed by a detailed forecast of the first ten years of operation for the Proposed Hotel, including amounts per available room and per occupied room. The forecasts pertain to years beginning January 1, 2023, in inflated dollars for each year.

FIGURE 7-7
FIRST STABILIZED YEAR

STATISTICS		
Number of Rooms	1200	
Occupied Room Nights	306,600	
Occupancy	70%	
Average Rate	$224.70	
RevPAR	$157.29	
	$000	% of Gross
Operating Revenue		
Rooms	$68,894	57.7%
Food	38,290	32.1%
Beverage	4,595	3.8%
Other Operated Departments	6,126	5.1%
Miscellaneous Income	1,532	1.3%
Total Operating Revenues	$119,437	100%
Departmental Expenses*		
Rooms	$15,846	23.0%
Food & Beverage	25,731	60.0%
Other Operated Departments	2,451	40.0%
Total Expenses	$44,027	36.9%
Departmental Income	$75,410	63.1%
Undistributed Operating Expenses		
Administrative & General	$7,643	6.4%
Marketing	8,093	6.8%
Prop. Operations & Maint.	4,121	3.5%
Utilities	3,147	2.6%
Info & Telecom Systems	1,199	1.0%
Total Expenses	24,203	20.3%
Gross House Profit	$51,207	42.9%
Management Fee	$3,583	3.0%
Income Before Non-Opr. Inc. & Exp.	$47,624	39.9%
Non-Operating Income & Expenses		
Property Taxes	$0	0.0%
Insurance	1,049	0.9%
Reserve for Replacement	4,777	4.0%
Total Expenses	$5,827	4.9%
EBITDA Less Reserve	$41,797	35.0%

FIGURE 7-8
PROPOSED HOTEL 10 YEAR PRO FORMA (000'S)

	2023		2024		2025		2026		2027		2028		2029		2030		2031		2032	
STATISTICS																				
Number of Rooms	1200		1200		1200		1200		1200		1200		1200		1200		1200		1200	
Occupied Room Nights	258,420		275,940		293,460		306,600		306,600		306,600		306,600		306,600		306,600		306,600	
Occupancy	59%		63%		67%		70%		70%		70%		70%		70%		70%		70%	
Average Rate	$201.73		$211.12		$218.81		$224.70		$230.32		$236.08		$241.98		$248.03		$254.23		$260.59	
RevPAR	$119.02		$133.01		$146.60		$157.29		$161.22		$165.26		$169.39		$173.62		$177.96		$182.41	
	$000	% of Gross	$000	% of Gross	$000	% of Gross	$000	% of Gross	$000	% of Gross	$000	% of Gross	$000	% of Gross	$000	% of Gross	$000	% of Gross	$000	% of Gross
Operating Revenue																				
Rooms	$52,131	55.4	$58,256	56.5	$64,213	57.3	$68,894	57.7	$70,617	57.7	$72,382	57.7	$74,192	57.7	$76,046	57.7	$77,947	57.7	$79,896	57.7
Food	31,366	33.3	33,712	32.7	36,155	32.2	38,290	32.1	39,247	32.1	40,229	32.1	41,234	32.1	42,265	32.1	43,322	32.1	44,405	32.1
Beverage	3,890	4.1	4,127	4.0	4,375	3.9	4,595	3.8	4,710	3.8	4,827	3.8	4,948	3.8	5,072	3.8	5,199	3.8	5,329	3.8
Other Operated Departments	5,421	5.8	5,656	5.5	5,900	5.3	6,126	5.1	6,280	5.1	6,437	5.1	6,597	5.1	6,762	5.1	6,931	5.1	7,105	5.1
Miscellaneous Income	1,355	1.4	1,414	1.4	1,475	1.3	1,532	1.3	1,570	1.3	1,609	1.3	1,649	1.3	1,691	1.3	1,733	1.3	1,776	1.3
Total Operating Revenues	$94,162	100.0	$103,165	100.0	$112,118	100.0	$119,437	100.0	$122,424	100.0	$125,484	100.0	$128,621	100.0	$131,836	100.0	$135,132	100.0	$138,510	100.0
Departmental Expenses*																				
Rooms	$13,789	26.5	$14,479	24.9	$15,194	23.7	$15,846	23.0	$16,242	23.0	$16,648	23.0	$17,064	23.0	$17,491	23.0	$17,928	23.0	$18,376	23.0
Food & Beverage	22,660	64.3	23,687	62.6	24,750	61.1	25,731	60.0	26,374	60.0	27,034	60.0	27,709	60.0	28,402	60.0	29,112	60.0	29,840	60.0
Other Operated Departments	2,243	41.4	2,311	40.9	2,382	40.4	2,451	40.0	2,512	40.0	2,575	40.0	2,639	40.0	2,705	40.0	2,773	40.0	2,842	40.0
Total Expenses	$38,693	41.1	$40,477	39.2	$42,326	37.8	$44,027	36.9	$45,128	36.9	$46,256	36.9	$47,412	36.9	$48,598	36.9	$49,813	36.9	$51,058	36.9
Departmental Income	$55,469	58.9	$62,688	60.8	$69,793	62.2	$75,410	63.1	$77,296	63.1	$79,228	63.1	$81,209	63.1	$83,238	63.1	$85,319	63.1	$87,452	63.1
Undistributed Operating Expenses																				
Administrative & General	$6,829	7.3	$7,107	6.9	$7,386	6.6	$7,643	6.4	$7,834	6.4	$8,030	6.4	$8,231	6.4	$8,436	6.4	$8,647	6.4	$8,864	6.4
Marketing	7,231	7.7	7,525	7.3	7,821	7.0	8,093	6.8	8,295	6.8	8,502	6.8	8,715	6.8	8,933	6.8	9,156	6.8	9,385	6.8
Prop. Operations & Maint.	3,683	3.9	3,832	3.7	3,983	3.6	4,121	3.5	4,224	3.5	4,330	3.5	4,438	3.5	4,549	3.5	4,663	3.5	4,779	3.5
Utilities	2,812	3.0	2,926	2.8	3,041	2.7	3,147	2.6	3,226	2.6	3,306	2.6	3,389	2.6	3,474	2.6	3,561	2.6	3,650	2.6
Info & Telecom Systems	1,071	1.1	1,115	1.1	1,159	1.0	1,199	1.0	1,229	1.0	1,260	1.0	1,291	1.0	1,323	1.0	1,356	1.0	1,390	1.0
Total Expenses	$21,626	22.9	$22,504	21.8	$23,389	20.8	$24,203	20.2	$24,808	20.2	$25,428	20.2	$26,064	20.2	$26,716	20.2	$27,383	20.2	$28,068	20.2
Gross House Profit	$33,843	36.0	$40,185	39.0	$46,403	41.4	$51,207	42.9	$52,488	42.9	$53,799	42.9	$55,145	42.9	$56,523	42.9	$57,936	42.9	$59,384	42.9
Management Fee	$2,825	3.0	$3,095	3.0	$3,364	3.0	$3,583	3.0	$3,673	3.0	$3,765	3.0	$3,859	3.0	$3,955	3.0	$4,054	3.0	$4,155	3.0
Income Before Non-Opr. Inc. & Exp.	$31,018	33.0	$37,090	36.0	$43,040	38.4	$47,624	39.9	$48,815	39.9	$50,035	39.9	$51,286	39.9	$52,568	39.9	$53,882	39.9	$55,229	39.9
Non-Operating Income & Expenses																				
Property Taxes	$0	0.0	$0	0.0	$0	0.0	$0	0.0	$0	0.0	$0	0.0	$0	0.0	$0	0.0	$0	0.0	$0	0.0
Insurance	974	1.0	998	1.0	1,023	0.9	1,049	0.9	1,075	0.9	1,102	0.9	1,130	0.9	1,158	0.9	1,187	0.9	1,217	0.9
Reserve for Replacement	1,883	2.0	3,095	3.0	4,485	4.0	4,777	4.0	4,897	4.0	5,019	4.0	5,145	4.0	5,273	4.0	5,405	4.0	5,540	4.0
Total Expenses	$2,857	3.0	$4,093	4.0	$5,508	4.9	$5,827	4.9	$5,972	4.9	$6,122	4.9	$6,275	4.9	$6,431	4.9	$6,592	4.9	$6,757	4.9
EBITDA Less Reserve	$28,160	30.0	$32,996	32.0	$37,531	33.5	$41,797	35.0	$42,843	35.0	$43,913	35.0	$45,012	35.0	$46,136	35.0	$47,289	35.0	$48,472	35.0

*Departmental expense ratios are calculated as a percentage of departmental revenue.

Pro Forma Conclusion

Our analysis projects a profitable hotel operation. The stabilized total revenue comprises primarily of rooms and food and beverage revenue, with a relatively small portion derived from other income sources. On the cost side, departmental expenses total 36.9% of revenue in a stabilized year for the Proposed Hotel, while undistributed operating expenses total 20.3% of total revenues; this assumes that the property would be operated competently by a well-known hotel operator. After a 3.0% of total revenues management fee, and 4.9% of total revenues in fixed expenses with no allowance for property taxes, a net income ratio of 35.0% ($41.80 million) is forecast by 2026 for the Proposed Hotel.

8. Proposed Hotel Feasibility Analysis

Return on Investment

Return on investment compares future benefits of an income-producing property compared to its acquisition or construction cost. The first step in performing a return on investment analysis is to determine the required investment. For a proposed property, this amount is the development cost of the Proposed Hotel. Investors utilize a return on investment analysis to determine if the future cash flow from current cash outlay meets his or her investment criteria.

Approaches to Financing

Cities have financed convention center hotels using three different financing models, as shown in the following figure.

FIGURE 8-1
APPROACHES TO PUBLIC INVOLVEMENT IN FINANCING OF HOTELS

	Ownership	Capital Stack	Default Risk	Cost of Funds	Final Ownership
Option 1	Private	Debt, Equity, Public Subsidy	Private (Equity Investor and Lenders)	9% to 11%	Private
Option 2	Public	Tax Exempt Debt plus Incentives or Credit Enhancement	Bondholders & Public Sponsor	4% to 6%	Public
Option 3	Non-Profit	Tax Exempt Debt plus Incentives	Bondholders	7% to 9%	Public

Option one is standard commercial development of the hotel with debt and equity financing. The private developer would assume all risk of development including bankruptcy of the project. Depending on the circumstances, local governmental entities may offer incentives to the developer. The site could either be owned fee simple or controlled through a long-term lease.

Option two would have the local government develop the hotel and assume all the development risk, including the risk of default on debt service payments. The local government would issue tax-exempt bonds to finance the project with little or no equity. The local government would enter into a Qualified Management Agreement ("QMA") with a national hotel brand. A QMA conforms to Internal Revenue Service guidelines for projects financed with tax-exempt debt. AS a brand managed property, the hotel would not be subject to franchise fees. The site would normally be owned by the sponsoring governmental entity.

Option three would have a non-profit, single purpose, special purpose entity ("SPE") own the hotel. The SPE would bear the risk of development, including default on the repayment of debt. The SPE would issue tax-exempt bonds to finance the project with little or no equity. When the financing for the Proposed Hotel is repaid, ownership would revert to the local government, which can continue to run the hotel or sell it and keep all the proceeds. The property would operate under a QMA between the non-profit owner and the management. The site could either be purchased or subject to a long-term lease.

This study analyzes project feasibility under Options one and three. The feasibility analysis of Option one determines whether conventional financing is a viable option. Feasibility Analysis of Option three models the Developer's proposed plan. The Authority has not contemplated development under Option two.

Option One: Private Development of the Proposed Hotel

In a first stabilized year of operations, $41.8 million would be available to pay debt service and provide a return on equity. We used a discounted cash flow analysis to estimate the present value of hotel net operating income and its residual value. The figure below shows the parameters and valuation of the project assuming conventional financing (Option one).

FIGURE 8-2
PRELIMINARY ASSESSMENT OF FEASIBILITY

Assumptions	
Rooms	1200
Loan-To-Value Ratio	65%
Blended Yield Senior and Mezz.	5.00%
Equity Yield	17.50%
Transaction Costs for Sale	2.00%
Sale End of Year	10
Terminal Capitalization Rate	8.50%
Total Property Yield	10.50%

FIGURE 8-3
ESTIMATED PRESENT VALUE CONVENTIONAL FINANCING

Estimated Value at Opening	January 1, 2023
Mortgage Component	$292,294,631
Equity Component	157,389,417
Total	$449,684,047
Value per Room	$374,737
Assumptions Range of Costs	
$425 thousand per Room	$510,000,000
$475 thousand per Room	$570,000,000
$525 thousand per Room	$630,000,000
Possible Funding Surplus (Gap)	
$425 thousand per Room	($60,315,953)
$475 thousand per Room	($120,315,953)
$525 thousand per Room	($180,315,953)

The financing assumptions reflect current credit market conditions for financing full-service hotels. HVS relied on its survey of hotel transactions to determine debt–equity splits, yield requirements, and capitalization rates.

Based on these assumptions, a 1200-room hotel would have a value of approximately $450 million if property taxes are not paid due to government ownership of the land. Development costs could range from $510 to $630 million. Consequently, the funding gap could range from $60 to $180 million. We conclude that under current market conditions, conventional financing is not feasible.

Option Three: Non-Profit Financing Plan

The Developer proposed that Preston Hollow Capital, LLC, an independent specialty finance company, would purchase tax-exempt debt from the not-for-profit SPE, which would own the Proposed Hotel during the financing period. The SPE would be established for the benefit of the Authority.

The Proposed Hotel would revert to the Authority once the debt has been repaid, which in this case, is projected to be after 40 years of operation. At that time, the Authority may choose to sell the asset and retain 100% of the proceeds or continue to own the hotel and receive the net operating income of the hotel.

To value the project under the proposed financing plan, we assumed the following parameters as proposed by the Developer.

- Non-profit ownership,
- Three tiers of tax-exempt debt,
- Private placement of subordinate bonds,
- 40-year amortization of debt,
- No MCC default risk,
- Reversion of hotel to MCC after the debt is repaid,
- MCC Capital Contribution of $41 million,
- 10% rooms tax is captured by the project on 95% of room revenues, and
- 4% sales tax is captured by the project on 60% of food and beverage sales.

FIGURE 8-4
SOURCES AND USES OF FUNDS

Proposed Sources		
Senior Bond Proceeds	7.00%	$305
Mezzanine Bond Proceeds	8.50%	180
Subordinated Bond Proceeds	11.00%	107
Interest Earnings	2.00%	12
MCC Capital Contribution		41
Total Sources		$646
Proposed Uses		
Project Funding		$533
Reserve Accounts		43
Capitalized Interest		54
Working Capital		9
Issuance Costs		7
Total Uses of Funds		$646

Based on these assumptions, a tax-exempt borrowing plus a $41 million investment by the Authority in the 1200-room hotel would generate $533 million for project development costs. Development costs could range from $510 to $630 million. Consequently, the project is feasible if construction costs are in the lower range of projected costs. We conclude that under current market conditions, the proposed tax-exempt financing with the contribution of $41 million from the Authority is feasible if construction costs do not exceed $533 million.

Public Involvement in Other Cities

The level of public assistance that would be required to finance the Proposed Hotel is at the low end of the range of incentives provided by other cities for similar hotel projects. See the following figure.

FIGURE 8-5
EXAMPLES OF PUBLIC INVOLVEMENT IN HOTEL FINANCING

Project	Ownership	Credit Enhancement	Year	Rooms	Cost ($ millions)	Cost Per Key ($ thousands)	Incentive ($ millions)	Incentive %
Oklahoma City Omni	Private	No	2021	605	235	388	85	36%
Loews Kansas City	Private	No	2020	800	328	410	160	49%
Portland Metro Hyatt Regency	Private	No	2019	600	224	373	74	33%
Washington Marriott Marquis	Private	No	2014	1,175	520	443	230	44%
Omni Nashville	Private	No	2013	800	247	309	150	61%
Omni Forth Worth	Private	No	2009	614	230	375	89	39%
Marriott Marquis Chicago	Public	Yes	2017	1,205	450	373	50	11%
Dallas Omni	Public	Yes	2011	1,001	500	500	100	20%
							Average	**37%**
New Orleans HQH	Non-Profit	No	2023	1,200	558	465	173	31%

Source: HVS, media reports, respective project documents

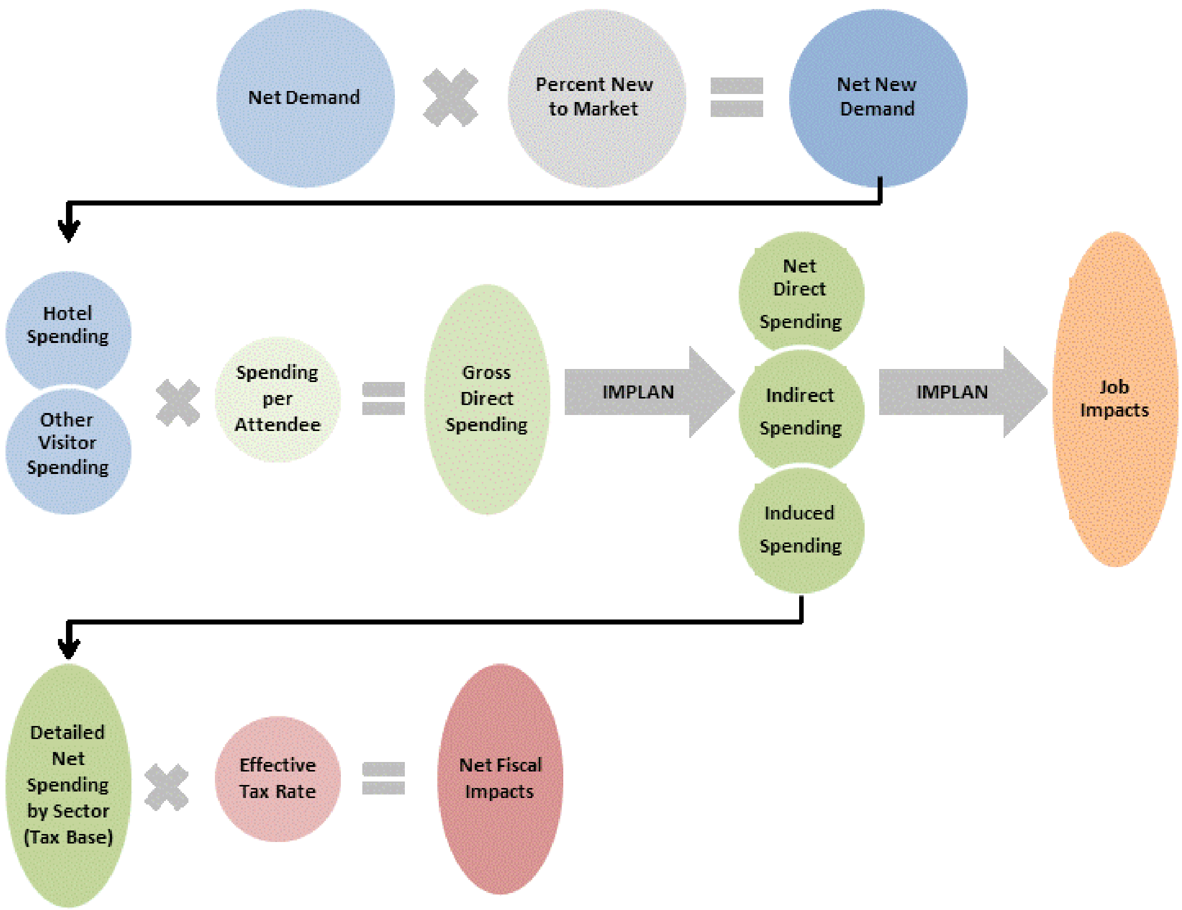
The estimated level of public participation proposed in New Orleans is lower than the average contribution by other sponsoring municipalities shown in the above figure. Many market specific factors influence the amounts of public incentives in hotel development projects. These factors include but are not limited to hotel market conditions, the cost of debt and equity, the type of hotel ownership, the creditworthiness of the sponsoring municipality, the level of risk assumed by the owner or sponsoring municipality, and the economic and community benefits generated by the hotel project. Consequently, the amounts of incentives offered in other cities does not indicate the appropriate level of incentives for a project in New Orleans.

9. Economic Impact Analysis

Based on the demand projections presented in this report, HVS identified the new spending that would occur in the local economy due to the proposed development of the Ernest N. Morial Convention Center ("MCC"). HVS estimated the amounts of income and employment that new visitors, event organizers, and exhibitors would generate in New Orleans.

The figure below illustrates our methodology.

FIGURE 9-5
METHODOLOGY FOR ECONOMIC AND FISCAL IMPACT ANALYSIS



The University of New Orleans Economic Impact Analysis

The University of New Orleans Division of Business and Economic Research ("DBER") conducts an annual economic impact analysis for the MCC ("UNO Economic Impact Analysis"). HVS obtained these reports for MCC activities for calendar years 2015, 2016, and 2017.

The DBER uses data provided by the MCC, external information collected by the DBER, and assumptions based on prior studies and reports. The DBER calculates the number of out-of-town visitors generated by the MCC and applies spending parameters to estimate direct spending. The spending parameters for attendees and exhibiting companies are based on data gathered by the DBER, studies of average spending by visitors to the city, and prior studies adjusted for 2017.

HVS assumed the proportion of out-of-town visitors and spending parameters would be consistent with averages from 2015 through 2017. However, HVS has not included the ADR spending estimated by the DBER. Our analysis of the MCC's impact on the lodging market is calculated separately through an analysis of daily STR data on occupancy and ADR. While we have used the same spending parameters as DBER, differences in modeling of economic impact, as well as the separate lodging impact analysis, results in differences between our economic impact findings and the UNO Economic Impact Analysis.

Additionally, the UNO Economic Impact Analysis considers MCC expenditures and capital spending that is not analyzed in this report.

Direct, Indirect, and Induced Spending

Spending falls into three categories:

- **Direct spending** includes the new spending of event attendees and organizers. For example, an attendee's expenditure on a restaurant meal is a direct spending impact. Direct spending includes only new spending that originates from outside New Orleans. Spending by attendees who live within the market area is a transfer of income from one sector of the area's economy to another; therefore, this analysis does not count spending by residents as a new economic impact.
- **Indirect spending** follows from the business spending resulting from the initial direct spending. For example, an event attendee's direct expenditure on a restaurant meal causes the restaurant to purchase food and other items from suppliers. The portion of these restaurant purchases that remain within New Orleans count as indirect impacts.
- **Induced spending** represents the change in local consumption due to personal spending by employees whose incomes change from direct and indirect spending. For example, a waiter at a local restaurant may have more personal income due to an event attendee dining at the restaurant. The amount of the

increased income that the waiter spends in the local economy is an induced impact.

To generate direct spending estimates, HVS applied assumptions about the amounts of new spending generated by MCC events. HVS used the IMPLAN input-output model of the local economy to estimate indirect and induced spending. The sum of direct, indirect, and induced spending estimates make up the total estimated spending impact of the proposed development of the MCC.

Some refer to indirect and induced impacts as multiplier effects. The relationship between direct spending and the multiplier effects vary based upon the specific size and characteristics of a local area's economy.

Sources of Direct Spending

HVS identified three sources of new direct spending impact:

- **Out-of-town Guests**: Visitors to New Orleans who require overnight lodging, including convention delegates, meeting attendees, and attendees at other MCC events. Overnight delegate spending includes spending on meals, shopping, local transportation, recreation and entertainment, and other goods and services while in town.
- **Exhibitors**: Individuals or companies that rent exhibition space, typically from event organizers, to display information or products at events. In addition to spending at the facility, exhibitors purchase lodging, meals, local transportation, vendor services, meeting room rentals, equipment rentals, and other goods and services.
- **Sponsoring Associations and Organizations**: Individuals, associations, or other organizations that sponsor, organize, and coordinate events that take place at MCC facilities. In addition to facility spending, Sponsors also spend on lodging, meals, local transportation, facility rentals, equipment rentals, and other goods and services required to plan and organize a successful event.

Estimation of new spending of each of these sources involves three sets of assumptions: 1) the number of new visitors to the market, 2) the geographic location of their spending, and 3) the amounts typically spent by each of the sources.

Hotel Market Impact

A hotel market phenomenon called "compression" occurs when high occupancies in one or more hotels increase occupancy and room rates in other hotels. Visit New Orleans provided HVS with daily STR data for the market segments (transient, group, and contract) among a sample of 13,024 hotel rooms in New Orleans from 2013 through 2018 year-to-date.

The figure below shows the distances of hotel rooms in New Orleans from the MCC. The four closest zip codes contain 24,991 rooms or 91% of the total hotel room supply in the city. The hotel sample in the daily data make up 52% of the supply in those zip codes (70130, 70113, 70116, 70112).

FIGURE 9-6
NEW ORLEANS HOTEL ROOMS
BY PROXIMITY TO THE MCC

Driving Distance to MCC (miles)	Zip Code	Hotel Rooms	% of Total Rms
1.0	70130	16,750	61%
1.8	70113	1,387	5%
2.0	70116	1,254	5%
3.2	70112	5,600	20%
3.5	70114	50	0%
4.2	70115	192	1%
5.1	70119	166	1%
5.9	70118	90	0%
6.3	70117	101	0%
8.1	70121	137	0%
10.1	70126	615	2%
11.8	70127	580	2%
13.3	70128	538	2%
23.7	70129	80	0%

For our analysis, we assume that the hotels included in the daily data are representative of the behavior of the of the set of nearly 25,000 rooms.

HVS used daily STR data and daily room block commitments to study the compression from MCC events. This analysis reveals a large and statistically significant average daily room rate and occupancy compression due to MCC events.

Hotel Occupancy and Rate Compression

To analyze the impact of MCC events on each hotel market segment we used datasets on daily hotel and MCC performance for the calendar years 2013 through May 2018[6]. We calculated the average daily room rates and occupancy rates on days when the MCC generated at least 1,000 room nights ("MCC Event Days") and

[6] STR provided data on room night supply, room night demand, and ADR for New Orleans market segments. We combined this data with event data provided by the MCC and used total room nights and event days to estimate daily room nights.

compared that to days on which the MCC did not[7]. We assume that a room block of fewer than 1,000 room night would not generate significant compression.

The figure below compares the hotel occupancy and ADR on MCC Event Days and non-MCC Events Days.

FIGURE 9-7
THE IMPACT OF MCC EVENT DAYS ON OCCUPANCY AND ADR

	MCC Event Days	Non MCC Event Days	Difference
Occupancy Rate	80%	70%	10%
Average Daily Room Rates (ADR)			
Transient	$197	$172	$25
Group	$193	$169	$24

Occupancy and rate compression are statistically significant ($p<.01$) in New Orleans. The hotel market experiences an average 10% increase in occupancy on MCC Event Days. The ADR in the Transient and Group segments increase by $25 and $24, respectively, on MCC Event Days.

We used the percentage change in occupancy to estimate the net number of new room nights that the MCC brings to the market on an MCC Event Day. Multiplying these new room nights by the ADR on MCC Event Days yields an estimate of the room revenue impact as shown in the figure below.

[7] We used a z-test to determine whether the difference in means is statistically significant. Our null hypothesis is that occupancy and room rates are the same on MCC Event Days as on non-event days. If we reject the null hypothesis, we can accept our alternative hypothesis that the means are not equal. For normally distributed populations, a z-test calculates the probability that the means of two populations are equal. To reject the null hypotheses with 99% confidence ($p<.01$), the z-score must be greater than 2.58 or less than -2.58.

FIGURE 9-8
BASELINE REVENUE IMPACT OF NEW MCC ROOM NIGHTS

	Incremental Occupancy	Daily Incremental Room Demand	Compression Day ADR	Daily Incremental Rooms Revenue
Compression Impact	10.1%	2,525	$191	$481,243

The room nights generated by MCC event days cause hotel room revenues in New Orleans to increase by approximately $481,000 per event day.

ADR compression lifts the rate on all room nights in the market regardless of whether these room nights are associated with the MCC. For example, a transient business traveler staying at a hotel will pay $25 more for a hotel room on an MCC Event Day. The figure below shows the calculation of the revenue impact of ADR compression on MCC Event Days.

FIGURE 9-9
BASELINE REVENUE IMPACT DUE TO ADR COMPRESSION (2017 DOLLARS)

	Base Occupancy	Daily Incremental Room Demand	Incremental Compression ADR	Daily Incremental Rooms Revenue
Group	42%	10,551	$25	$268,454
Contract	26%	6,421	$24	$151,784
Total		16,972		$420,237

Baseline ADR compression increases room revenues in the New Orleans market by $420,000 on MCC Event Days.

We estimate the MCC induces approximately $901,000 in hotel room revenues annually in New Orleans on Event Days.

The hotel development will increase the MCC's impact by generating new room night activity and more compression days. The following figure shows the compression days in the scenario without hotel development and in the event a Proposed Hotel is added.

FIGURE 9-10
ANNUAL REVENUE IMPACT OF MCC EVENTS

Average Daily Revenue Impact		
Occupancy Revenue Impact	$481,243	
ADR Revenue Impact	$420,237	
Total Daily Revenue Impact	$901,480	
Annual Impact	**With Hotel Development**	**Without Hotel Development**
Annual Compression Days	141	186
Annual Compression Impact	$127,122,167	$168,013,248

The room nights and compression generated by MCC events cause annual hotel room revenues in New Orleans to increase by approximately $127.1 million. In the hotel development scenario, we project room revenues in the New Orleans market would increase by $40.9 million, representing a 30% increase.

New Visitors

HVS estimated the percentage of each visitor type that would come from outside the market rather than from the local area. The spending estimates only include new visitor spending because non-residents import income, whereas residents transfer income already in the market area.

The UNO Economic Impact Analysis annually estimates spending using out-of-town visitors, which includes data from the MCC, and estimates of non-registered guests and exhibiting visitors based on their 2014 report and a convention study performed by the DBER in 2000.

Using MCC historical attendance data, we estimated out-of-town visitation for the baseline and expansion scenario in the following figure.

FIGURE 9-11
SUMMARY OF DIRECT SPENDING

Year	Out-of-town Visitors*	MCC Event Attendees
2014	606,392	652,603
2015	574,869	623,260
2016	616,234	800,140
2017	811,599	890,412
Baseline	672,956	801,000
Expansion	805,777	883,000

Source: DBER and HVS

Spending Parameters

MCC attendees spend locally on lodging, meals, local transportation, facility rentals, vendor services, meeting room rentals, equipment rentals, and other goods and services.

The spending parameters used by HVS include spending by out-of-town delegates, guests, and exhibitors. The UNO Economic Impact Analysis relies on spending parameters that result from a variety of sources including: annual data gathered from delegates, spending studies done for leisure and business visitors to New Orleans, and previous UNO studies. The most recent results of this analysis are produced for 2017. HVS calculated the average of the last three years for our projections.

The figure below states the spending parameters.

FIGURE 9-12
VISITOR SPENDING PARAMETERS (2015 – 2017)

Category	Average Spending
Restaurants/Meals	$281
Bars/Nightclubs	73
Recreation/Entertainment	90
Shopping	138
Local Transport	59
Gambling	25
Lodging	447
Total	$1,114

Source: DBER and HVS

Attendee Spending

HVS applied the previous sources of spending impacts and spending parameters to estimate gross direct spending for a base year (2019) and a stabilized year after hotel development (2026). The following figure shows the estimates of attendee spending and hotel market impact from MCC events.

FIGURE 9-13
ESTIMATED TOTAL VISITOR SPENDING ($ MILLIONS)

Spending Category	Baseline	Expansion
Lodging Impact	$127.1	$168.0
Direct Attendee Spending		
Restaurants/Meals	$188.9	$226.2
Bars/Nightclubs	$49.4	$59.1
Recreation/Entertainment	$60.8	$72.8
Shopping	$93.1	$111.5
Local Transport	$39.5	$47.3
Gambling	$16.8	$20.1
Non-ADR Hotel Spending	$90.3	$108.1
Total	$665.8	$813.1

Organization Event Spending

Exhibiting Companies and Sponsoring Associations create additional spending impacts through spending at the MCC through equipment rentals, the purchase of event food and beverage services, advertising and other spending in the market. Using the DBER's spending estimates, HVS estimated future spending by exhibitors and sponsoring organizations associated with MCC events.

Exhibiting Companies—Exhibitors are individuals or companies that rent exhibition space, typically from event organizers, to display information or products at events. In addition to spending at the facility, exhibitors purchase lodging, meals, local transportation, vendor services, meeting room rentals, equipment rentals, and other goods and services.

DBER estimates the number of exhibiting companies and their average spending. HVS assumes average spending will be consistent with the average from 2015 through 2017, and that exhibiting companies would increase proportionally to exhibit hall days.

FIGURE 9-14
HISTORICAL AND PROJECTED EXHIBITOR SPENDING

Year	Exhibit Hall Days	Number of Exhibiting Companies	Average Spending	Total Spending (millions)
2015	2,421	20,802	$10,857	$225.8
2016	2,671	22,299	$10,996	$245.2
2017	2,679	29,369	$11,231	$329.8
Baseline	2,533	23,560	$11,028	$259.8
Expansion	2,939	27,336	$11,028	$301.5

Source: DBER and HVS

Sponsoring Associations—The DBER estimates the average sponsorship spending and the total sponsorship spending on an annual basis. HVS assumes spending would remain consistent with the 2015 through 2017 average and that sponsoring organizations would grow proportional to the number of conventions and shows.

FIGURE 9-15
HISTORICAL AND PROJECTED SPONSOR SPENDING

Year	Conventions and Shows	Average Sponsorship Spending	Total Spending (millions)
2015	79	$702,759	$90.0
2016	88	$762,932	$97.7
2017	84	$980,341	$131.4
Baseline	80	$815,344	$102.2
Expansion	96	$815,344	$121.7

Source: DBER and HVS

Gross Direct Spending

HVS applied the previous sources of spending impacts and spending parameters to estimate gross direct spending for a stabilized year. See the figure below.

FIGURE 9-16

Spending Category	Without Hotel Development	With Hotel Development
Lodging Impact	$127	$168
Direct Attendee Spending	539	645
Exhibiting Companies	260	301
Sponsorship Associations	102	122
Total	$1,028	$1,236

IMPLAN Impact Modeling

HVS uses the IMPLAN input-output model to estimate indirect and induced spending and employment impacts. IMPLAN is a nationally recognized model developed at the University of Minnesota and commonly used to estimate economic impacts. An input-output model generally describes the commodities and income that normally flow through the various sectors of a given economy. The indirect and induced spending and employment effects represent the estimated changes in the flow of income, goods, and services caused by the estimated direct spending. The IMPLAN model accounts for the specific characteristics of the local area economy and estimates the share of indirect and induced spending that it would retain.

HVS categorized new direct expenditures into spending categories that we provide inputs into the IMPLAN model. Specifically, the IMPLAN model relies on spending categories defined by the U.S. Census according to the NAICS. Because the spending data from the spending surveys used by HVS do not match the NAICS spending categories, HVS translates the spending categories into the NAICS spending categories that most closely match.

Annual Net Direct Spending

Not all of the gross direct spending counts as an economic impact because some of the spending does not generate income within the market. HVS adjusts gross direct spending to account for income that leaks out of the local economy by estimating retail margins and local purchase percentages. As a result, the realized direct spending ("net direct spending") is lower than the gross direct spending in the market area.

Retail Margins

Spending at retailers creates a smaller economic impact compared to spending in other industries. Retailers add value equal to the margin or price increase of the good above the original price paid to obtain the good. The IMPLAN model is product based, so HVS uses IMPLAN margin numbers to account for the discrepancy between retail purchaser prices and producer prices.

Local Purchase Percentage

To accurately measure spending impacts, HVS counts spending on products and services located in the market area. Some of the direct spending demand in the market area cannot be accommodated. For example, an event organizer may need to buy novelty items for all attendees but find that the market area does not produce these items. This effect occurs for direct, indirect, and induced spending. HVS uses the IMPLAN SAM model values to track the percentage of a good purchased within the market area.

Indirect and Induced Spending

The relationship between direct spending and the multiplier effects can vary based on the specific size and characteristics of a local area's economy. HVS enters the gross direct spending estimate into the IMPLAN input-output model of the local economy to estimate the net direct, indirect and induced spending. HVS obtained the most recent available data from IMPLAN for the City of New Orleans.

The following figures present the output of the IMPLAN model–the net new direct, indirect, and induced economic impacts and that are attributable to the proposed development of the MCC. HVS also used IMPLAN to estimate the jobs created based on the direct, indirect, and induced spending estimates.

Annual Net Spending Impacts

The figure below shows the annual net direct, indirect and induced spending generated for New Orleans.

FIGURE 9-17
ANNUAL ECONOMIC IMPACT ESTIMATES

Impact ($ millions)	Without Hotel Development	With Hotel Development	Incremental Benefit
Spending Estimates			
Net Direct	$873	$1,052	$179.1
Indirect	$266	$320	53.6
Induced	$244	$293	49.5
Total	$1,383	$1,665	$282.2

Employment Impacts

HVS calculated the full-time equivalent jobs supported by the spending in each economic sector. The figure below summarizes the results.

FIGURE 9-18
EMPLOYMENT IMPACT IN A STABILIZED YEAR

	Without Hotel Development	With Hotel Development	New Jobs Supported
Full-Time Equivalent Jobs	9,600	11,500	1,900

By a stabilized year of operation, the project would support approximately 1,900 additional permanent full-time equivalent jobs.

Potential Fiscal Impacts

Fiscal impacts represent the public sector share of the economic impacts from tax collections on new spending. The previously discussed spending estimates provide a basis for estimating potential tax revenue, as New Orleans will collect some of the spending through taxation.

The IMPLAN analysis results in direct, indirect, and induced spending classified into hundreds of detailed spending categories. For sales and lodging taxes, HVS evaluated each of these spending categories to determine which taxes would apply to each type of spending output. HVS then used the appropriate tax rates to estimate the amount of tax revenue. HVS applied these nominal tax rates to a detailed breakdown of spending and income categories that result from direct, indirect, and induced spending through operation of the MCC.

For property taxes, HVS relied on IMPLAN's Tax Impact Report which estimates taxes collected using data sets from the Bureau of Economic Analysis and the Census of Government Finances to estimate payments by households, employee compensation, and taxes on production and imports. The breakdown of taxes on production and import is drawn from the Annual Survey of Government Finances and is specific to state and local governments.

HVS then estimated the potential annual revenue from each tax source as shown in the following figures.

FIGURE 9-19
ESTIMATED POTENTIAL LODGING TAX IMPACTS

Tax Distribtuion	Tax	Assessment	Combined Rate	Tax Revenue		
				Without Hotel Development	With Hotel Development	Incremental Benefit
Hotel Occupancy Taxes						
New Orleans Morial Convention Center	3.00%		3.00%	$6,854	$8,597	$1,743
Mercedes-Benz Superdome	4.00%		4.00%	9,139	11,462	2,324
CVB/New Orleans & Co.	0.97%	0.75%	1.72%	3,930	4,929	999
State of Louisiana General Fund	0.45%		0.45%	1,028	1,290	261
Orleans Parish School Board	1.50%		1.50%	3,427	4,298	871
City of New Orleans General Fund	1.50%	0.25%	1.75%	3,998	5,015	1,017
New Orleans Regional Transit Authority	1.00%		1.00%	2,285	2,866	581
New Orleans Tourism Marketing Corporation	0.00%	0.75%	0.75%	1,714	2,149	436
Subtotal	12.42%	1.75%	14.17%	$32,374	$40,606	$8,231
Excise and Other Taxes						
Hotel Additional Paid Occupancy*						
New Orleans Morial Convention Center				$694	$870	$176
New Orleans Tourism Marketing Corporation				586	735	149
Food/Beverage Tax**				2,483	3,115	631
Service Contractor & Tour Tax***				385	483	98
Subtotal				$4,149	$5,204	$1,055
Total				**$36,523**	**$45,809**	**$9,286**

Lodging tax sources would generate approximately $45.8 million in annual tax revenue to New Orleans in a stabilized year of operation in the hotel development scenario.

FIGURE 9-20
ESTIMATED POTENTIAL SALES AND USE IMPACTS

Tax Distribtuion	Tax	Tax Revenue: Without Hotel Development	Tax Revenue: With Hotel Development	Incremental Benefit
General Sales				
Orleans Parish School Board	1.50%	$13,974	$16,641	$2,667
Regional Transit Authority	1.00%	$9,316	$11,094	$1,778
City of New Orleans	2.50%	$23,290	$27,736	$4,446
Subtotal	5.00%	$46,580	$55,471	$8,891
Food & Drug Sales*				
Orleans Parish School Board	1.50%	$240	$288	$48
Regional Transit Authority	0.50%	$80	$96	$16
City of New Orleans	2.50%	$399	$480	$80
Subtotal	4.50%	$719	$864	$144
French Quarter Economic Development District**	0.25%	$946	$1,126	$181
Total		**$48,245**	**$57,461**	**$9,216**

Two sales tax sources would generate approximately $57.5 million in annual tax revenue to New Orleans in a stabilized year of operation in the hotel development scenario.

FIGURE 9-21
SUMMARY OF POTENTIAL TAX IMPACTS

Tax Source	Tax Revenue: Without Hotel Development	Tax Revenue: With Hotel Development	Incremental Benefit
Hotel Occupancy/F&B	$36,523	$45,809	$9,286
Sales and Use	48,245	57,461	9,216
Property	27,455	33,367	5,912
Total	**$112,223**	**$136,637**	**$24,414**

In a stabilized year of operation without hotel development, MCC activity contributes $112.2 million in tax revenues. With the Proposed Hotel development, tax revenues could increase by $24.4 million in a stabilized year.

The following figure summarizes recurring annual economic and fiscal impacts in a stabilized year.

FIGURE 9-22
SUMMARY OF ECONOMIC AND POTENTIAL FISCAL IMPACTS

Summary of Impacts*	Without Hotel Development	With Hotel Development	Incremental Benefit
Economic Impact (millions)	$1,382.9	$1,665.1	$282.2
Fiscal Impact (millions)	$112.2	$136.6	$24.4
Jobs	9,600	11,500	1,900

*In a stabilized year.

These economic and fiscal impact estimates are subject to the assumptions and limiting conditions described throughout the report. Numerous assumptions about future events and circumstances form the basis for these estimates. Although we consider these assumptions reasonable, we cannot provide assurances that the project will achieve the forecasted results. Actual events and circumstances are likely to differ from the assumptions in this report, and some of those differences may be material. The readers should consider these estimates as a mid-point in a range or potential outcomes.

10. Statement of Assumptions and Limiting Conditions

1. This report is to be used in whole and not in part.
2. All information, financial operating statements, estimates, and opinions obtained from parties not employed by HVS are assumed to be true and correct. We can assume no liability resulting from misinformation.
3. Unless noted, we assume that there are no encroachments, zoning violations, or building violations encumbering the Proposed Hotel.
4. The proposed facility is assumed to be in full compliance with all applicable federal, state, local, and private codes, laws, consents, licenses, and regulations (including a liquor license where appropriate). We assume that all licenses, permits, certificates, franchises, and so forth can be freely renewed or transferred to a purchaser.
5. We are not required to give testimony or attendance in court by reason of this analysis without previous arrangements, and only when our standard per-diem fees and travel costs are paid prior to the appearance.
6. If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
7. We take no responsibility for any events or circumstances that take place subsequent to the date of our report.
8. No responsibility is assumed for matters of a legal nature, nor do we render any opinion as to title, which is assumed to be marketable and free of any deed restrictions and easements.
9. We assume that there are no hidden or unapparent conditions of the sub-soil or structures, such as underground storage tanks, that would render the proposed property no more or less valuable. No responsibility is assumed for these conditions or for any engineering that may be required to discover them.
10. We have not considered the presence of potentially hazardous materials such as asbestos, urea formaldehyde foam insulation, any form of toxic waste, polychlorinated biphenyls (PCB), pesticides, mold, or lead-based paints. The appraisers are not qualified to detect hazardous substances, and we urge the client to retain an expert in this field if desired.
11. The Americans with Disabilities Act (ADA) became effective on January 26, 1992. We have assumed that the proposed property will be designed in accordance with the various detailed requirements of the ADA.

12. We have made no survey of the subject site, and we assume no responsibility in connection with such matters.
13. The estimated operating results presented in this report are based on an evaluation of the overall economy and neither consider nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of information obtained during the course of this study.
14. The quality of a facility's on-site management has a direct effect on a property's economic performance. The demand and financial forecasts presented in this analysis assume responsible ownership and competent management. Any departure from this assumption may have a significant impact on the projected operating results.
15. We do not warrant our estimates. We use information obtained during our market research and are intended to reflect reasonable expectations.
16. Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded. Thus, these figures may be subject to small rounding errors.
17. It is agreed that our liability to the client is limited to the amount of the fee paid as liquidated damages. Our responsibility is limited to the client and use of this report by third parties shall be solely at the risk of the client or third parties. The use of this report is also subject to the terms and conditions outlined in our engagement letter with the client.
18. Although this analysis employs various mathematical calculations, the final estimates are subjective and may be influenced by our experience and other factors not specifically outlined in this report.
19. HVS Convention, Sports & Entertainment Facilities Consulting prepared this report. All opinions, recommendations, and conclusions expressed during this assignment are rendered by the staff of this organization, as employees, rather than as individuals.
20. This report is set forth as a feasibility study of the Proposed Hotel; this is not an appraisal report.

11. Certification

The undersigned certify that, to the best of our knowledge and belief:

1. the statements of fact presented in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions;
3. we have no (or the specified) present or prospective interest in the property that is the subject of this report and no (or the specified) personal interest with respect to the parties involved;
4. we have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. our engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this analysis; and
7. Thomas A Hazinski, MPP, Brian Harris, and Jorge Cotte personally inspected the area described in this report.

Thomas Hazinski

Thomas A Hazinski, MPP
Managing Director

Brian Harris

Brian Harris
Project Manager

Jorge Cotte

Jorge Cotte
Senior Associate