

Hotel Louise Washington, North Carolina: Renovation challenge

By Sara Dahlen and Robert M. O'Halloran

Location: Washington, NC

Washington, North Carolina is situated at the intersection of US Highway 17 and US Highway 264. The 9.0 square mile area of the town is made up of 8.2 square miles of land and 0.8 square miles of water. According to the most recent data released in 2012, the current population of the town is 9,757 people of which 59% is female and 41% male (Washington, North Carolina, 2014).

Washington is located in Beaufort County North Carolina, also known as the Inner Banks, on the beautiful Pamlico Sound. Washington is known for the stately homes and lovely gardens that make up its residential area, as well as the ornate brickwork featured on the vintage commercial buildings on Main Street. Situated on the scenic waterfront, downtown Washington offers unique opportunities to visitors from world-class restaurants and intriguing antique stores to art galleries, performing Arts centers, and more (Washington Chamber of Commerce, 2014). The Washington Historic District is a national [historic district](#). It encompasses 512 contributing buildings and contributing structure in the town of Washington. They include a variety of institutional, commercial, and residential buildings primarily dating from the late-19th and early-20th century.

Among the remarkable buildings located in the historic district of Washington is Hotel Louise. The historic hotel was built in 1904 and was owned by Thomas Archbell. The four-story brick commercial building had a striking classical cornice, round arched openings, and countless other fine details. Hotel Louise had 75 rooms, 40 baths, electric lights, and was the only hotel in town with an elevator. The hotel was closed in 1969 and was converted to the Hotel Louise Apartments (Camp, 2000). The hotel sits empty today.

Hotel Louise

Once listed on post cards as located on the Ocean Highway to Florida (North Carolina Postcards, 2015), the Hotel Louise is a prime location and when renovated will offer the service and amenities to capture roomnights well beyond their fair share. Located in the historic district, it was once considered a favorite stopping place with all the high class travelers coming to Washington, NC (PRWeb, 2005). The

hotel is located at 163 W. Main Street, Washington, North Carolina. It is projected to enter the market at 94% penetration and build to a 222% penetration rate over five years.

The current proposal for the Hotel Louise is to be renovated and redeveloped into a boutique, limited-service hotel located in the heart of historic downtown Washington. Renovating this property will create a market to compete with other local inns and hotels. The hotel will be open all year. The original hotel floor-plan included a manager's apartment, however that apartment will be converted into two separate hotel rooms. Hotel Louise has a spa area already incorporated into the hotel. It is centrally located in the local shopping area within the historic district. The hotel does not have a designated parking lot; however, the hotel is adjacent to a public parking area. Dimensions and estimated room mix for the Hotel Louise are:

- Total Square footage: 33,400, Total Number of Acres of Land: .32
- Total Number of Floors: 5
 - Floor 1: Lobby, Spa, Housekeeping Area, Maintenance Office and Food and Beverage Area
 - Floor 2: 15 Standard Rooms, Floor 3: 15 Standard Rooms
 - Floor 4: 6 King Suites, Floor 5: 6 King Suites (Waldrop Properties, 2014)

The listed price for the hotel is \$595,000 (Waldrop Properties, 2015). The property is described as Re-Development (Senior Living, Multi Family, and Hotel). The current City Council will support renovating and reopening the hotel but there is a need to identify a developer. There have been previous attempts to renovate the hotel, most recently noted in 2005, "Architectural Designs Now Complete, renovations of the Hotel Louise are set to begin" (Progress Partners, 2014). The hotel project developers are interested in exploring tax credits and grants that can be applied toward the cost of renovation and this will be critical in making the project fiscally sustainable and feasible.

Renovation and Rebuilding

Redevelopment programmers involve policy decisions by multiple government entities which cover land ownership, private sector development, and repair of historically valuable and architecturally distinguished buildings, as well as a generation of new employment opportunities (McQuillan and Lanier, 1984) The hotel has been abandoned for years and is in need of restoration. A complete renovation will be necessary. Typically, design factors can be compacted into three areas,

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1) market factors, including, consumer, competition and technology; 2) statutory requirements affecting the design and construction of buildings; and 3) specific legislation relating to hotels. (PKF, 1993).

Renovation may be defined as being “the process of retaining or improving the hotel image by modifying the tangible product due to a variety of reasons, through any changes in hotel layout and or additions or replacements of materials, and furniture, fixtures and equipment” (Hassanien & Baum (2001). The decision whether to reuse a building entails a complex set of considerations including location, heritage, architectural assets and market trends (Bullen and Love, 2011). To the best knowledge of the local officials, there are no structural issues with the building. Renovation would include full room renovation (walls and ceilings etc... and repainting). According to a report done by Richard Groh Architects (2015), it will roughly cost a commercial building about \$50-\$150 per square foot to reconstruct the building to its useable condition. The hotel renovation is estimated to cost approximately \$3,350,000 to remodel plus the purchase price of \$595,000 (Waldrop Properties, 2015) for a total of \$3,945,000.

Competitive Set

According to the Director of Tourism, Lynn Wingate, “though there are currently several lodging establishments, the city is in major need of a hotel located downtown within walking distance of all the attractions”. Ms. Wingate stressed the need and city’s desire for Hotel Louise to be restored and reopened in its prime location. An article in HotelNews-Now confirms that, when speaking on boutique development, “success stories abound in secondary markets and small towns throughout the United States” (Mayock, 2014). Current competition includes:

Local / Regional Competition

Bridge Pointe Hotel and Marina

The Pamlico House Bed and Breakfast

Destination Boutique Competition

King’s Daughters Inn

The Franklin Hotel

Monte Vista Hotel

For the Washington market, the commercial segment leader is the Bridge Point Hotel and Marina with a penetration rate of 199.43%. The group segment leader is the King’s Daughter’s Inn with a penetration rate of 216.78%. The tourist segment leader is the Hampton Inn Washington, with a penetration rate of 197.95%.

The Market Penetration of Hotel Louise over a five year period shows a rapidly climbing penetration rate, with an ultimately very high penetration in all three segments in the final year that was estimated from a qualitative assessment. Due to the weighted value(s) of the factors on the qualitative analysis, researchers estimated a very high penetration into the Washington market. However, this market is rela-

tively open for growth in all segments. Hotel Louise will be the only boutique hotel with group accommodations in Washington, NC. The boutique aspect offers a niche that other chains like close competitors in Washington cannot give the market. Due to the amenities Hotel Louise would offer, this sets the property apart from any other competitor and thus encourages a much higher penetration rate in coming years.

It was estimated that the first year of opening, Hotel Louise enter the market at 94% penetration. Due to novelty and the consumer’s curiosity about the regeneration of the property, the highest jump in penetration will be the following year. A steady rise will continue in penetration aided by the influx of consumers in the area for the Cycle NC coastal ride every three years. The group segment will have the greatest appeal with a penetration rate of 244.96%, marketing Hotel Louise and the riverside as a wedding destination.

Business Challenges

Tax Credits/Historic Preservation

The business challenge for developers will be to identify and secure tax credits, grants and other sources of funding to make the project financially feasible. The hotel is a part of the Washington Historical District. Therefore, it is eligible for grants that can be applied toward paying for the hotel renovation and redevelopment. The goal for Washington is not only to be able to rebuild the historical business district but to ensure that the historic preservation standards are kept valid. Reynolds (2006) stated the first question to be answered is: what is the significance of the property? Listing the property on a state register is usually the essential criterion for state grants, state tax credits, property tax abatements, and other financial incentives and subsidies. Property tax relief is fairly common in the form of tax moratoriums, tax abatements, tax freezes, or tax credits (Reynolds, 2006).

A potential developer indicated that the hotel may be eligible for a 20% tax break as part of the preservation and restoration of the historical building. There is also potential for additional tax breaks for hiring local people for employees (Washington Chamber of Commerce, 2014). By definition(s) preservation tax credits (lowering the amount of tax owed) are typically:

- 20% tax credit for the certified rehabilitation of certified historic structure. To be eligible for the 20% tax credit the rehabilitation must be substantial and the building depreciable and income producing.
- 10% tax credit for the rehabilitation of non-historic building built before 1936 (NPS, 2015).

Preliminary investigation indicates that some grants may be worth \$500,000. These grants are referred to as Main Street Grants. They are offered through the U.S. Department of Housing and Urban Development (HUD) Department. The grant is offered to local government agencies to revitalize and renovate the historical business

district. The Main Street program is an effort credited with rescuing hundreds of American downtowns from the economic doldrums brought on by suburbanization and sprawl. The proven economic success of historic preservation has assured its consideration in many development and revitalization programs especially at the state and local levels. Cooperative efforts bring historical awareness to many aspects of daily life, often in profound and unexpected ways (Sweeten, 1997).

Additionally, certified rehabilitation is another category that is approved by the NPS as being consistent with the historic character of the property and, where applicable, the district in which it is located. Furthermore, State offices are also participants in the grant and tax credit process (NPS, 2015). Other laws and regulations to be investigated are: Economic Recovery Act 1981, Tax Equity and Fiscal Responsibility Act 1981 (Stein and Brown, 1985). Also, community development block grants administered through the US Department of Housing and Urban Development are often used for preservation. There is also a certified historic structure classification noting that a building is listed individually in the National Register of Historic Places. Or as in this case, a building that is located in a registered historic district by the National Park Service as contributing to the historic significance of that district.

Pickard (1996) contends that sustainable historic environments should: reflect local life; improve quality of life; maintain local identity, diversity and vitality; minimize the depletion of non-renewal heritage assets; develop collective responsibility for heritage assets; empower community action and involvement; provide a robust policy framework for integrating conservation objectives with the aims of sustainable development more generally; and define the capacity by which historic centers can permit change.

Consultant Charge

As special consultants on the project, your charge is to research potential grants and tax credits for historic preservation as well as development, and make recommendations to the potential developers. The identification of these grants and/or tax incentives will assist in making this project fiscally feasible and sustainable. The entire process of seeking grants and tax credits needs to be a collaborative process. It will be vital for the developers to create partnerships for this project to be successful. Potential developers have asked for some assistance in identifying tax credits and grants etc. They have also asked for input on partnership development. To guide you, they have shared the following: Hsu and Sun, (1996) in a report for Forte Hotels, noted a number of reasons for partnership agreements:

1. Create synergy by joining efforts,
2. Pool resources,
3. Tackle escalating competition,

4. Access new customer and exchange customer data bases,
5. Leverage a partner's expertise,
6. Meet customer changes in tastes and preferences, and
7. Add value for customers.

Conclusion

Washington is a changing town with many businesses coming and going over recent years. A perfect example is 163 W. Main Street where many businesses, including lodging properties, have been attempted and failed. What makes the Hotel Louise any different? The answer is that the renovated Hotel Louise will be unique, and provide a unique atmosphere for downtown Washington. People feel a stronger sense of connection with their local surroundings through heritage, which is quite different to the mentality associated with new building stock (Bullen and Love, 2011). The Hotel Louise will provide a direct connection to the revenue streams of other independently owned businesses in the town, especially on Main Street. Washington is expected to host many growing festivals and events in the future and is a popular stop for boaters. All indications are that Washington is growing.

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Note: School of Hospitality Leadership students, Sara Dahlen, Ben Farmer, Erin Hannan, and Patrick Zeller all worked on the original class project in partial fulfillment for the requirements of the B.S. In Hospitality Management, HMG 4650 Financial Management. That project was the catalyst for this case.