

Hotel Louise Washington, North Carolina: Renovation Challenge

Glossary

- *Renovation*: In this case, renovation refers to the renovating of a hotel: e.g. .restoring, replacing infrastructure, furniture, fixtures, equipment etc. Remodel is also a common term used in the renovating process.
- *Tax Credits and Incentives*: These imply reduction of tax liability through tax credits or abatements etc, involving the rehabilitation and re-use of historic buildings (NPS, 2015).
- *Historic Preservation*: This term implies: preserve, conserve and protect buildings, objects, landscapes or other artifacts of historical significance. Historic preservation refers to already built structures (Wikipedia, 2015 and Maryland Association of Historic District Commissions, Handbook (1997).
- *Heritage tourism*: Travel directed towards experiencing the heritage of a city, region or country. (Texas Historical Commission in Whyte, Hood and White, 2012).
- *Market Penetration*: A measure of the amount of sales or adoption of a product or service compared to the theoretical market for that product or service.

Summary of the Case

The Hotel Louise is projected to enter the market at 94% penetration and build to 222% over five years. The Hotel Louise, located in the historic district, was once considered a favorite stopping place with all the high class travels coming to Washington (PRWeb, 2005). 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, North Carolina. The original hotel floor-plan included a manager's apartment but that apartment will be converted into two separate hotel rooms. Hotel Louise has a spa area already incorporated into the hotel. The hotel is located at 163 W. Main Street and is centrally located in the local shopping area within the historic district. Although it does not have a designated parking lot; however, the hotel is adjacent to a public parking area. The listed price for the hotel is \$595,000 (Wal-drop Properties, 2015). The hotel project is 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.

Target Audience

This case could be used by both senior level undergraduate and graduate students and is focused on the renovation and preservation of an old hotel. The focus of the discussion and research for students will be tax credits of various kinds and their ability to influence the hotel development process. The case could be used in a discussion of

heritage and cultural tourism, sustainable hospitality and a variety of planning and development activities.

Teaching and Learning Objectives

The goals and objectives for this case are to:

- Introduce students to the concept of historic preservation
- Introduce students to heritage tourism
- Introduce students to the formal historic preservation process. This includes at the national and state levels.
- Relate the concept of historic preservation and tax credits to the financial aspects of planning and development.

Base on this topic: students should be able to:

- Document the highest and best uses of historic structures i.e. hotels.
- Document the cost of hotel construction and calculate the total investment required.
- Research and identify the subject hotels' eligibility for tax credits and /or their eligibility to be listed as a historic building.
- Recommend tax credits, grants and other programs that will defer the total costs of a renovation project.
- Document the processes and bureaucratic audit trail necessary to qualify for these incentives.

Sources of Research Information

Perhaps one of the best sources of information is the Technical Services report from The National Park Service (cited in the case). This is arguably a comprehensive review of historic preservation classifications and tax credit eligibility. It will also be useful to look for state historic and heritage information. State listing on historic districts is often a key for successful funding on grants and tax credit applications. It is recommended to use the case references for research as well as lodging industry development resources. The Urban Land Institute (2015) often has a list of useful books for this process: http://uli bookstore.ipgbook.com/uli-subset-book_collection-56.php.

Discussion Questions

- Describe hotel renovation, what is included, what is excluded?
- What is a tax credit?
- What is historic status?
- What other tax incentives are available for hotel development?
- What historic and /or development grants are hotels eligible for?
- Is there a critical mass of rooms that a project should have in order to make money?
- Is a hotel an important link for historic preservation districts?

- How does a hotel balance modern facilities and amenities with historic preservation?

Teaching Approach

Use of this case would involve the introduction of and/or integration of the topic with planning and development for hotels and its relationship to costs and financing. The course instructor considering this case should be focused on lodging, tourism development, real estate, planning and development etc. Additionally, this case, as part of a cost and benefit analysis, could be applicable to the business side of heritage tourism.

The material in the case will require pre-requisite courses that enable the students to understand and calculate a brief return on investment. Ex: Return on Investment (ROI) = (Gain from Investment-Cost of Investment)/Cost of investment (Investopedia, 2015). Additional resources can also be found on campus if the institution has a school of college of business. As noted previously, this case is targeted at an upper division level if for undergraduates and can also be utilized for graduate student learning.

An assignment for students could be for individuals and or groups to identify, assess and profile a locally restored building that is in use. The same principles can be applied regardless of whether the subject building is a hotel or not. This can assist students to understand the process for classifying a building as historic and the potential tax incentives that may be available with the process. It should be noted that in some instances, the costs and benefits of restoring a building do not make economic sense. For example, in an article on the Hong Kong Hilton, a very successful property and building, the hotel property, for economic reasons was demolished for an alternative and more financially rewarding use (Hsu and O'Halloran, 1997).

The case can be used as an exercise, following the introduction of the redevelopment/ development process. For example, in a course where students are conducting a preliminary feasibility study as their projects, this case will help to guide them through the financing and investment stages. The research results could be beneficial to judging the financial feasibility of a hotel project. The research and analysis of the case will focus on the Hotel Louise and how the renovation process would work and/or is it financially feasibility as well as fiscally sustainable? The question for students in this case is how the Hotel Louise developers would be able to identify and secure in tax incentives and/or grants? This goal can ultimately influence return on investment? It is suggested the instructor invite a hotel developer and or local developer to the class to share their experiences. Additionally, if historic preservation committees or organizations are available to come to classes, they could offer hands-on examples of the processes they work with and the successes and failures they have seen.

A larger project (semester long) could be to assess the usefulness

and viability of a historic building for redevelopment and its eligibility for grant funding and or tax incentives. A local inventory of historic and available buildings, their historic significance and economic potential as a functioning hotel, and /or other hospitality business can act as the framework for this project. The objective of the assignment would be to assess and present a proposal for redevelopment which would include the cultural, historical, and financial aspects of the project. Students should be asked to present their final projects to a panel of professionals. By presenting their final projects to a panel of prospective investors or developers the students should be encouraged to research a large variety of grants and tax credits. This project enables the students to be creative with an existing space and get feedback from a professional panel. The research could be framed as to what the cost benefit analysis of a project is.

References

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