

Hospitality in Biloxi

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Hurricanes have heavily influenced the ebb and flow of business in Biloxi. The greater Gulfport/Biloxi economic base continues to recover from the catastrophic effects of Hurricane Katrina, which destroyed much of the region in August of 2005. Congress subsequently created the Gulf Coast Opportunity Zone, or GO Zone, to encourage investment in the area through tax incentives. Many casinos, hotels, residences, condominiums, and retail facilities have re-opened following cleanup efforts, and the City of Biloxi is rapidly implementing plans for the redevelopment of commercial properties south of U.S. Highway 90. What does it all mean for the re-establishment of this staple of the South?

Gaming

The gaming industry underpins much of Biloxi's revenue and employment, and before some recent setbacks, the Biloxi gaming market was setting new records. The \$83 million in taxed gross gaming revenue earned in September of 2008 was nearly \$6 million above that earned the previous September, a 7% increase.¹ This was at a time when other major U.S. casino markets, such as Las Vegas and Atlantic City, were experiencing significant drops in gaming revenue.² Total taxed gaming revenue has come down slightly in Biloxi, from \$1 billion in fiscal year 2007 to \$981 million in fiscal year 2008.³ Gaming revenue significantly decreased in October and November due to the slowing economy, as well as to Hurricanes Gustav and Ike, which slowed visitation to Biloxi.

Post-Katrina legislation now allows for land-based casinos, a much-needed complement to the offshore casinos that operated exclusively in Biloxi prior to the hurricane. Land-based casinos are exposed to far fewer risks than their offshore counterparts, and this legislation has spurred new casino development as well as the expansion and improvement of existing casinos.

In May of 2007, Harrah's Entertainment and singer-songwriter Jimmy Buffett announced plans to construct the Margaritaville Casino & Resort on Casino Row. Due to the sluggish economy, Harrah's Entertainment has downsized the project in recent months and the total investment has been scaled back from \$700 million to \$500 million. Approximately \$110 million has already been invested in the site; however, construction has been put on hold. "It's our understanding that construction will begin again on this project once the economy improves," said Ed Shambra of the Biloxi Planning Department. "The hotel was set to be complete by 2010; however, this date will probably be moved back now."

Several more casino developments have received approval. One of these, currently referred to as the Phoenix Caillavet Street Project, is under development by the Phoenix Gaming Group. This \$500-million project is expected to feature a 638-unit all-suite hotel; 432 one- and two-bedroom condominiums; an Arnold Palmer signature 18-hole championship golf course; a 40-lane bowling alley; and six movie theaters. The flagging economy slowed the pace of new gaming projects in 2008, but city officials expect new developments to resume once the market regains a foothold.

Convention Center and Airport Expansions

The convention center and airport serve as significant demand generators for Biloxi hotels. Prior to Hurricane Katrina, the Mississippi Coast Coliseum & Convention Center was just months away from breaking ground on a 250,000-square-foot expansion and renovation. The hurricane caused extensive damage, but the Coast Coliseum, the largest beachfront facility of its kind in the South, re-opened in May of 2006, and the convention center followed in January of 2007. The number of events held at these facilities has dropped sharply since they suffered damage, but the expansion and remodeling of the convention center is now underway, with completion scheduled for October of 2009. Following these renovations, city officials expect that events held throughout the

Summary

The recovery of gaming, hotels, and tourism in Biloxi continues following Hurricane Katrina. How will these industries fare in the face of a national economic storm?

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year at the facilities will begin to return to pre-Katrina levels. According to the Gulf Coast Planning Commission, a new convention center may eventually be built on a site proximate to Casino Row.

Like the convention center, the Gulfport-Biloxi International Airport suffered major declines in activity following Hurricane Katrina. A \$51-million expansion project was completed in late 2007, nearly doubling the size of the terminal to accommodate more traffic from airlines that currently service the airport, as well as the arrival of two new airlines. Airport officials note recent increases in passenger traffic, despite the struggling economy, and this upward trend is expected to continue as business, infrastructure, and leisure attractions continue to come back online in Biloxi.

Occupancy, Average Rate, and New Hotels in Biloxi

Hurricane Katrina did not exclude Biloxi hotels from its wrathful course in August of 2005. According to the Mississippi Gulf Coast Convention and Visitors Bureau, some 4,000—or nearly half—of the area's hotel rooms were lost. The drastic decrease in supply, combined with steady demand as casinos re-opened, resulted in sharp increases in occupancy in 2005 and 2006. While occupancy decreased at non-casino hotels in 2007 because of the re-opening of several newly renovated casino hotels and the departure of hurricane-related demand, occupancy at casino properties continued to climb. The return of leisure demand to the market following Hurricane Katrina accounts for much of this upward trend.

Average rate growth was significant in the aftermath of Katrina due to the strong demand generated by recovery workers and displaced families, the subsequent re-opening of casinos, and the substantial redevelopment efforts following the hurricane. Average daily rate decreased in 2007 at non-casino properties as hurricane-related demand began to leave the area. In contrast, average daily rate at casino hotels increased in 2007, owing to high occupancy levels and the opening of the Hard Rock Hotel & Casino, whose high-rate position permitted increased rates at competing hotels. It's important to note that this pace of average rate growth runs contrary to the prevalent trend across the United States, where overall average rate growth has slowed in the mire of the national economy.

Apart from the new casino-hotel projects mentioned earlier in this article, hotels proposed or under construction in Biloxi include a 195-room Sheraton Four Points (scheduled to open in early 2009), a 120-room Hilton Garden Inn (scheduled to open in 2010), and a 451-room Hilton (scheduled to open in 2011). A 101-room independent property is also anticipated to open on a beachfront location in early 2009. Plans are to have this independent property ultimately fly under the Hilton flag and connect via bridge with the aforementioned 451-room Hilton hotel, scheduled to open two years later.

Conclusion

As of November of 2008, the City of Biloxi had issued nearly \$200 million in construction permits for developments across the city. Though the slowing economy has stalled some planned developments in recent months, progress on others, including some major casino projects, continues along the Biloxi Coast. The city has successfully erected the economic pillars so mercilessly blown down by Katrina, giving area hotels a platform on which to stand. The city continues to work to keep the avenues open for business, gaming, and tourism, and so long as these sectors stay afloat in the current economic turbulence, the Biloxi lodging market should emerge all the stronger.

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Rod Clough Managing Director

¹ www.biloxi.ms.us/gamingrevenue/gamingrev.pdf

² www.biloxi.ms.us/cityatwork/cityatworkdetail.asp?ID=767

³ www.biloxi.ms.us/gamingrevenue/gamingrev.pdf