

# Bayside Park, Mississippi Residential Rental Market Analysis

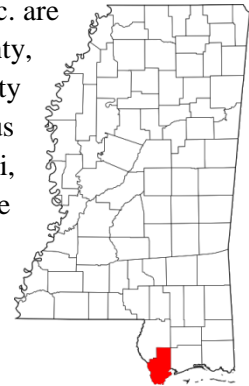


## Summary

The Mississippi Gulf Coast was devastated by Hurricane Katrina in 2005, with over 100,000 homes and rental units destroyed. Aside from the tremendous need to rebuild, the demand for homes should be further increased by the booming casino and aerospace industries, which are expected to create thousands of jobs over the next few years. Douglas Realty & Development offers turn-key opportunities to invest in this growing market by providing wholesale construction contracts, access to favorable financing, customer service, a website to track the progress of the construction, and exit strategy services of real estate sales and property management. The current model offered by Douglas Realty & Development, Inc. (the Sage) is a high-quality 4 bedroom 2 bath affordable home that is priced well below the local median price of \$160,000 and can provide a return in excess of 50% (see sample calculation at the end of this document).

## Hancock County

The new construction homes being marketed by Douglas Realty & Development, Inc. are located in Bayside Park, which is in an unincorporated portion of Hancock County, Mississippi. From its white sand beaches to expansive forest greens, Hancock County is an attractive stage for business and leisure activities, and an even more envious place to call home. Hancock County is the southernmost county of Mississippi, situated along the Gulf of Mexico and the state line with Louisiana. It is part of the Gulfport - Biloxi, Mississippi Metropolitan Statistical Area. The county seat is Bay St. Louis and as of 2000, the population was 42,967. The county is also home to the John C. Stennis Space Center, NASA's largest rocket engine test facility.



According to the U. S. Census Bureau, the county has a total area of 1,431 sq. km (553 sq. miles). 1,235 sq. km. (477 sq. miles) of it (86.31%) is land and 196 sq. km (76 sq. miles) of it (13.69%) is water.

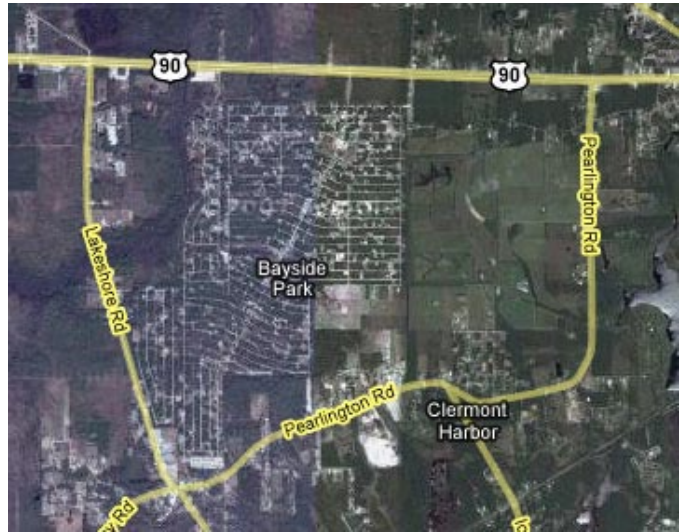
“I wake up to the sun rising over the bay,” said resident Lynn Holland. “I eat regularly at some of the finest restaurants on the Gulf Coast. I shop in, perhaps, the most unique and easily the most accommodating shops anywhere in Mississippi, and I am not the one on vacation!”

It is no surprise that Hancock County is one of the fastest growing areas in the State with a 35% increase in population over the past decade. The area has developed a regional reputation as a great place to live,

work, play and retire because of its relaxed atmosphere, great food, diverse cultural activities and strong sense of pride.

### Major Highways through Hancock County

Bayside Park is located minutes South of Interstate 10 (i-10), the southernmost east-west, coast-to-coast interstate highway in the United States. It stretches from the Pacific Ocean in Santa Monica, California to Jacksonville, Florida. In Mississippi, Interstate 10 runs from the Louisiana state line to the Alabama state line through Hancock, Harrison and Jackson counties. It passes through the northern sections of Gulfport and Biloxi while passing just north of Pascagoula and Bay St. Louis. The Mississippi Department of Transportation estimates that 35,000 vehicles pass the Bay St. Louis interchange every day.



Bayside Park is located adjacent to U.S. Route 90, an east-west United States Highway. Highway 90 extends from Jacksonville, Florida through Mobile, Alabama and ends at Van Horn, Texas. It enters Mississippi in Pascagoula and traverses the city limits of Moss Point, Gautier, Ocean Springs, Biloxi, Gulfport, Long Beach, Pass Christian, Bay St. Louis, Waveland, before it exits Mississippi at Pearlington. Entering Louisiana from the east, U.S. 90 follows a similar path as Interstate 10 through Slidell and into New Orleans.

### New School

As further evidence of the growth in the area, a new school is near completion in Bayside Park. Located in the South West corner of Bayside Park, South Hancock School will enroll 500 to 700 children and is scheduled to be completed later this year.



## Gaming in Hancock County



Prior to Hurricane Katrina, Mississippi required casinos to be built over water. After the storm, the gaming laws were changed to allow casinos to be built on land within 800 feet of water. As a result, the Mississippi Gulf Coast has seen one of the largest casino booms since Las Vegas. Hancock County currently has two operating casinos with the potential for several more in the near future. The Hollywood Casino is on the site of the previous Casino Magic on the back of the Bay of St. Louis. Hollywood Casino features over 1,000 of the latest slots and video poker machines. In addition, the Hollywood offers a full ensemble of table games, including Blackjack, Craps, Caribbean Stud, Roulette, Pai Gow Poker, Three Card Poker, Texas Hold'em and the new 6 table poker room.

The Silver Slipper Casino, on the beach in Hancock County, is the first land-based casino to be built from the ground up on the Mississippi Gulf Coast. The casino features over 1,000 of the newest and hottest slots, 26 table games, including Blackjack, Craps, Roulette, Flop Poker and 3 Card Poker, and a 9 table poker room. The Silver Slipper is open 24-hours per day, seven days a week and the Casino Stage Bar features live local, regional and national entertainment. The casino is currently in the permitting stages of adding a hotel with several hundred rooms.

Both casinos employ between 1,500 and 2,000 employees. Over 21,000 jobs in Hancock and Harrison counties are in the leisure and hospitality industry.

## Mississippi Gulf Coast Housing

As of September 28, 2007, there were currently 15,711 active direct housing units (travel trailers, mobile homes and park models) in use provided by FEMA. There were 5,593 in Harrison County, 2,914 in Jackson County, 3,720 in Hancock County and 3,484 scattered throughout the rest of the state. Of the 15,711 direct housing units, 1,360 house 5 or more occupants. Almost 80% of the direct housing households have an income that is less than 80% of the average median income which is crucial to certain Mississippi Development Authority guidelines which state 51% of available rental units must be rented to tenants with income at or below 80% of the area median income (MDA SRA guidebook, pg. 6). Based on these numbers there is a more than adequate supply of qualified tenants.

There were 1,509 households in rental units throughout the state – 783 in Harrison, 300 in Jackson, 312 in Hancock and 185 throughout the remainder of the state. A little over 91% of those households have an income that is less than 80% of the average median income. A total of 709 rental housing resources were available throughout the state – 384 in Harrison,

**Only 60 (8.5%) rental housing resources were available at the fair market rate**

245 in Jackson, 60 in Hancock and 20 throughout the remainder of the state. Only 60 (8.5%) rental housing resources were available at the fair market rate, 258 (36.4%) available at 101-125% of the fair market rate, 198 (27.9%) available at 126-150% of the fair market rate and 193 (27.2%) available at 151-200% of the fair market rate. This research demonstrates a great need for affordable housing as only 8.5% is currently deemed affordable.

### **State Rebuilding Support**

The state has earmarked more than \$3 billion in housing programs for residents outside the flood zone, for low and moderate income homeowners, for public housing and other affordable rental housing. The state legislature passed this session, the Mississippi Economic Growth and Redevelopment Act of 2007, which has been described as the most important economic development tool for the state. It shores up the state run Windstorm Underwriter's Association, which makes it financially solvent and creates a stable environment to attract more insurers to write standard policies in the state, particularly in south Mississippi.

### **Air Services**

Each day 1,802 outbound seats are available at the Gulfport-Biloxi International Airport – 30% above 2005 levels. The airport's recent \$51 million terminal expansion increased the terminal from 92,000 sq. ft. to 165,000 sq. ft. Other airport-related developments include:

- A \$46 million cargo and general aviation ramp project opens in mid 2008,
- A \$30 million air traffic control tower is underway,
- A \$52 million airport hotel complex is under construction,
- A \$15 million airport office park will commence construction later this year.

### **John C. Stennis Space Center and Keesler Air Force Base**

The John C. Stennis Space Center is located adjacent to Bayside Park in Hancock County, Mississippi. Stennis is NASA's rocket propulsion testing facility and employs more than 4,500 employees. Stennis officials expect the employee population to double by 2010. Fifty-six percent of their employees are classified as either scientific/technical or business/professional fields; twenty four percent of the employees have either a master's or doctoral degree and sixty nine percent have a college degree of some type. A conservative estimate is that SSC supports more than 19,500 jobs and pumps approximately \$811.4 million into the local economy.



## Other Business

The prime Outlet Mall in Gulfport has signed five new retailers. Hancock Bank invested \$50 million in renovation of corporate offices as part of downtown development. The Federal Government appropriated almost \$36 million for the 92 acre Veterans Affairs (VA) property to be transferred to the City of Gulfport. One estimate projects that from 2006 through 2010 a little over \$8 Billion will be invested in housing and commercial structures on the coast. It is also projected that the coast will have over 20,000 gaming hotel rooms and condos and almost 5,000 resort condos.

The Gulf Coast Coliseum will expand by 200,000 sq. ft. by the end of 2008, allowing them to accommodate 80% of all conventions in the U.S. In addition, Bacaran Bay will have 70,000 sq. ft. of convention space and the Beau Rivage will have 50,000 sq. ft. A 627 acre industrial park is proposed for northern Harrison County. The Chevron Refinery has expanded to increase production by 10%. A new industrial pipe plant is scheduled to open at Port Bienville Industrial Park in Hancock County in late 2007. The Perma Shield Pipe (PSP®) plant will employ approximately 390 employees with an average starting salary of \$50,000 per year.

## Go Zone Tax Benefit

“Go Zone” refers to the Gulf Opportunity Zone Act of 2005, which created special tax incentives for properties in several counties in Louisiana, Mississippi, and Alabama that were affected by Hurricane Katrina. Residential rental property in Hancock County placed into service prior to December 31, 2010 can qualify for special Go Zone tax advantages. This includes an accelerated 50% depreciation of the property. In the Sage model noted in this document, this would amount to an accelerated tax deduction of \$66,150 in the first year. Certain restrictions apply, and this information is not intended to be relied upon as expert tax advice. You should consult your tax or financial advisor, or contact a Go Zone tax expert such as Karla Dennis at (800) 878-4051 or Tom Peyton at (601) 271-8625.

## Demographics

The tables below provide demographic data within a 50 mile radius of Bayside Park, Mississippi.

### Summary

	<u>2000</u>	<u>2008</u>	<u>2013</u>
Population	1,458,191	1,306,538	1,414,996
Households	556,866	498,782	542,633
Families	372,778	335,053	361,446
Average Household Size	2.56	2.57	2.56
Owner Occupied HUs	343,915	323,664	349,153
Renter Occupied HUs	212,950	75,118	193,480
Median Age	34.9	36.7	37.5
Total Housing Units	617,820	654,808	610,423
Average Home Value	\$122,221	\$181,284	\$196,630
Total Businesses		75,361	
Total Employees		610,652	

Households by Income	Number		Percent		Number		Percent	
	<u>2000</u>		<u>2008</u>		<u>2013</u>			
< \$15,000	122,633	22.0%	88,080	17.7%	86,237	15.9%		
\$15,000 - \$24,999	81,412	14.6%	63,627	12.8%	65,903	12.1%		
\$25,000 - \$34,999	77,043	13.8%	63,310	12.7%	61,250	11.3%		
\$35,000 - \$49,999	89,784	16.1%	79,857	16.0%	83,234	15.3%		
\$50,000 - \$74,999	93,386	16.8%	96,535	19.4%	112,295	20.7%		
\$75,000 - \$99,999	44,722	8.0%	49,303	9.9%	60,083	11.1%		
\$100,000 - \$149,999	29,902	5.4%	37,945	7.6%	48,287	8.9%		
\$150,000 - \$199,000	8,114	1.5%	9,264	1.9%	11,822	2.2%		
\$200,000+	10,274	1.8%	10,841	2.2%	13,501	2.5%		
Median Household Income	\$34,623		\$41,051		\$45,112			
Average Household Income	\$47,900		\$55,177		\$60,054			
Per Capita Income	\$18,657		\$21,303		\$23,279			

Population by Age	Number		Percent		Number		Percent	
	<u>2000</u>		<u>2008</u>		<u>2013</u>			
0 - 4	100,193	6.9%	90,028	6.9%	98,115	6.9%		
5 - 14	218,013	15.0%	173,859	13.3%	184,996	13.1%		
15 - 19	110,795	7.6%	92,741	7.1%	95,848	6.8%		
20 - 24	100,408	6.9%	91,339	7.0%	97,511	6.9%		
25 - 34	202,007	13.9%	175,996	13.5%	186,962	13.2%		
35 - 44	230,907	15.8%	180,141	13.8%	181,961	12.9%		
45 - 54	199,918	13.7%	195,983	15.0%	207,805	14.7%		
55 - 64	125,886	8.6%	148,764	11.4%	181,076	12.8%		
65 - 74	93,126	6.4%	83,887	6.4%	99,553	7.0%		
75 - 84	58,795	4.0%	53,236	4.1%	55,637	3.9%		
85+	18,144	1.2%	20,560	1.6%	25,531	1.8%		

Race and Ethnicity	Number		Percent		Number		Percent	
	<u>2000</u>		<u>2008</u>		<u>2013</u>			
White Alone	892,893	61.2%	819,336	62.7%	894,396	63.2%		
Black Alone	492,481	33.8%	405,902	31.1%	432,948	30.6%		
American Indian Alone	5,313	0.4%	5,496	0.4%	6,046	0.4%		
Asian Alone	31,638	2.2%	37,166	2.8%	39,732	2.8%		
Pacific Islander Alone	518	0.0%	590	0.0%	643	0.0%		
Some Other Race Alone	14,688	1.0%	15,670	1.2%	16,816	1.2%		
Two or More Races	20,662	1.4%	22,378	1.7%	24,415	1.7%		
Hispanic Origin (Any Race)	51,593	3.5%	55,776	4.3%	60,265	4.3%		

**Source:** U.S. Bureau of the Census, 2000 Census of Population and Housing. ESRI forecasts for 2008 and 2013 were effective as of July 1, 2008. Business data provided by Acxiom. Copyright 2008, all rights reserved.

### Investment Return Analysis

The current model offered by Douglas Realty & Development, the Sage, is a 4 bedroom, 2 bath home with features such as Energy Star rated appliances, wood grain cabinets, solid surface counter tops, window blinds, storm shutters, and a fenced back yard.



The home has 1,272 sq. ft. of living space and a 62 sq. ft. porch for a total of 1,334 sq. ft. At a wholesale price of \$146,250, this unit is a perfect match for the need for affordable homes in the Mississippi Gulf Coast.

A sample 5 year hold cash flow and internal rate of return estimate appears below:

Assumptions:

\$8,526 initial out of pocket outlay (financing + closing costs),  
 7.5% interest rate,  
 2% annual rent increase,  
 5% annual appreciation rate,  
 6% in costs at sale at the end of 5 years

Cash Flow Analysis:

	Year 1	Year 2	Year 3	Year 4	Year 5
Rental Income	\$15,000	\$15,300	\$15,606	\$15,918	\$16,236
Mortgage Payment	(\$9,872)	(\$9,872)	(\$9,872)	(\$9,872)	(\$9,872)
Property Management Fee	(\$1,500)	(\$1,530)	(\$1,561)	(\$1,592)	(\$1,624)
Real Estate Taxes	(\$120)*	(\$950)	(\$950)	(\$950)	(\$950)
Insurance	(\$1,500)	(\$1,500)	(\$1,500)	(\$1,500)	(\$1,500)
Projected Annual Cash Flow	\$2,008	\$1,448	\$1,723	\$2,004	\$2,291

Home Sales Price:	\$186,656
Loan Balance:	(\$131,625)
Closing Costs:	(\$11,199)
Net to Investor:	<u>\$43,832</u>

\* First year taxes are on lot only.

Based on the assumptions and cash flows noted above, the internal rate of return on this investment would be **51.4%**. Note that this does not include any tax benefits, such as the Go Zone accelerated 50% depreciation tax deduction, which would increase this potential return.

This cash flow analysis is not a guarantee of results, but merely an example for analysis purposes.

**To view a presentation on this offer or watch lead story news clips on how Douglas Realty is creating value in the Mississippi Gulf Coast, visit [www.douglasinvestments.com](http://www.douglasinvestments.com). For further information call Douglas Realty & Development at (239) 542-6906 and ask for a Mississippi Sales Representative or send an email to [info@douglasinvestments.com](mailto:info@douglasinvestments.com).**