



GOVERNMENT OF BERMUDA

Fairmont Southampton Redevelopment Project

May 12, 2022

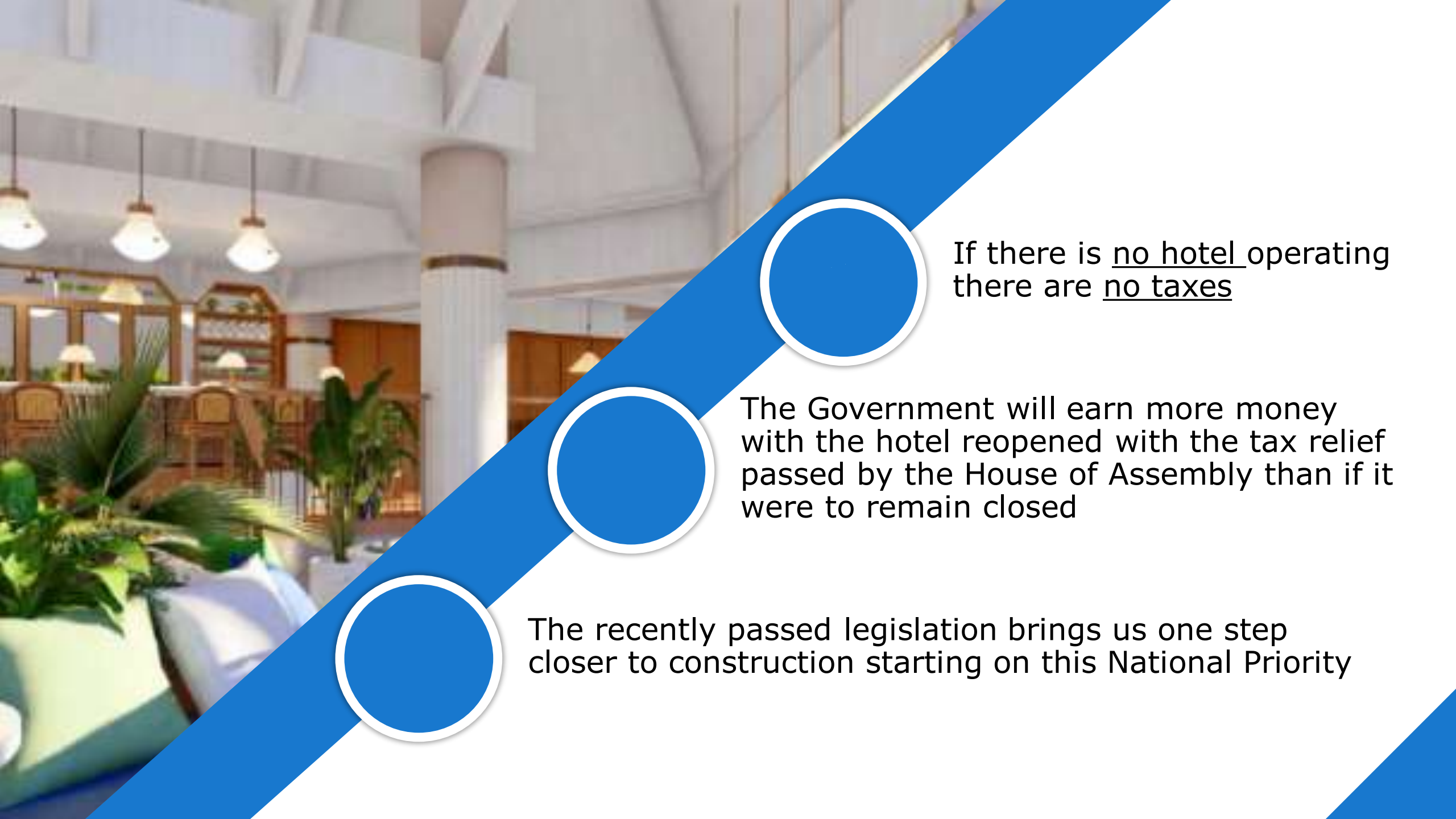


National Priority

“Properties like the Fairmont Southampton, which was the largest private employer in Bermuda are a national priority...Without it we do not have sufficient visitor numbers, our attractiveness as an IB jurisdiction is reduced and all of the businesses that support it suffer” – The Hon. E. David Burt JP, MP – Premier and Minister of Finance

“The redevelopment of the Fairmont Southampton is of national importance and is a critical part of the overall economic recovery of Bermuda...It is estimated that the average annual contribution to Bermuda’s GDP, by having the hotel open is \$100m per annum which equates to \$1.5 billion during the 15 Year concession period” – The Hon. Vance Campbell JP, MP – Minister of Tourism





If there is no hotel operating
there are no taxes

The Government will earn more money
with the hotel reopened with the tax relief
passed by the House of Assembly than if it
were to remain closed

The recently passed legislation brings us one step
closer to construction starting on this National Priority

Impact Of Hotel Closure



Prior to its closure Fairmont Southampton was responsible for

- 25% of the local hotel room inventory
- over 55k visitor air arrivals for the year,
- Filling 9% of total airplane seats



The average visitor arriving by air spends approx. 6x more than those arriving by cruise



Since the closure of Fairmont Southampton in March 2020 it is estimated to have resulted in the loss of approx.

- 80k visitor air arrivals
- \$112m in visitor spending
- \$3m in BTA fees

Current State Of Tourism

2019 vs 2021

	Hotel Occupancy Rate	Leisure Air Arrivals	Air Capacity	Total Spend By Air Leisure Visitors	Cruise Arrivals
2019	61%	191.4k	579.7k	\$395.2m	535.6k
	↓	↓	↓	↓	↓
2021	37%	55.2k	237.1k	\$122.6m	14.2k



Hotel Development Challenges

- It is difficult for hotels to make money in Bermuda and we must do all that we can to change that to increase bed capacity in Bermuda
- Bermuda has a high cost of business operations and additional support is needed for successful hotels
- Most of our competitor jurisdictions offer tax concessions far in excess of what is offered in Bermuda.
- Foreign investors invest in projects where their money is welcomed and can produce the best return – they are choosing to invest in other jurisdictions



Hotel Development Support In Other Jurisdictions



Barbados

- Grants similar and more expansive relief for hotel development
- Offers 15 years of customs duty and investment tax credits
- 2019 – 966k visitors
- Sandy Lane, The Fairmont Royal Pavilion, Sandpiper



Bahamas

- Duty free entry of approved construction materials , furnishings, and fixtures for hotel development
- Exemption of real property tax for the first 20 years of operation
- 2019 – 7.2m visitors
- Atlantis, Baha Mar, Four Seasons Ocean Club



St. Lucia

- Grants concessions for a period of not more than 25 years
- 2019 – 1.2m visitors
- Sugar Beach, Jade Mountain Resorts



Turks and Caicos

- Expanded their hotel concession to 25 years in 2016
- 2019 – 1.6m visitors
- The Ritz Carlton, The Somerset, Point Place



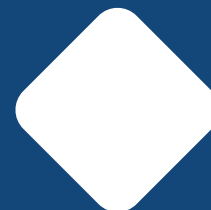


Getting the Project Started After the Pandemic

- In 2019 – there was an agreement to provide Government Support to redevelop the Fairmont Southampton. That agreement expired in December 2020.
- In 2021 the developers came back with a project that expanded in size and scope
- The Government aimed to come to an agreement by December 2021, to start construction so the hotel could be open for the 2023 tourism season.
- The more time that went on the more difficult finding an agreement became
 - Supply chain challenges due to the pandemic
 - Increased shipping and material costs due to global inflation
 - Increasing interest rates making financing more difficult



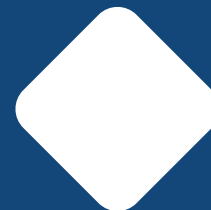
Demand the developers downsize the project to remove the additional amenities



Require the developers to put even more additional equity into the project than the additional equity they had already committed since 2019



Enhance the Government's credit support to ensure that this redevelopment took place and the hotel reopened



Chose to not re-open the hotel and let it sit there

The Government decided to enhance the support to the hotel so that the hotel could secure financing to commence redevelopment



During negotiations for the redevelopment of the hotels, the Government secured enhanced benefits for Bermudians:



Profit Sharing

As part of the new hotel agreement 10% of profits in excess of the equity invested into the project will be shared with Bermudians and will be placed into the Bermuda Trust Fund



Nation Of Owners

As part of the negotiation process the Government secured agreement that the developers would allow residents to invest up to \$10 million into the hotel

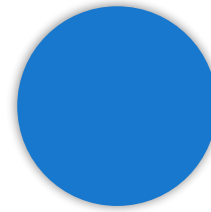


Potential Reduced Guaranteed Amount

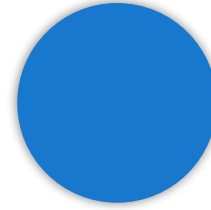
If the investment opportunity is fully subscribed the Government Guarantee exposure will be reduced to \$65 million

The New Agreement to Support Jobs

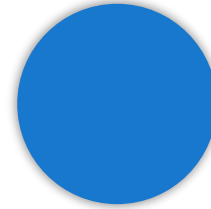
Year Of Deal	Guarantee Amount	Guarantee Term	Estimated Project Cost	Guarantee To Project Cost
2019	\$50 million	10 Years	\$300 million	17%
2022	\$75 million	15 Years	\$376 million	21%



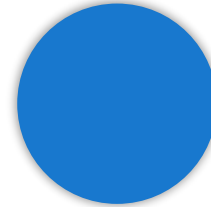
Guarantee maximum amount will be \$75 million with the potential to be reduced to as low as \$65 million



The repayment of the TIF loan will be generated from the taxes collected through the operation of the hotel



The estimated \$121 million of tax relief over 15 years will not go to into the pockets of the developer, it must first be used to repay the loan guaranteed by the Government.



As the tax-relief funds are used to repay the loan – the Government Guarantee amount is reduced

How Does The Government Guarantee Work?

The Fairmont Southampton Hotel is to be supported by a maximum \$75 million Government Guarantee of the estimated total project cost of \$376 million

This is the first time in decades most of the debt funding for a hotel redevelopment project (\$220 million) will come from overseas lenders

Tax Incentive Financing is common in many development projects around the world

What Can Go Wrong

There is an identified risk to the Government that this guarantee could be called

The Government would then have to find the funds to either

- Buy out the other lenders and complete the renovation work
- Work with the senior lenders directly to complete the project

As this is not a new build, in case of any financial challenges, the renovations could be scaled back and still be in a position to benefit Bermuda



Addressing Misconceptions



Morgan's Point Deal Differences

The former Government guaranteed 100% of the debt financing for the Morgan's Point project

The Morgan's Point project was not fully funded and did not contain protections for the taxpayers

The Government advised the Owners that any government support would require the redevelopment to be fully funded

The owners of the Fairmont Southampton have significant experience in the tourism industry

Since its inception Gencom has completed over \$7 billion of real estate transactions including the Rosewood Bermuda at Tucker's Point

The developers of the Morgan's Point project had no comparable experience in hotel development



Special Development Order

Fairmont Southampton hotel was the subject of an SDO in 2009

The Order remains valid and subject to its provisions the owners are permitted to redevelop the property

Any development that proposes to go beyond the parameters of the 2009 SDO will be subject to the ordinary processes under the Planning legislation

The funding for this redevelopment project is for the hotel only and has nothing to do with future development

The Fairmont Southampton Act 2022 does not create an SDO for the development of the hotel building

The 2009 SDO DOES NOT approve 300 plus units to be added to the property.



Government Revenue Impact

The redevelopment of the Fairmont Southampton hotel, inclusive of the 15 year tax relief period, is **NOT** a money loser but rather a money **EARNER** for the Bermuda Government

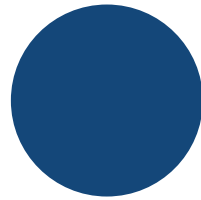
Closed Hotel = **No Tax Revenue**

Re-opened Hotel = **Increased Revenue**



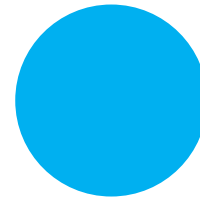
Economic Impact Of No Deal

If the hotel is not redeveloped the impact to our economy is significant



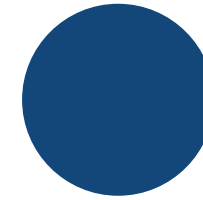
Construction Jobs

There will not be 650 direct jobs in construction



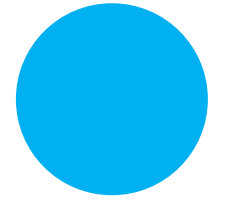
Hotel Jobs

There will not be 800 total jobs when the hotel opens for operations



Tourism Industry

Hospitality businesses will not receive the additional revenue

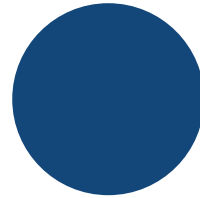


MMRG Payments

We will likely continue to pay Skyport who have currently received over \$43 million

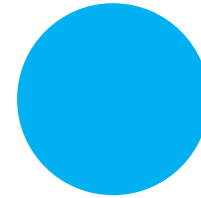
Benefits of Redevelopment

If the hotel is redeveloped, the Government and Bermuda will benefit



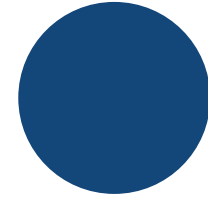
Payroll Tax

Government to collect payroll tax from 800 staff members employed



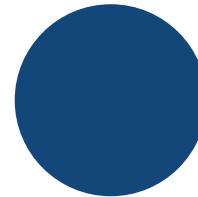
Customs Duty

Government to collect Customs Duty on items such as food and energy



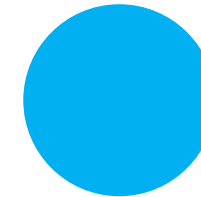
BTA Visitor Fee

BTA to receive additional revenue to enhance their marketing strategy



Visitor Spending

More visitors arriving via air will result in significant visitor spending at local businesses



Group Events

The island will have a first class facility to attract and accommodate large group events



BENEFIT

RISK

Conclusion

The Government carefully assessed both the risks and potential economic benefits of this deal

The Government has learned from the past and has placed appropriate protections in place to protect taxpayer dollars

In spite of the 15 Year Concessions the redevelopment of the Fairmont Southampton hotel is without question a money earner for Bermuda



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Questions & Answer



10 Year vs 15 Year Tax Concessions

	0-10 Years	0-15 Years
Hotel Occupancy Tax	\$41.6m	\$67.5m
Customs Duty (Construction)	\$16.0m	\$16.0m
Payroll Tax	\$12.5m	\$20.8m
Customs Duty (Operations)	\$4.8m	\$7.7m
Land Tax	\$4.2m	\$9.4m
Total	\$79.1m	\$121.4m