

CAROLINE BAY – THE FACTS  
MINISTERIAL STATEMENT  
THE HON. CURTIS L. DICKINSON  
MINISTER OF FINANCE  
12<sup>TH</sup> JULY 2019

Mr. Speaker, successive governments have confronted the challenge of hotel development in Bermuda. In the last two decades, words like ‘stack hotel’, ‘fractionals’, ‘condo-hotel’ and ‘boutique hotel’ have all been employed in a national dialogue aimed at producing a fresh hotel accommodation product to assist in stemming the decline of our tourism fortunes.

Mr. Speaker, developments have met with mixed results. Historic properties that were renovated have still been unable to achieve workable profit margins. New properties that pursued a mix of traditional hotel rooms and freehold ownership have found construction costs discouraging and units slow to sell. Sites zoned for tourism development have lain vacant in the wake of the effects of the global economic downturn of 2008 and the concurrent ultra-conservative lending approach of financial institutions around resort and hotel development.

It is against that background and with that context in mind, Mr. Speaker, that I feel it necessary to provide this Honourable House and the people of Bermuda with the facts surrounding the former Morgan’s Point, now known as Caroline Bay.

Mr. Speaker, Honourable Members will recall that a previously little known expanse of privately owned land in Warwick called Southlands became a rallying point of environmental objections when three Bermudians purchased it and outlined plans to transform that site into a hotel. The artist’s rendition of the plan featured an Aztec-styled development, sloping to the sea which would be achieved by diverting the existing South Road to a tunnel. Protesters along the road famously displayed placards saying “the tunnel starts here” and further along “you’re still in the tunnel”. The developers’ then preferred branded partner

was Jumeirah, known for signature hotel properties of immense scale principally in the Middle East.

Mr. Speaker, it became very clear, very fast that the conversion of Southlands to a tourism site on the scale then proposed would not enjoy the support of the people.

Bermuda needed hotel development and this had to be balanced with a competing need to preserve a portion of the natural environment on the South Shore. Having lain vacant since the departure of US and Canadian forces, Bermuda's baselands represented the last, large scale site for any kind of development. At approximately 180 acres, the land mass was a mix of stunning views, dilapidated buildings and hidden toxic waste. Any development on the site would require remediation to a standard commensurate with its intended uses.

Mr. Speaker, it was largely through the efforts of the former Honourable Member and Premier the Hon. W. Alexander Scott CBE that by an agreement of April 2011 that the land at Southlands was swapped for land at Morgan's Point. That agreement set out the terms and conditions of the swap and was discussed in this Honourable House as part of an Act of the Legislature to enshrine the permissions and rights over the land to the benefit of the developers.

Mr. Speaker, it is important to note that in the 2011 Agreement, the scope of the proposed development at Morgan's Point included an 80 room boutique hotel with 313 additional residences, and a 325 room luxury hotel with 337 additional residences.

Additionally, Mr. Speaker, Honourable Members should note that under section 2.1.1.6 of the Morgan's Point Exchange Agreement, the Developer has the right to sell land, condominium units and villas in the project to non-Bermudians. However, this clause does not specify undeveloped land.

Mr. Speaker, the Government of Bermuda assumed the responsibility to remediate the site and did so at considerable expense to the taxpayer. In the wake of that remediation construction commenced on the site. Mr. Speaker, is difficult to trace the progress on various units but there are some buildings on the site today.

Mr. Speaker, it seems that as early as January 2013 both the Government and the developers wished to renegotiate the terms of the agreement to take account of fiscal realities. The originally intended scale of the development was already seen as not financially viable and revisions to the master plan were submitted by the developer which included the deletion of the proposed golf course.

Mr. Speaker, the 2011 Act was repealed and replaced by the Morgan's Point Resort Act 2014 which gave, among other things, in principle planning permission for much of the work required at the site as well as subdivision permission and various hotel concessions. By July 2014 the then Government announced that the remediation of two parcels of land at the site had been completed and would then be handed over to the developers. In spite of privately expressed misgivings about the scale of the project and its financial viability, phase one as announced at that time was still said to consist of "a boutique hotel...of 235 units."

In November 2014, Mr. Speaker, reinsurance company Arch Capital provided lead financing in support of the first phase of construction on the project with an initial tranche of \$5m. By 2016 Arch had been joined by Axis and Validus Reinsurance Ltd. for a total of \$25m in financing in respect of the Morgan's Point Development.

Mr. Speaker, further to a letter of comfort provided to Morgan's Point Ltd. in September 2013, the then Minister of Finance advised this Honourable House in December 2014 that the Government of Bermuda had provided a guarantee to Arch Reinsurance Ltd. on behalf of Morgan's Point to provide credit support for the \$5m loan. The then Minister stated:

*"This loan is for the purpose of meeting reasonable expenses incurred by Morgan's Point Ltd in connection with the first phase of the project including expenses relating to architecture, design, construction engineering and professional advice and services. The Government has guaranteed the full and prompt payment of the principal and interest on the loan."*

Mr. Speaker, it is important for Honourable Members to note that as at 2014 this was apparently the only financing that had been secured in support of these purposes. In fact the then Minister of Finance alludes to this later in the same statement to this Honourable House when he said "I am confident that if

*satisfactory financing is obtained this development will turn a brown field site into a stunning new resort...”*

Mr. Speaker, it was in response to questions on the floor of this Honourable House that the people of Bermuda first became aware of the intention for the development at Morgan’s Point to be a Ritz-Carlton Reserve branded property.

In March 2016 the principals of Morgan’s Point announced that they had secured the financing for the first phase of the development through the support of the three reinsurance companies to which I earlier referred. One of the developers termed this lending as *“..a huge shot in the arm for our project..”* and he declared the developers *“..overjoyed that these icons of industry in Bermuda are so supportive of our vision for the next level of international tourism development for our island.”*

Mr. Speaker, Morgan’s Point became branded as “Caroline Bay” around April 2016 and at that time one of the developers indicated that the project was well underway and that *“With the funding in place and a five-star global hotel brand secured, the Morgan’s Point development is poised to bring a myriad of opportunities for our fellow Bermudians.”*

By November 2016 it had been announced that construction had commenced on the Caroline Bay Marina with a view to having it open and operational in time for the America’s Cup the following year. The Marina was opened in April 2017 and its inclusion as part of the first phase of development now made the project consist of:

- 35 branded condominium residences; and
- A 5 star boutique, 79 room Ritz Reserve hotel

Mr. Speaker, what the people of Bermuda did not know was that even before the marina had opened, the Caroline Bay project was experiencing difficulty. This had to have been known to the then Cabinet and the developers who persisted in providing public updates on the project which were inaccurate. In fact, in January 2018, one of the developer’s told The Ritz-Carlton News Room: *“.. Caroline Bay’s construction progress is well on its way, and not only is the first phase of the Ritz-Carlton Reserve Residences at The Cove projected to be delivered on time, but the development of the resort community has brought great prosperity to our island..”*

Mr. Speaker, one month later, in February of 2018, after only 7 months in office, the developers asked to meet with the then Premier and Minister of Finance to advise that there were significant financing issues and that in all likelihood work would slow down and eventually cease without an injection of further capital.

Since that time, Mr. Speaker, this Government has worked with the developers and has attempted to support all reasonable efforts to secure financing. The Premier has made himself available to meet with several prospective financiers and on every occasion has supported the project and the efforts to secure much-needed financing to complete at least phase one.

Mr. Speaker, I have spent some considerable time rehearsing the history of this project to provide necessary context around where things stand today. The financial viability of this project has been in question for at least the last 6 years and it is important to note that much of the lending in support of the development has not been the ringing endorsement of its economics some might claim, but is founded, unfortunately, in a Government of Bermuda guarantee to the tune of \$165m.

Mr. Speaker, Honourable Members and the public may know that for 15 years of my professional career, I have structured, managed and led the execution of equity and debt financing transactions. My experience is being usefully employed as I seek to robustly defend the public purse from calls on the guarantee which may or may not come as a result of our obligations in the event of defaults by the developers.

Honourable Members and the public may have heard the announcement that Caroline Bay had secured financing. Whilst it is not for me to comment in this forum on the details of any financing arrangement, I wish to make it clear that any such offer is subject to the financing arrangements complying with Bermuda regulatory requirements and the approval of the Government of Bermuda who, through the terms of the guarantee, is a full partner at the table in matters related to the financing of this development. I have taken the time to advise colleagues and will summarize now that a Term Sheet or Draft Terms of Agreement do not represent irrevocable financing and should not be termed as such.

Mr. Speaker, recent reports regarding inactivity on the site and the failure to pay contractors and sub-contractors are disturbing. At a minimum, these businesses should be paid for the work they have done and it is important to note that the payment of their bills is in no way the Government's responsibility.

Mr. Speaker, the land at Morgan's Point continues to represent an important opportunity for Bermuda to renew its claim to being a luxury destination. The economics of the development must be recast and devised with a realistic view of the world economy and the value proposition we need to present in order to be successful in tourism, business and economic diversification. This opportunity is too important to squander. We do not do justice to the people of Bermuda by continuing to shore up a vision that no longer matches reality and which cannot be sustained on any applicable metrics. It is well past time to approach this development differently.

Mr. Speaker, we are committed to advancing projects that support the Government's core aims and objectives:

- investment opportunities for Bermudians;
- employment for workers;
- growth for small and medium sized businesses; and
- an increase in economic activity arising out of a sensible, fair immigration policy.

Where these ideals are embraced by developers, existing or prospective, we are open to working together.

Thank you, Mr. Speaker.