Ministerial Statement

by

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Refocusing Bermudiana Beach Resort

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Good Morning, **Mr. Speaker.**

Today, I report to this House on the refocusing of the Bermudiana Beach Resort project, but first – some history is in order so that there is a full understanding of the journey to this point.

In **2007**, the private sector Grand Atlantic Residences project was a 78-unit development to add additional freehold condos to the housing market. To assist the project's progression in 2009, the Bermuda Housing Corporation (BHC) became involved to purchase the development, once completed in 2012.

However, **Mr. Speaker,** in 2013, the global crash of the housing market including the decline in housing prices, decline in demand for housing and a false narrative over the safety of the cliffs, to name a few had an impact on unit sales- only one was sold. The then OBA Government elected to place the sale of condo units on the property on hold while a reassessment of the direction was considered.

A request for information (RFI) on the property was issued in March 2013 with submissions due by May 2013 – still under the OBA. After analysis, meetings and a review of the submissions, the then Government entered into a memorandum of understanding [MOU] with the successful proponent to convert the property into a condo hotel. The MOU was initially for a period of 120 days and was then extended to March 2015. After the expiration of this MOU the BHC negotiated with the bank to obtain a loan to refinance the original purchase of the Grand Atlantic condo units – still under the OBA.

Mr. Speaker, following this a second RFI was issued in May 2016 with submissions due by the end of June 2016. After analysis, meetings and a review of the submissions, a proposal was selected and approved in October 2016 to convert the property into a residential condo boutique hotel, with units available for sale. All this activity – the pivot from condos to hotel occurred under the OBA Government.

In July 2017 an election was held which resulted in a change of Government. The new PLP Government continued negotiations with the selected co-developer, who was approved by the previous Government to develop a condo hotel on the Grand Atlantic site and up until 2019, the project progressed well including the Government announcing a brand arrangement with Hilton Hotels to increase the caliber and attractiveness of the property.

Mr. Speaker, however, in early 2020 the COVID-19 pandemic started to take hold on the world, which made meeting sales targets virtually impossible. The pandemic resulted in those targets not being reached to meet debt financing conditions, and therefore an alternative financing facility was negotiated with the bank.

After this and again attributed to the COVID-19 Pandemic, in 2021, the co-developer, which was selected in 2016 and the current Government agreed to an amicable separation. The Government and the BHC remained committed to the completion of this project, as at the time there was a need for additional hotel beds.

Mr. Speaker, more difficulty came with the startling post covid inflation boom, which saw the cost of building materials soaring over 50% in some instances for basic supplies such as concrete and steel. Two loans totaling $35 million dollars were secured to continue construction – they remain in place.

Despite these challenges, the project continued but with pre-sales still not materializing and costs continuing to rise, the Government decided to investigate the business model of the property.

The Ministry of Public Works retained an expert who found that there was an inherent failure in the current business model. In general terms, the root cause of many of the issues associated with the project, including the lack of sales, stem from the direction set by the former development partner. The former developer's projections were overly simplistic, and the current team followed the same plan, but lacked the experience to navigate what would have already been an extremely challenging, brown field hotel development project.

Mr. Speaker, after this assessment, the Government engaged the international accounting firm Ernest and Young ("EY"), who have a unit that specializes in evaluating distressed hotel developments, to conduct an evaluation to determine if the Bermudiana Beach Resort project was still viable in this current climate.

The assessment looked at four options

i. To continue the existing course (a boutique hotel with condominium sales).
ii. Upon completion of construction, sell units individually as condominiums.
iii. Upon completion of construction, run as a standard boutique hotel; or
iv. Convert units into residential rental apartments and complete construction.

Mr. Speaker, based on this analysis of market dynamics, supply and demand trends, product fit, and strategic alignment with key initiatives, the two most viable uses were determined to be Options 3 and 4. In performing a financial assessment of the two most feasible options, the apartment scenario (Option 4) provides the highest net present value as a result of strong demand, limited comparable supply, high rental rates, and significantly reduced operating risks as compared to the hotel option. While generating revenue to pay back outstanding debt remains a priority, the analysis indicated there was substantial resale value to be gained by holding the asset until cash flows stabilized and returns from the apartment scenario approach sufficient levels to meet the government's financial objective of retiring the $35m debt in its entirety. I must note that the $35 million dollar loans are not taxpayer funds but rather a commercial loan entered into by the Bermudiana Development Company.

Mr. Speaker, to accomplish Option 4, there remains the requirement to complete the construction. Given the proposed product can fit with the current development profile, apartment rentals would help to minimize capital investment with minimum additional expenditures required beyond the completion budget, while also providing the opportunity to reduce investment further by limiting some of the proposed amenity space. Therefore, the Ministry will provide the BHC with additional funding to the maximum amount of $5 million dollars to complete the construction. This is compared to the approximately $9 Million dollars that would be needed for the hotel completion.

Mr. Speaker, with this recommendation and taking into consideration the recent announcement for the commencement of the Fairmount Southampton redevelopment project which would see 593 new hotel beds becoming available by the end of 2026 – and reflecting on the priorities and principles of this Government, a Cabinet decision was made to pivot the Bermudiana Beach Resort to residential rental units. This decision results in a separation from the Hilton agreement at a cost of $399,600.

This was a difficult decision, as much effort was placed into converting the property into a hotel, but when presented with the data, and the expert advice, the government choose to change course yet again, but one that we believe is in the best interest of the country and one that will prove beneficial to the economy in the long term.

Now all these changes come at a significant cost – overall - $100 million dollars plus will have been spent on this property over the 12 years. An incredible sum that reflected the change in direction with each pivot of the project to respond to the prevailing circumstances at each juncture. Clearly, no one would set out to spend this kind of money on such a project but at each juncture – those making the decision believed it was the right one and funds would be recovered. An equally incredible set of circumstances have beset this project, and the aim now is to get as high a return as one can to mitigate the investment.

Mr. Speaker, the challenge with housing impacts all segments of our community, which includes our international business sector as well. The need to house this sector puts pressure on the local housing market. The analysis indicates that this change in direction would provide a means to cater to this sector directly and thus indirectly free up the local housing market to be accessed by more Bermudians. The number 1 issue for IB now, based on their growth and expansion - is housing. The market demand is so great that in some cases, a studio is costing over $3,000 per month.

Therefore, by December of this year, this new proposed direction will see 94 studio, 1-, 2- & 3-bedroom residential units of beachfront property added to fulfil a market demand for additional rental housing.

The Bermudiana apartments will be a multi-family community catering to young professionals and couples with amenities including beach access, indoor and outdoor fitness area, a pool area, with the potential for a restaurant, and a spa in the future.

Mr. Speaker, while no firm decisions have been made regarding rental pricing, we recognize the added amenities, location, convenience and money already invested will necessitate competitive market rates that ease the demand and also allow us to generate revenue. There are people on the Bermuda Housing Corporation waiting list who can qualify for this housing and that analysis is currently under way.

Let me repeat a section of the recent Throne Speech on housing. Quote *"The Government believes that every Bermudian should have access to adequate and affordable housing. That reality, coupled with the need to grow our working population to support our ageing population, makes the expansion of Bermuda's housing inventory critical. As such, there will be a need for more housing to accommodate residents of Bermuda and a greater number of individuals living and working in Bermuda."*

"Bermuda's demographic shifts are exacerbating the challenge of affordable housing in Bermuda, as there are not enough young Bermudians to replace the seniors who are retiring from the workforce. As these seniors retire, the additional labour needed to sustain Bermuda's economy often comes from guest workers. Given the fact that many of our seniors retire in Bermuda, the guest workers who may fill those jobs require accommodation. This reality is just one of the factors in Bermuda's housing challenges." End quote.

Mr. Speaker, in this Government's 2020 Election platform under the category for 'Improving the Quality of Life for All Bermudians' – this Administration pledged to continue increasing the stock of affordable housing throughout the country, expand rent geared to income programmes and construct residential developments in Bermuda's Exclusive Economic Zone to increase the supply of quality, affordable residential accommodation and drive down rental costs.

Mr. Speaker, this move does just that. As the old saying goes, a rising tide lifts all boats, and by adding to the housing market, regardless of the sector, we are helping to address the needs of all residents. If you remove a group of people looking for housing in the domestic market – you remove some of that demand and the price falls.

Over the next several weeks as this new direction evolves further there will be additional public announcements.

Mr. Speaker, everyone has an opinion on this decision – and they are entitled to that opinion. We were faced with a very difficult decision and chose the option that will secure some return on our investment and meet the payback of the outstanding loans while also relieving some of the pressure on the rental market.

I remind of the work being done to increase the housing stock in other sectors – specifically the vacant and derelict housing rejuvenation being undertaken by the Housing Corporation where every vacant and derelict unit owned by the corporation is under repair with 71 of those units already back in service. The remaining 118 units are being brought back online regularly. Additionally, legislation to address the privately owned vacant & derelict properties will be forthcoming.

Mr. Speaker, since 1999 successive PLP governments have added over **400** units to the housing inventory – while during the period 2012 to 2017 under the OBA **13** units were added - so we have a track record of delivery that cannot be denied.

The people of this country can rest assured that we are working diligently – every day - to increase the housing inventory.

Thank you, **Mr. Speaker**.