

# CAROLINE BAY RISK ASSESSMENT

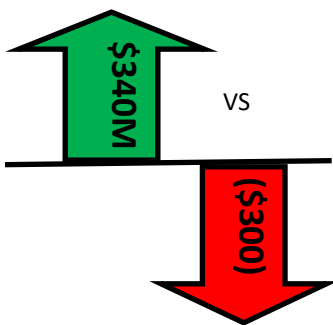
## Overview

The proposed funding agreement between Caroline Bay Limited, Starwood Capital and Government of Bermuda is complex.

The Government is secured on George's Bay Limited, the building and 37 acres of land, as the existing lender. The current situation is, the Government has greatly invested in George's Bay Limited, which is now in provisional liquidation. This leaves this property as a distressed debt, and worth a percentage of its investment if it were put on the market.

Further burdens include the additional expenditures being incurred in terms of ongoing interest costs, professional fees and an intended further capital expenditure to complete the project at George's Bay Limited.

The current debt load that the government undertook is around \$200M, and the estimates to complete the project was suggested to be in the \$150M to \$200M range. This would mean the Government would be out of pocket around \$400M. If they are successful, they can recoup a maximum of \$50-\$100M. This means the Government could potentially be out of pocket approximately \$300M.



The current funding proposal by Starwood Capital is to inject fresh capital into the entirety of the project, including Caroline Bay Limited and George's Bay Limited to complete the residential and hotel units. The government would continue to hold security on the land at Caroline Bay.

In the funding proposal, if accepted, the Government debt would be repaid removing the risk of \$400M of the people's money. In order to do so, Starwood would take over the Governments as the key lenders, but requires a Government guarantee of \$185M.

## Benefits of Proposed Deal to Government of Bermuda

The position of the Government is greatly enhanced with the Starwood deal which would bring Single Family Offices (SFO) to Bermuda

- ⇒ New injection of Capital to complete the current development, thereby having a greatly improved asset for Georges Bay Limited.
- ⇒ The guarantee is in support of the loan, but now EXTENDS to Caroline Bay thereby greatly reducing its risk.
- ⇒ The current sales secured in the amount of \$36M at Caroline Bay, plus all future sales, inures to the benefit of the new lender (Starwood) and effectively to the Government of Bermuda. Profitability at Caroline Bay Limited reduces the Government's risk.

Whilst incorrectly stated previously, Mr. Duperreault is subordinating his debts and security behind the lender and Government of Bermuda. The current plan is projecting up to 60 real estate sales in the first two years, which will repay the loans borrowed, hence eliminating the Government guarantee.

## Important Facts

Mr. Duperreault would subordinate his debt behind the lender

Injection of \$250M from Starwood would serve as working capital for George's Bay Limited, and be secured by all the land at Caroline Bay.

The loan principal. The Government, would be repaid first from proceeds from real estate sales thereby reducing the exposure on the guarantee. Once the guarantee was extinguished, \$75M would be placed on the A loan, which is the working capital component to complete the residential units and work on the hotel component.

Loans totaling \$20M from Willowbank Foundation and Clarien Bank would be subordinate to the above.

The Duperreault and Christensen loans would be subordinate to all the above. The capital stack is as follows:

- > Government of Bermuda (\$200M)
- > Clarien and Willowbank (\$23M)
- > Duperreault & Christensen (\$68M)

## How the People of Bermuda will benefit

- ◆ Construction jobs for building of homes at Caroline Bay
- ◆ Need for professional services for Single Family Offices
- ◆ Rental of office space in Hamilton (each Family office would be required to rent a minimum of 2,000 sq ft of office space)
- ◆ Maintenance of new homes at Caroline Bay
- ◆ Hospitality jobs
- ◆ Injection of capital into Community Programs (a requirement for all SFO's)

## SINGLE FAMILY OFFICE PROGRAM

The single-family office program has wide support from both the Government and the people of Bermuda. Getting that new element to Bermuda could have a similar positive effect that the Insurance Industry had on Bermuda. This will move the needle. As a comparable, Dart Industry who has injected over \$1.5 billion into Cayman, actually started as a single-family office there. Their contribution to the island is widely known and respected.

The critical point of attracting the Ultra High Net Worth Individuals is the connectivity to the principal or the head of the family. Many of us may know of individuals who provide services to the Family Offices, but not the principal. We are fortunate to have Tom Lawrence and his associates at the Boars Club who have those direct contacts. In fact, he brought ten of those individuals to Bermuda and some met with The Premier. We currently have three of them signed up with real estate sales of around \$36M pending the Starwood deal going through.

The need for exclusivity for the required legislation is paramount to ensure the success of the program. The Government and the people of Bermuda will greatly benefit from this program. One should note that anyone can have a Single-Family Office program now and buy elsewhere, probably cheaper. However, the provision of PRC status will come with Caroline Bay. This is not a citizenship issue but rather permanent residency that they require for their tax and inheritance issues. It is highly unlikely that any of them would take up Bermuda status in the future. In any event they would be concentrated in one area

Another issue that concerns our people as to whether this is another Tucker's Town. Most Bermudians have a distaste for that. Caroline Bay is somewhat different. Caroline Bay for the last 80 years has not been part of our land mass, nor regularly visited. It is unlikely that our people have any emotional attachment to that property.

## FINANCIAL ANALYSIS OF THE EFFECT OF PROPOSED NEW FINANCING DEAL

As noted above, the Government will get back the \$200M in cash which they used to buy off the previous lenders. The country will desperately need these funds to support Bermudians during the economic crisis brought on by Covid-19.

There was to be an additional new tax for the sale of undeveloped land at Caroline Bay of 10%, which together with stamp duties of approximately 7%, would generate around \$70M per annum of additional Government revenues.

The Starwood working capital will be used for completing the works at Caroline Bay and can start rapidly. This is a great help for our construction workers.



Projections of 30 single family offices per annum will require them to build homes on site within 2 years. Using an average of 10,000 sq ft homes at \$500 per square foot equals \$150M of construction work per annum into our economy.

In conclusion, this project is necessary if Bermuda is to recover from the tremendous loss they incurred at Caroline Bay, and to revitalize the economy which is contracting and getting worse. This represents a new stimulus with wide ranging benefits for Bermuda including construction jobs, and new professional opportunities. Legislation needs to be approved in order to execute this pillar of our economy and get Bermuda back on track.

## Caroline Bay Proposal

- ⇒ Caroline Bay would become an economic zone for Single Family Offices, attracting UHNWI to the island
- ⇒ The funding proposal requires PRC status for SFO holders
- ⇒ \$200M will get paid back to the Government FIRST
- ⇒ Several jobs will be created to stimulate the post Covid 19 economy
- ⇒ Starwood requires the Government guarantee to stay in place which will be removed as soon as the Government loan has been repaid which is projected to be around 2 years
- ⇒ Boar's Club will receive a 5% commission for bringing Single Family Offices to Bermuda to restart the project and stimulate the economy
- ⇒ The Starwood funding will restart the project immediately
- ⇒ If the proposal is rejected the Government will be on the hook for the \$200M + they have already put into Caroline Bay, plus an additional \$150-\$200M to finish the project

## About Boar's Head Club

Tom Lawrence and the Boar's Head Club, have a track record of raising capital and attracting UHNWI wealth. Their database of billionaires and Single Family Offices is the reason that Starwood agreed to fund the deal and restart the project. Without them we are back to the scenario of no funding, requiring the Government to lose in excess of \$300M.

The non-negotiable commission of 5% for the successful placement of the financing, was agreed by Caroline Bay Limited and The Boars Club. This was based on the revolver financing by Starwood Capital for \$250M representing \$12.5M in fees.

The financing of the Government debt of \$200M+ was arranged by Tom Lawrence. That fee for the debt placement was waived in order to help the Government.