EXECUTIVE SUMMARY

Westend is planning an extensive renovation of the most iconic hotel in Bermuda, as well as the development of tourism and residential units on the Fairmont Southampton property. An enhanced SDO is integral to bringing this plan to life. Several factors are having a direct impact on the overall redevelopment strategy:

- Reopening the Hotel is the first priority. Though the building itself is structurally sound, extensive renovations are required. These would typically take place over several years, however, in the interests of reopening as soon as possible, that work will be completed upfront, all at once.

- The proposed new units will be 61.5% tourism and 39.5% residential units. The tourism units will supplement the hotel’s capacity, making larger-scale events and conferences possible, while the residential units will solidify the property’s reputation as a year-round resort and make the redevelopment financially viable.

- Since the property was acquired in 2019, the estimated costs for the redevelopment have increased by 70%.

- As a result, additional capital needs to be raised. The “hotel only” scenario does not provide sufficient revenue to attract capital at this time – investor return criteria have shifted since the 2009 SDO was granted. However, the “hotel plus proposed SDO residential development of 250 units over time” scenario is projected to meet minimum investor return thresholds. In short, investor commitment to the project is contingent on the granting of the SDO.

- Follow-on development has always been part of the long-term strategy for the property. Given the proximity of the hotel and its amenities, the property is ideally situated for residential development and the ancillary year-round revenue generation that will result.

- Restoring the Fairmont Southampton as a world-class resort destination will boost the local economy by:
  - returning 593 rooms to the island inventory
  - improving airlift
  - establishing a recurring visitor base through year-round demand
  - increasing GDP – PwC has calculated that the residential component of the project contemplated by the SDO application will generate an additional $1.4 billion in GDP at present value. Approximately $300 million is attributable to job creation during construction, while an additional $1.1 billion is attributable to the wider impact of the demand for services to support the residences.
• The long-term success of this development relies on a sequenced, multi-faceted plan comprised of tourism and residential units and multiple income streams.

FAIRMONT SOUTHAMPTON BERMUDA CONSIDERATIONS

Gencom and its partners are excited to restore the Fairmont Southampton back to its iconic and celebrated stature. The development will be multi-faceted, beginning with the renovation of the hotel as well as upgrades to the Beach Club, all public areas and other hotel amenities, all of which have received planning approval.

This first phase will be followed by the construction of the tourism and residential units that are the subject of this SDO application. Concentrating multiple uses within the Southampton property will have many benefits, including better property management since mixed-use developments can be managed much more efficiently than single-use properties. In addition, the walkability of the property including golf cart accessibility to the nearby restaurants and entertainment is enticing to homeowners and guests,

It's important to note that the residential market has shifted drastically since the 2009 SDO was approved. Larger units and fractional ownership are no longer in demand. Instead, buyers are seeking turn-key residential solutions, particularly in Bermuda where foreign buyers face barriers to entry. In addition, the appeal of living within close proximity to restaurants and other resort amenities has only increased since the pandemic as many residents continue to work from home.

Other than Tucker's Point – which is largely sold out – the Fairmont Southampton is the only resort community in Bermuda that offers the extensive amenity base that buyers are seeking today. Gencom and its partners believe that demand for this type of product will only continue to grow so having the capacity to accommodate future demand is critical. Gencom's strategy is to build the residences only after meeting 50%+ pre-sale thresholds, and not to build on speculative demand.

FINANCIAL DRIVERS

Based on our internal analysis, building based on the approved 2009 SDO will not generate the investor returns required for a project with this risk profile.

However, based on the proposed project metrics associated with the revised SDO outlined herein, we are confident that investor returns will meet the required thresholds, with little to no erosion in the project’s achieved multiple of capital.

At acquisition in 2019, total costs for this project were estimated at $310 million. Today, that estimate has skyrocketed to $530 million – a 70% increase.
This spike in estimated costs can be attributed to a number of factors, including:

- the extended closure of the property and associated costs resulting from the COVID-19 pandemic
- increased construction costs
- increase in cost of borrowing / rising interest rates
- modifications to the overall business plan

**Investor return considerations**

- Under the total project capitalization of $530 million, a significant amount of equity is required – approximately 43% of the total capital stack or $230 million.
- Minimum equity investor returns for a project of this calibre start at 2.5x the original investment. More specifically, given the Fairmont will require two to three years to ramp up operations, investors view profits from the perspective of multiple of capital as opposed to internal rate of return (given longer hold period orientation).
- Market knowledge of failed Bermuda projects such as Elbow Beach and Morgan’s Point has made raising capital more challenging. There are negative perceptions about operating hotels in Bermuda given higher operating costs, the bargaining strength of local unions, and nuances associated with the island’s remote location.
- Investors are generally more selective in the current market environment. Deals with a proper business plan, favorable metrics and limited or no construction risk are still only supported by demonstrating acceptable returns.
- Construction projects are being shelved or permanently eliminated due to diminishing feasibility. Investors want to participate in situations where they can envision the desired outcome.
- Comparison of returns in different scenarios:

  o **Hotel only** - In the scenario where there is no residential SDO, but only the hotel investment, returns generated will not be sufficient to meet investor expectations. By way of example, under a simplified view, if the hotel sells for $540 million in 10 years, the estimated profits are projected at 1.3x multiple of capital based on the equity investment upfront. Given the level of project debt, annual carrying costs and estimated growth in income year to year, the profits to investors are roughly half of what would be expected for a deal of this nature.

  o **Hotel plus residential SDO (2009 metrics)** – Based on the hotel metrics above and projected net residential proceeds under a plan with the unit count outlined in the 2009 SDO, investor returns still fall short, as investors are projected to recover less than twice their original investment.

  o **Hotel plus residential SDO (proposed 2023 plan metrics)** – Based on the hotel metrics above and projected net residential proceeds under the plan described
herein, total investor returns are estimated to reach the minimum 2.5x recovery for investors. While right at the minimum investor threshold, we are confident that anticipated returns coupled with endorsement of the project’s overall business plan, will precipitate success in the current capital raise.

RESIDENTIAL IMPORTANCE TO LOCAL COMMUNITIES

Over the past several years, mixed-use developments have become the business model of choice in the luxury hospitality industry.

According to the article, 5 Trends Influencing Mixed-Use Hospitality, in the March 2022 issue of leading business magazine Forbes, “Mixed-use resort developments provide a sustainable ecosystem of business models, that when combined, not only enhances each component financially but also satisfies the growing global demand for life-changing experiences that consumers across all demographics are seeking.”

The article further states that

... residential properties often aren’t viewed simply as residences anymore. With rental platforms from third-party sites like Airbnb, many individuals are using properties as an investment to generate and shelter wealth. Supporting this is the fact that vacation home sales skyrocketed to 57.2% year-over-year in 2021 compared to the 20% year-over-year growth in total existing-home sales. In certain locations, the pandemic has propelled this trend even more. Redfin recently found that demand for second homes was up 87% above pre-pandemic levels with buyer interest in second homes surpassing demand for primary homes.

The proposed development of the Fairmont Southampton will give Bermudians, and Bermuda the opportunity to reap the benefits of this trend.

GENCOM MIXED-USE PROJECT REFERENCES

Gencom and its affiliates were among the first to recognize the potential of the residential trend and have been at the forefront of developing successful mixed-use resorts throughout the U.S. and internationally.

In the late 1990s, Gencom developed the first condo-hotel project within the Ritz-Carlton brand in Key Biscayne, Florida; the development contributed to significant growth and affluence in that community. Thereafter, Gencom successfully translated their early experience and expertise to other destination resorts, including:

- **Rosewood Tucker’s Point:** Purchased out of bank receivership in 2017, the project was significantly distressed from a performance standpoint. At acquisition, a Gencom
affiliate implemented a strategic renovation plan to reposition the property and proactively manage it to generate and harness more cash flow. In addition to the hotel strategy, there was also a concerted effort to devise a viable real estate sale program for unsold inventory at the time. Since 2017, ownership has deployed over $30 million into the property and sold in excess of $30 million in real estate offerings.

- **Bachelor Gulch in Beaver Creek, CO:** A Gencom affiliate re-positioned this failing resort hotel by branding it Ritz-Carlton and created a significant residential program which included condo-hotel, fractional and branded residences. These residential components brought new life to the resort; it sold out in record time and significantly boosted surrounding property values. Today, Beaver Creek is a world class thriving ski destination, and the residential program was a major catalyst in contributing to its year-round success.

- **Peninsula Papagayo in Costa Rica:** In 2016, a Gencom affiliate and its investment partners purchased what was a distressed, 2,000-acre mixed use resort and have spent over $150 million to revive and re-position the unsuccessful asset. A substantial component of the re-positioning has been the renovation of the Four Seasons and Hyatt Andaz hotels, the current development of the ultra-luxury Ritz-Carlton Reserve, the significant upgrade of the golf course and Club facilities, and very importantly, the development and sale of branded residential units throughout the resort. The residential homes have been wildly popular and have commanded the highest price/SF throughout Central America.

The successful execution of this cohesive strategy has revived the destination; it has generated tourism growth, activity for the country and a significant number of new jobs. Peninsula Papagayo is now considered a world-renowned destination/mixed-use community and the residential component was a key driver of this.

Gencom has demonstrated time and time again that the breadth of its experience leads to success in a variety of environments. In addition to this impressive track record, Gencom’s persistent commitment to adding value has remained consistent.

**CONCLUSION**

As demonstrated above, the proposed residential SDO at the Fairmont Southampton is required for the overall long-term success of the development. As a primary driver for capital raise efforts, a catalyst to accelerate more immediate investment in the hotel and an enhancement to the project’s cash flow underwriting (i.e., incremental rental income from rental program participation), the contemplated residential SDO will improve the overall viability of the investment.