



# Expression of Interest Resort Development Water Island, USVI

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Closing Date: November 15, 2013: 5:00 pm EST





## **The Opportunity**

The Government of the United States Virgin Islands (USVI) is inviting suitably qualified firms to submit an expression of interest (EOI) in developing and subsequently operating a world-class resort, with the availability of two designated sites on Water Island in the USVI, as well as additional adjacent land for residential development. The addition of a resort along with appropriate support services, facilities and amenities, as well as possible residential development on the ±490-acre Water Island is a priority project for the Government. The primary objective is to increase and enhance USVI tourism through the development of a new upscale resort that generates high quality jobs for the local workforce and creates opportunities for residents of the territory to participate in the project development and operation, all of which collectively contributes to the country's long-term economic growth.

The intent of this EOI is to initially gauge the level of interest from the hospitality investment community to undertake the venture and identify an appropriate development partner for the project under a long term lease agreement with the Government of the USVI. Moreover, the EOI will allow for the Government to better understand and more clearly define any infrastructure support services and/or requirements, if any, that a potential developer and/or operator may require in order to ultimately commit funds to the project and deliver an economically-viable world-class resort project to Water Island and the USVI.

## History of Water Island and

### The former Water Island Hotel and Beach Club

Water Island is roughly 490 acres and the youngest of the USVI. It was purchased by the U.S. Government from the Danish East India Company in 1944 as a means to protect the submarine base on neighboring St. Thomas. The U.S. Department of Defense relinquished and transferred control of the island in 1950 to the U.S. Department of the Interior, which then leased it to Water Island Inc., a partnership of two private developers. The lease was for 20 years during which time, Water Island Inc. constructed a hotel and residences. In 1996, the Department of the Interior formally transferred control of Water Island to the USVI Government, making it the 4th island in the territory. During the transfer, the existing residents with subleasehold agreements were allowed to acquire their property on a fee simple basis.

In its current state, Water Island functions as a residential or bedroom community for a population of less than 200 people, concentrated in three primary areas. In addition, there are a variety of rental homes, cottages, and one campground available to overnight visitors. There is little evidence of commercialization, and the USVI Government with assistance from the residents, provides limited services to the island. Emergency first response is provided by the volunteer Water Island Search and Rescue Squad

The original hotel on Water Island was 50 rooms and commenced operations on January 1, 1954. In 1963, dredging occurred to create a new marina area, replete with the construction of a dining room and bar. In December 1965, Water Island Inc. sold the master lease for Water Island to Water Isle Hotel & Beach Club under the ownership of Edward McArdle. McArdle commenced an ambitious new hotel expansion program called The Colony Club, increasing the number of rooms to 110 by 1970 and providing additional recreational amenities including tennis courts and a dock. Moreover, the hotel became a favored destination spot for many USVI-bound guests who wanted to experience a resort in a more secluded environment. The lease was renewed in 1972 for another 20 years. In 1977, the Colony Club shut down and reopened as the Sugar Bird Hotel under the management of the Beach Management Corporation. In 1989, Hurricane Hugo severely damaged the hotel and it subsequently closed. The lease ran out three years later and was not renewed. The remnants of the hotel and club remain.



## The Sites

Today, the Government of the USVI controls the vast majority of land comprising Water Island. The focus of this offering includes two non-contiguous parcels located on the southwest coast of the island. These are referred to as 1) the Beach Site and 2) the Upland/Marina Site. The majority of land surrounding the two sites is vacant or sparsely developed with single family homes.

Access to Water Island is relatively easy and quick via either the use of a 10-minute ferry ride from Crown Bay Marina on St. Thomas to Phillips Landing on Water Island, or by private boat. Crown Bay Marina is easily accessible as it is located midpoint (approximately 1.5 miles in either direction) between Cyril E. King Airport to the west and downtown Charlotte Amalie, the capital of the USVI and one of the busiest ports in the Caribbean, to the east. Alternatively, the resort could offer its own boat launch service directly to the resort site or Phillips Landing, similar to that used by resorts on St. John. Once on Water Island, access to the sites from Phillips Landing is simple and direct via golf cart, the primary mode of transportation once on Water Island.

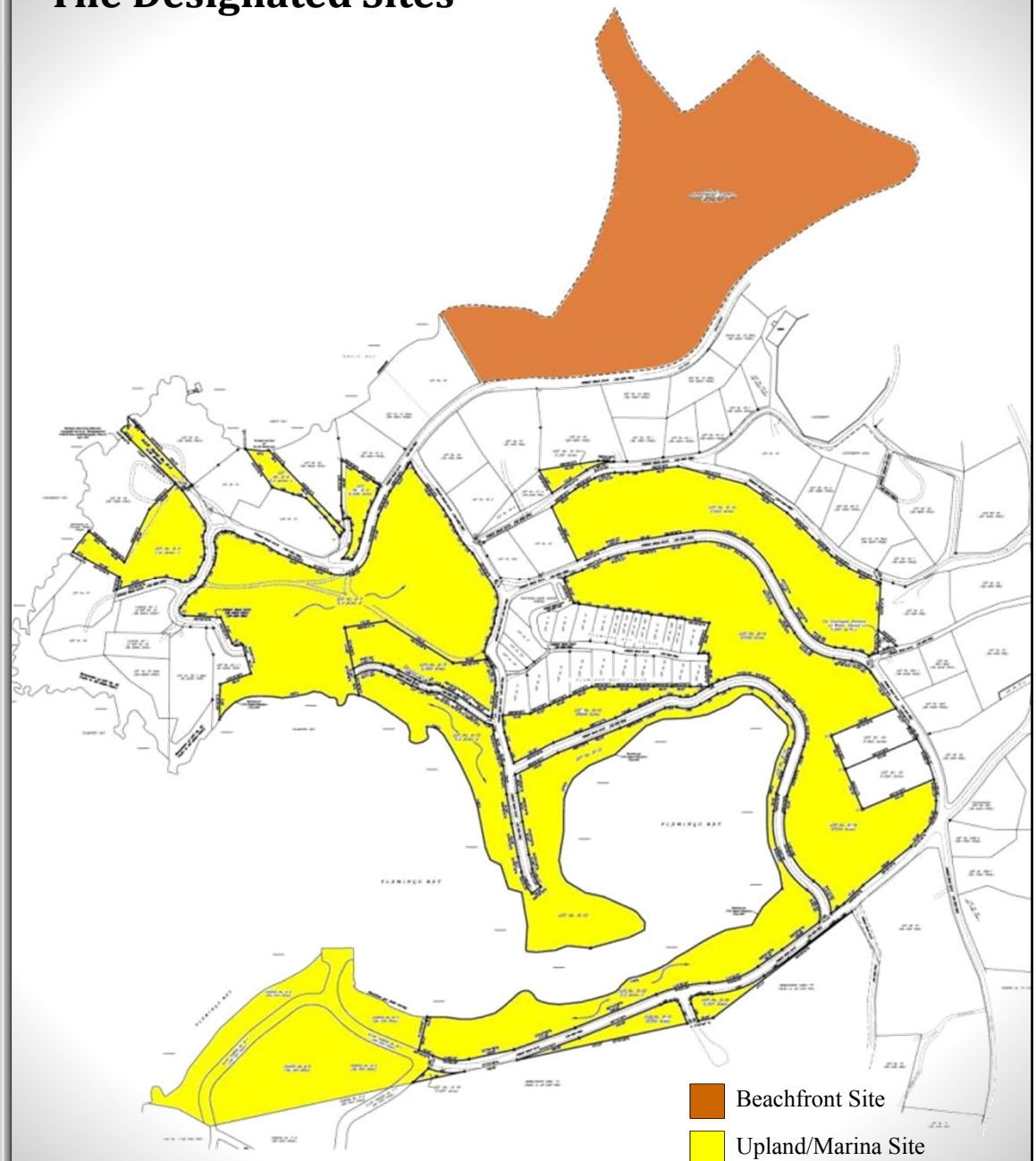


The two designated sites can be described as unique; a significant advantage in light of the (Honeymoon) Beachfront site's direct location on the sea, and the original Water Island Hotel and Beach Club site's spectacular views of Druif and Flamingo Bays. Collectively, these attributes make these two of the most picturesque destinations in the Caribbean. These two specific sites as outlined below are under deed restriction and specifically designated for resort development, either alone or in combination. Furthermore, the Government of the USVI is open to residential development within the additional parcels of land surrounding the Upland/Marina Site as discussed below.

- (Honeymoon) Beachfront Site - an  $\pm 11$ -acre tract between the waterline of Honeymoon Beach and the Main Road overlooking Druif Bay, and suitable for a primary beachfront resort location;
- Upland/Marina Site - the site of the original Water Island Hotel and Beach Club. This site is situated on the peninsula between Druif Bay and Flamingo Bay, suitable for redevelopment as a resort location or ancillary benefits to a more primary location. Land surrounding Flamingo Bay could be used for a small marina for the resort's boat launch. Moreover, supplementary plots of land surrounding the site can potentially be used for residential uses as part of the overall development project.

Although not contiguous, the two designated parcels are separated by a few residential plots. In total, the two land parcels constitute  $\pm 40$  acres. Overall, the secluded nature of the sites exude exclusivity and privacy atypical of the USVI both of which help make their location the perfect playground for a multitude of activities typical of a world-class resort, including the ability to simply relax on the white sand of Honeymoon Beach and swim in the famous Caribbean turquoise waters.

## The Designated Sites



- Beachfront Site
- Upland/Marina Site

\*\* Highlighted areas are not to scale and are approximate.





- Beachfront Site
- Upland/Marina Site

\*\* Highlighted areas are not to scale and are approximate.



Honeymoon Beach

## Tourism in the USVI

The USVI are a popular destination by travelers throughout the world; a large contingent of whom originate from the United States, in part aided by United States citizens not having to carry a U.S. passport to gain entry to the destination. This is a unique selling proposition as many U.S. travelers do not want to have to experience the burden of customs and immigration procedures, and increasingly seek safe destinations to vacation given the current state of affairs throughout the world. U.S. visitation is most significant from the affluent cities of New York City, Miami, Washington, D.C., Chicago, and Boston. Consistent with that, there is non-stop air service to St. Thomas by the major airlines from 10 U.S. metropolitan areas.

The USVI accommodates roughly 2.6 million visitors annually, who spend in excess of one billion dollars annually throughout the territory. When divided across the total hotel guestrooms in the country, this annual spend equates to more than \$700 per available room night. The country's many attractions, much of which is centered on maritime pursuits, have made the area a strong leisure destination and corporate incentive group venue. Several world-class, upscale resorts can be found on the neighboring islands of St. Thomas and St. John, which are supported by a robust transportation infrastructure and Cyril E. King Airport, which serves over 500,000 passengers annually.





## USVI Lodging Market

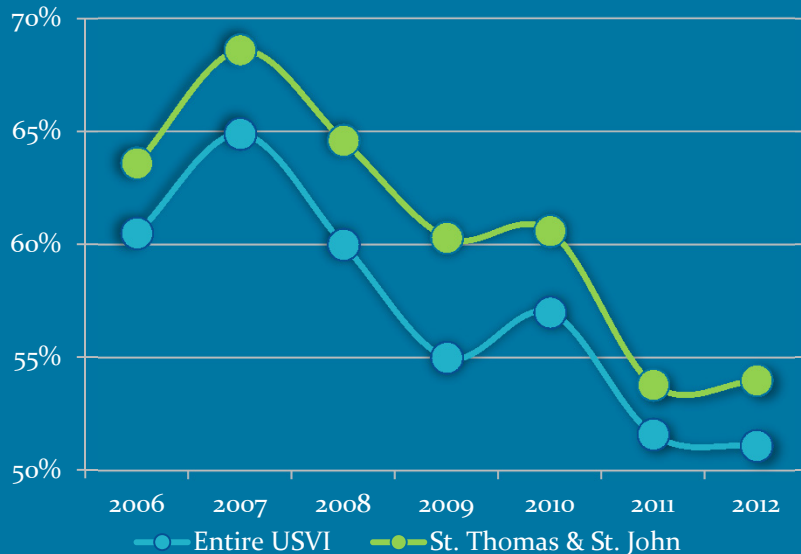
As of year-end 2011, there were 47 hotels with 3,759 rooms in the USVI based on the latest figures available from the USVI Bureau of Economic Research. This includes large resorts like the Marriott Frenchman's Reef, small inns, and even the Maho Bay Tent Camp. Separately, the USVI had a total of 1,130 condominium, guesthouse and timeshare units (rooms) as of year-end 2011 that were rented on a daily or weekly basis. The total lodging inventory for the territory is 4,889 units; however, this number includes only those units registered with the government and excludes those used by owners and/or rented out on a casual or indirect basis.

## USVI Lodging Market

As the following graph illustrates, the occupancy for the entire USVI has fluctuated over the last six years, with performance in 2011 slightly down in part due to Marriott Frenchman's Reef renovation during this time. At less than 150 square miles, the USVI is relatively small in size in comparison to other Caribbean destinations and does not possess a high degree of undeveloped land deemed suitable for development. Real estate, especially prime beachfront property such as the sites for offer on Water Island, is very limited and therefore carries a premium. The scarcity of a critical mass of land that would enable a world-class resort to be developed results in high barriers to entry, preventing an over-supply in the market. As such, the USVI is a stable market with significant upside potential.

As illustrated on the next page, branded supply is now in full recovery in the St. Thomas and St. John markets, which bodes well for any new development located in the vicinity.

Occupancy USVI vs. St. Thomas & St. John



Honeymoon Beach



Flamingo Bay

## USVI Lodging Market

According to Smith Travel Research (STR), as of April 2013, there are 78 lodging facilities with 4,884 rooms in the USVI market, with 30.9 percent of the room supply contributing data to STR. The vast majority of this supply consists of upscale and luxury properties which would be deemed competitive to varying degrees to any new resort on Water Island. These competitors include the Ritz-Carlton St. Thomas, Marriott Frenchman's Reef & Morning Star Beach Resort, Bolongo Bay Beach Resort, Westin St. John Resort, Rosewood Caneel Bay Resort, Renaissance St. Croix, and Carambola Beach Resort & Spa, to name a few.

As evident in the adjacent table, the reporting supply of hotels has outperformed the overall market considerably over the reporting period, with overall increases in occupancy and average daily rate resulting in RevPAR levels exceeding \$200 in 2012. As of year-to-date 2013 through April, lodging demand and average daily rates continue to increase at roughly equate rates, allowing RevPAR growth to reach 6.4 percent over the same period in the prior year.

Historical Operating Performance the USVI Lodging Supply					
Year	Occ.	ADR	% Chg	RevPAR	% Chg
<b>Year-End</b>					
2009	65.7%	\$258.06	--	\$169.48	--
2010	67.0%	\$269.25	4.3%	\$180.36	6.4%
2011	61.2%	\$291.25	8.2%	\$178.13	(1.2%)
2012	68.4%	\$301.62	3.6%	\$206.40	15.9%
<b>Year-to-Date through April</b>					
2012	76.6%	\$373.17	--	\$285.74	--
2013	79.4%	\$383.19	2.7%	\$304.13	6.4%
Source: Smith Travel Research; compiled by REVPAR International					

## Project Information

The two resort sites are owned by the Government of the USVI. As such, they intend to lease them to the successful bidder under a development and long term lease agreement. The intent is for the successful developer/operator to design, develop, construct, operate and maintain the upscale resort for the duration of the lease term. The Government of the USVI is open to extending a lease up to 99 years. The bidder may mortgage its leasehold interest subject to the requirements and limitations set forth in the lease agreement (provided the land remains unencumbered), to be negotiated between the Government and the successful bidder. The specific terms of the development and ground lease agreements will be negotiated with the successful bidder. For the land lease, it is anticipated that the Government will seek to establish a minimum base rent with a percentage above a certain revenue threshold.

## Utilities

Utilities are in place and available on Water Island including electricity and telephone service via Virgin Islands Water and Power Authority and Innovative Communication, respectively. Meanwhile, there is currently no potable water or public sewage system on the island, with the only fresh water source consisting of rainwater collected in cisterns. As such, it is likely that a reverse osmosis desalination water plant, as well as a wastewater treatment plant, would need to be installed, or direct water and sewer lines connecting to St. Thomas be established for the resort. Along with the rest of the USVI, Water Island will soon be able to boast a world class, open access, high speed, fiber optic broadband network which will connect it to the rest of the world; the infrastructure for which is being installed now.



Honeymoon Beach



Phillips Landing

## Project Scope

The Government is encouraging bidders to be innovative and creative in their approach to developing the Water Island sites into a unique world-class resort. At a minimum, the resort should be self-sufficient and of an upper upscale nature, providing a full range of facilities and amenities commensurate with industry standards for this level of self-sufficient operation. Specific amenities and features set forth in the bidder's EOI will be incorporated into the final development/lease agreement. Any ancillary facilities that are required should be set forth clearly in the EOI, as well.

The EOI should consider that the Government of the USVI is desirous of the following in relation to the resort project:

- 1) A turnkey approach (developing, financing and operating the resort).
- 2) World-class upper upscale resort, with recognizable and consistently high standards in services and amenities which will enhance the USVI's reputation as a pre-eminent leisure tourism destination.
- 3) Environmentally friendly/LEED Certification is preferred.
- 4) Current or proposed affiliation with a successful internationally known brand.
- 5) Target guests comprising both leisure transient and group travelers.
- 6) The proposed development should complement the attributes of the surrounding area and the uniqueness of the USVI.



View of Crown Bay Marina from Water Island

## Concessions

The Government of the USVI will:

- 1) grant a term lease to the developer on mutually agreeable terms, on the land(s) which would comprise the resort site(s); the renewal of which will not be unreasonably withheld.
- 2) expeditiously facilitate, subject to the laws of the USVI, the requisite permissions required to proceed with this investment including USVI Coastal Zone Management (CZM) permitting. A CZM permit is required for any development activity in the first tier of the coastal zone.
- 3) consider the grant of additional incentives available under the laws of the USVI, subject to appropriate qualification or conditions.
- 4) consider the lease of additional parcels owned by the Government of the USVI under the deed restrictions implemented by the Department of the Interior.

## EDC Program

The USVI offers very unique tax incentive programs for qualified businesses relocating to their shores through the Economic Development Commission. Benefits for businesses in the EDC program can include up to 90% reduction in corporate income tax, 90% reduction in personal income tax, and 100% exemption on business property tax. Additionally, the EDC Hotel Development Program under 29 VIC 1301 provides additional tax incentives for a limited time period for specific Hotel Development initiatives.



## Proposal Process

It is our intent to use a two-step process in the solicitation, evaluation and award of the project. The first step will be for the bidder to submit a proposal for evaluation by both REVPAR International and the Government of the USVI. After evaluation of all proposals, a short list of up to 3 firms will be made. These firms will be required to make a formal presentation to REVPAR International and the Government of the USVI at a mutually agreeable place and time. Based on the presentation, along with any additional information or clarification requested, we will begin negotiations with the bidder that best fulfills the stated requirements and objectives of the Government of the USVI. Pending the outcome of those negotiations, we will either consummate an agreement with that bidder or commence negotiations with the next bidder.

## Pre-Proposal Briefing & Tour

In order to facilitate your understanding of the objectives of the Government of the USVI, the sites, the desired facilities to be developed, as well as provide you any other information pertinent to providing us with the most complete and competitive EOI submission, we have arranged two site visits and briefings as follows:

1. October, 29, 2013 at 10:00 am
2. October 30, 2013 at 10:00 am

The site visit will include a briefing from REVPAR International and the Government of the USVI representatives, a tour of the subject site and an outbrief to answer any questions that arise during the course of the day. We estimate each site visit will take three to four hours.

Please RSVP for the site visit no later than October 11, 2013 at 5:00 pm EST by emailing Mr. Cylke at [c.cylke@revparintl.com](mailto:c.cylke@revparintl.com).

## Additional Photography of Water Island

[Please click here to view additional photographs of Water Island.](#)



Honeymoon Beach



## Required EOI Content

The following should be submitted by interested parties:

- 1) Letter of Interest.
- 2) Full contact details and corporate profile of the developer.
- 3) Where the investor will not be the developer or operator of the resort, details of the key entities that will be involved in the proposed development (developer, managers and operators).
- 4) Summary and evidence of a proven track record, solid reputation, success, and qualifications and experience in the hotel industry.
- 5) Schematic design and/or conceptual rendering illustrating the proposed development; as well as key elements of the resort project including services and amenities.
- 6) Preliminary Business plan that includes:
  - a) Narrative description of the proposed development, which takes into account the matters outlined in the project scope above.
  - b) Estimate of the project development budget, and evidence of the developer's financial ability to undertake such a project. Detailed financing/funding models, budgeting, and assumptions will also be required at later stages in the process.
  - c) Details of the proposed developmental time line.
  - d) Any additional information that the person(s) considers appropriate to assist the Government of the USVI with a better understanding of its proposal.
- 7) Any additional consideration either in the form of incentives or in the form of additional land development rights.

Please note that, if the EOI is from a consortia or joint venture, information on all entities comprising the consortia must be provided. It must clearly indicate which person is the lead entity of the consortia. The nature of the consortia should be specified, and evidenced by letter or agreement signed by all participating entities.

## Evaluation Criteria

At this juncture, there is no specific evaluation criteria, though only formalized responses adhering to the Required EOI Content as outlined above will be considered.

## Submittal Details

Please submit three (3) hard copies and one (1) electronic copy **no later than November 15, 2013 at 5:00 pm EST** to the following address:

REVPAR International, Inc.  
Attention: Mr. Christopher Cylke  
1020 N. Fairfax Street, Suite 320, Alexandria, VA 22314  
Telephone: 954-376-4754  
Email: [c.cylke@revparintl.com](mailto:c.cylke@revparintl.com)

- Any submittal received after the deadline will be returned to the sender.
- EOI must be in a sealed envelope, which is clearly marked “EOI for Resort Development, Water Island.”
- No faxed proposals are permitted.
- The Government of the USVI and REVPAR International shall not be responsible for the loss or non-receipt or delay in the receipt of any EOI sent by post or courier to REVPAR International, Inc.
- Any and all costs associated with your company’s submission of the EOI including any costs associated with any requested or independent site visits will be borne by you. Nothing in this letter or solicitation should be construed as obligating the Government of the USVI or REVPAR International, Inc. to reimburse you for any costs associated with your submission(s) for this endeavor.
- It is the responsibility of each company to clearly mark any part of the submission considered to be of a proprietary or confidential nature.

## Correspondence

All questions, inquiries, and correspondence associated with this solicitation should be emailed to Mr. Cylke at [c.cylke@revparintl.com](mailto:c.cylke@revparintl.com). Please provide “EOI Water Island Resort” in the subject line. Any information given to a prospective firm concerning this EOI will be furnished to all known prospective firms as an amendment to this EOI, if, in the opinion of REVPAR International, such information is necessary in submitting responses to this EOI. Oral instructions given prior to award are not binding.

*Under no circumstances should you contact the Government of the USVI during the course of this process.* Nothing in this letter or solicitation obligates the Government of the USVI to enter into a development or management agreement with any party. This solicitation may be cancelled at any time without notice.

