



FAQ #1

11/28/14

Water Island Development, LLC (WIDC) would like to have an open and transparent dialog with the community regarding the development proposal, and the reasoning behind the approach taken by the Government of the Virgin Islands (Government) and WIDC.

WIDC has received many comments since the public announcement of the Water Island project. In order to respond promptly and inclusively, we are using a "Frequently Asked Questions" (FAQ) format to provide a summary of questions and our responses to the questions and concerns voiced by members of the community.

The FAQ will be posted on our website:

<http://waterislanddevelopment.com/>

Password: vision

In addition, we are emailing FAQ updates to our growing database of interested parties.

If you received this first edition of the Water Island FAQ by email from us, you are already in the database.

If you did not receive it directly and wish to be added to the database for future emailed information, please sign up on the contact page of the website.

1) Question / Comment:

Does WIDC plan to meet with the community to discuss the plans and receive community based input?

Response:

Yes, WIDC encourages the community to have an open and productive dialog with us. The first community engagement meeting hosted by WIDC, open to all, will be held in January. It will provide an opportunity to discuss details regarding the proposed development.

Notice of the time and place will be posted on our website and distributed to our community database via email, including the Water Island Civic Association and Sprat Bay Homeowners Association members.

2) Question / Comment:

Are there restrictions on what can be built on the parcels that are leased or sold to WIDC?

Response:

Yes, there are a number of restrictions, including:

A. Zoning – all parcels are zoned W-1 and subject to the uses and restrictions of that zoning classification as statutorily outlined in the Virgin Islands Code.

B. Deed Restrictions – the transfer from the U.S. Department of the Interior to the Government imposed a number of deed restrictions, all of which remain in force.

C. Entitlement process – WIDC will be required to seek a number of regulatory approvals including DPNR building permits as well as Coastal Zone Management and U.S. Army Corps of Engineer approval which will provide opportunities for community input.

3) Question / Comment:

I read the Governor's Press Release with interest. Most Water Island residents seem to welcome the proposed hotel. It will be great to have organized services, restaurants and a marina.

However, I was surprised to see that part of the development will include the sale of publicly owned land for residential development. I don't understand why this is included.

Response:

Most hotel resort developments undertaken in recent years, particularly in areas like the Caribbean where construction and operating costs are very high, depend upon the residential sales component to make the resort viable. Lenders and investors are reluctant to finance developments that do not have a residential component. In this case, the proposed five-star boutique hotel concept ensures that the residential component will be composed primarily of high-end villa residences on large parcels, minimizing their impact on the current island environment.

The infrastructure needs for Water Island are immense and improvements will benefit all residents. Improvements include extensive road repairs, water, sewer and power needs, trash and recycling requirements and a fueling facility. A small boutique hotel, by itself, cannot support the level of infrastructure required. Residential development adds to the tax base and provides a source for infrastructure funding.

4) Question / Comment:

*How was the need for a hotel, marina and other development determined?
Was this a public process, including developer selection?*

Response:

Yes, the process has been very public. The Department of the Interior transferred approximately 200 acres of land to the Government with the stipulation that the Government use the property, *"..... to promote economic development of Water Island for the benefit of the U.S. Virgin Islands, including the residents of Water Island. For purposes of this provision, the operation of a hotel or tourist resort on the property shall be deemed a public purpose and the Buyer agrees to make a reasonable effort to have such an operation established. "*

(Source – "Contract for Sale of Real Property" dated 9/12/96).

Beginning in 2012, the GVI embarked upon an effort to comply with the Department of Interior stipulation and to provide "product diversification and re-brandingto broaden USVI tourism offerings while providing permanent jobs and creating business opportunities." *(Gov. John deJongh – 11/19/14)*

The following steps were taken:

- A. The Virgin Islands Department of Property & Procurement (Department) retained RevPar International, a leading hotel consultant, to develop a feasibility study and market analysis to determine the viability of hotel development on Water Island.
- B. RevPar's report concluded that hotel development was viable, but they noted that residential development may be needed to make the resort economically viable.
- C. The Department advertised a public request for an "Expression of Interest" (E.O.I.) from developers. The Expression of Interest was posted on the Government and RevPar websites.

<http://www.governordejongh.com/assets/documents/2013/eoi-resort-development-on-water-island.PDF>

Major media outlets also carried stories of the announcement, to include the V.I. Source, the V.I. Daily News, the AVIS, and the Carib Journal to name a few.

In the first paragraph of the E.O.I. advertised by the Government in September of 2013, all parties were advised that there was the possibility of residential development as a component of the Hotel/Resort development, a priority project for the Government. The Government also indicated that the level of infrastructure improvements would have to be defined. See below.

Excerpt from EOI: “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.”

- D. A selection committee was formed by the Government to evaluate all EOI submissions. The selection committee was composed of key stakeholders including representatives from the Office of the Governor, V. I. Department of Justice, V.I. Dept. of Tourism, V.I. Dept. of Property & Procurement, Virgin Islands Economic Development Authority and the U.S.V.I. Hotel and Tourism Association, along with RevPar International in an advisory role.
- E. The EOI resulted in proposals from three developers. Two rounds of oral presentations followed, which resulted in the selection of the low-density, environmentally sensitive proposal from Water Island Development, LLC.
- F. Water Island Development’s EOI response included the residential component as a key requirement necessary for the economic viability of the development, and in the oral presentations it was made very clear to the selection committee that Water Island could not support a boutique hotel without the development of a significant number of high-end private residences tied into the resort facilities, restaurants, etc.

5) Question / Comment:

I can understand why WIDC requested that the USVI Government include land for residential development. Hotel development is risky, requires a lot of capital and high construction and operating costs make it difficult to achieve a reasonable return on investment without a residential real estate component. But, why would the USVI Government agree to this approach and why sell instead of lease the residential parcels?

Response:

The USVI Government has agreed to this approach for a number of reasons:

Their consultant, RevPar International, indicated this was a typical requirement in current day resort developments, necessary to ensure that the economics of a smaller hotel development will work, given the large infrastructure requirements to make Water Island functional. Residential development was included as an option by the Government in the EOI documents, understanding it was likely to be a necessary component.

One of the Government's key reasons for encouraging development on Water Island is to provide additional revenue to the entire Territory. The development of residential real estate provides significant new real estate tax revenue, helping to support the cost of road repair, utility work, trash facilities, a marina and other infrastructure improvements that will enhance the economic development of Water Island. It will also generate additional construction spending and additional jobs.

Another reason for the Government's encouragement of development on Water Island is to promote the USVI brand, by adding a 5 star hotel which will help encourage tourists and potential residents to bring their business to the Territory.

It should be noted that the precedent for sale of government owned parcels on Water Island was set in 1996 when sub-lessees were granted the right to purchase their lots.

6) Question / Comment:

When I reviewed the various site plans on the WIDC website, I noticed that the Honeymoon Beach plan includes F&B (Food and Beverage) on the Southside and F&B on the Northside and Hotel F&B in the middle. So does that mean Heidi's and Dinghy's get to stay?

Response:

WIDC included F&B locations at both ends of the beach anticipating the potential to work with the current vendors as possible tenants. We are not committing to any specific vendor or F&B plan since this will be subject to discussion with prospective hotel operators; however, our anticipation is a preference for working with existing vendors wherever possible.

7) Question / Comment:

Will the resort be in direct competition with WI residents who wish to sell or rent their homes?

Response:

The development of the hotel, marina and amenities as well as residential development will make Water Island a more attractive and enjoyable place to visit or call home. As a result, the market for Water Island real estate, either for sale or for rent, will grow substantially in quality and quantity. We anticipate that all Water Island property owners will benefit from higher demand and better prices.

8) Question / Comment:

Some Water Island residents utilize Flamingo Bay as an anchorage and landing point for their boats, storage and transportation requirements. How will we be impacted by the new marina?

Response:

The marina will provide clean, safe and modern services, accommodating both deep water/large yachts and smaller, locally based boats.

There will be dedicated areas designed for Water Island based dinghies.

The marina should be able to accommodate most requirements.