



Bermuda Hospitality Industry Snapshot 2016

Safi Capital
INVESTMENT ADVISORY

Building Brands and Accelerating Growth in the Hospitality & Real Estate Sectors
بناء العلامات التجارية وتسريع وتيرة النمو في قطاع الضيافة والعقارات القطاعات



Destination Overview

People often mistake Bermuda as being located in the Caribbean, but it is nearly 1,000 miles to the north. The islands are some 640 miles due east of Cape Hatteras in North Carolina, with the United States' mid-Atlantic area being Bermuda's nearest neighbour.

Flight Time	Hours	Flight Time	Hours
Halifax	2.0	Toronto	3.0
Boston	2.0	Atlanta	3.0
New York	2.0	Orlando	3.0
Philadelphia	2.0	Miami	3.0
Chicago	3.0	London	7.0

Source: Safi Capital Research

Bermuda's climate is tempered by the warm waters of the Gulf Stream and as a result, the islands experience mild seasonal changes with beach and water activities most popular between April and November and golf, spa, tennis and sightseeing during the December to March period.

Being some 20.6sqm in area, Bermuda is in comparison smaller than Manhattan. As a British Overseas Territory, the island has a rich culture and heritage. Indeed, it was settled more than 400 years ago and since then has played various roles as a hub for ship building, a key military and naval post, an offshore business centre and a once thriving tourist destination.

Bermuda has also long been celebrated for its socio-political stability and robust economy and is still well-known for being one of the world's most successful offshore tax havens. Tourism may have generally declined over the past years from its high in 2007, but the Island continues to be a popular tourist destination given its outstanding natural beauty, the appeal of its pink beaches and diving sites; its historical heritage including a UNESCO World Heritage Site; the wide variety of sporting amenities and fixtures including golf championships and yachting races; its unique Bermudian hospitality and the breadth of its lodging product.



Destination Overview

With a population of around 62,000 people and a total GDP of almost US\$ 5.8bn, Bermuda has a GDP per capita of US\$ 94,700 in 2015, one of the highest in world.

Bermuda is home to a thriving offshore financial services industry with no personal, dividend or corporate income tax. A large number of investment funds and (re)insurance companies have also over the years based themselves in Bermuda given the island's political stability, up-to-date legislation modelled on English law and a strong regulatory framework. The Bermuda dollar is pegged to the US Dollar, which infers that the Bermuda authorities cannot conduct their own monetary policy.

The international business activity sector, including (re)insurance accounts for some 25% of GDP and is still one of the main pillars of the economy, albeit that this sector is now seeing ever more increased competition from other financial centres around the Caribbean.

The Bermuda Stock Exchange ("BSX") is likewise one of the world's leading offshore securities market, with a market capitalization of close to US\$320 billion. The exchange specializes in listing and trading of capital market instruments such as stocks, bonds, mutual fund (including hedge fund structures) and depository receipt programs. It has also been granted approved stock exchange status under Australia's Foreign Investment Fund taxation rules and in 2005 was granted designated investment exchange status by the United Kingdom's Financial Services Authority (FSA).

The tourism industry in comparison is lagging far behind many Caribbean islands, contributing reportedly less than 10% to GDP. This has partly been as a result of the lack of past efforts by successive governments to promote Bermuda effectively, especially in key source markets such as the United States and Europe, which accounts for over 80% of all visitor arrivals.

Economic Overview





Economic Overview

According to the Economist Intelligence Unit (EIU), Bermuda is budgeted to achieve real GDP growth of 2.8%, overturning six long years of recession. This growth in economic activity is primarily being driven by an improvement in the external sector and pick-up in exports of services - mainly in travel, insurance and goods.

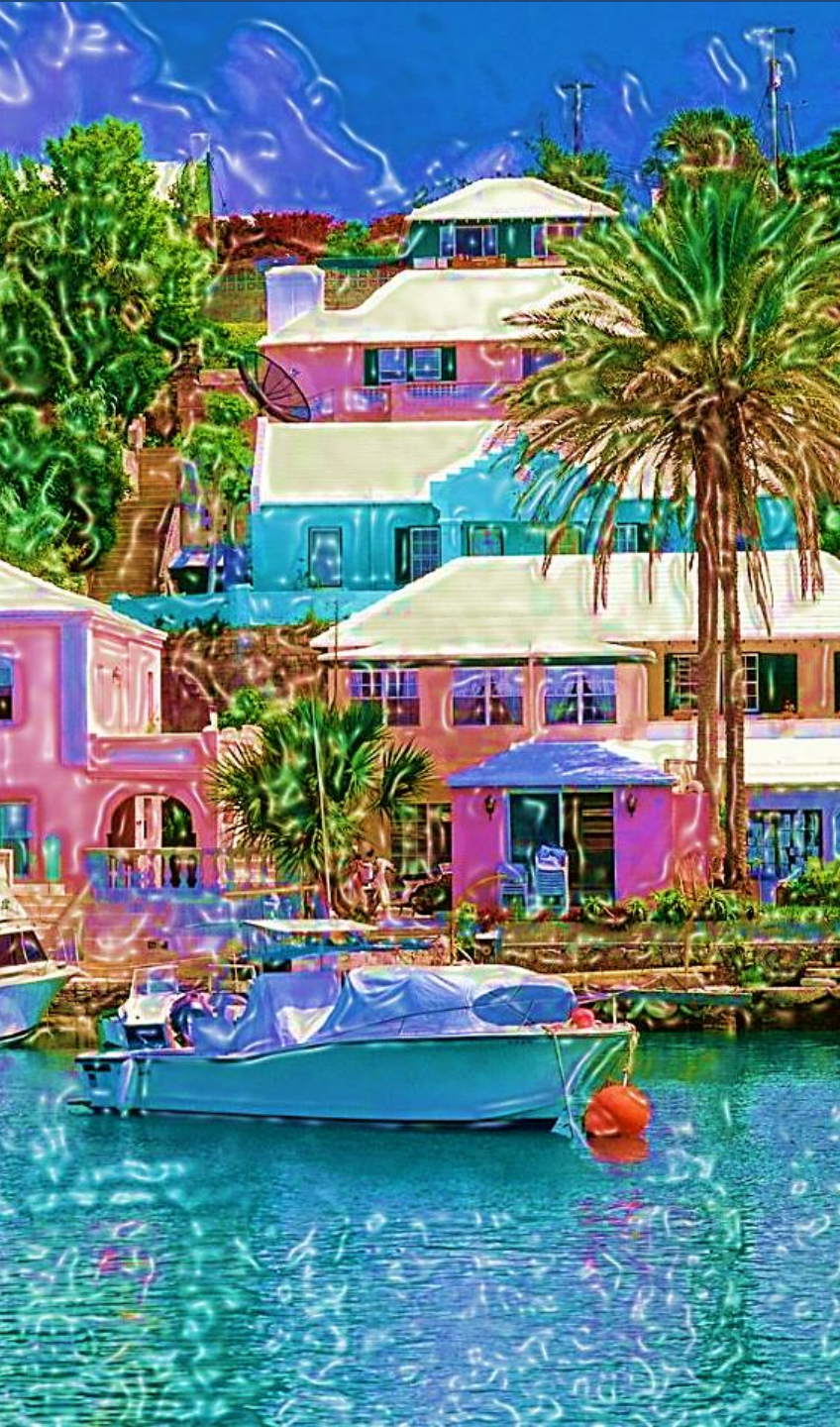
	2011 ^a	2012 ^a	2013 ^a	2014 ^a	2015 ^b
GDP at market prices (Bda\$ bn)	5.6	5.5	5.6	5.6	5.7
GDP (US\$ bn)	5.6	5.5	5.6	5.6	5.7
Real GDP growth (%)	-3.3	-4.8	-2.5	-0.1	2.8
Consumer price inflation (av; %)	2.7	2.4	1.8	2.0	1.4
Population ('000)	63.2 ^b	62.4 ^b	62.0 ^b	61.8 ^b	61.7
Exports of goods fob (US\$ m)	13.5	16.9	13.0	21.0	20.0
Imports of goods fob (US\$ m)	-910	-906	-1,012	-969	-958
Current-account balance (US\$ m)	-360.5	856.9	884.0	816.0	843.4
Exchange rate (av) Bda\$:US\$	1	1	1	1	1.00 ^a

Source: EIU Country Report Bermuda – Q2, 2016

Growth is currently projected to be sustained throughout 2016 and 2017 with improving inward investment, bank credit and further growth in tourist related investment, construction and tourist arrivals.

Several major tourism projects including the upgrading of the main airport is also anticipated to press ahead in 2016-17. The hosting of the America's Cup yacht race in 2017 will similarly boost investment.

The recovery will benefit from an increase in international business activity, improving income from abroad and domestic demand, which is underpinned by the sizeable proportion of high-income individuals residing in Bermuda.



Economic Overview

The recovery does face however strong headwinds, both domestically and from an international perspective. Locally, continued fiscal austerity measures may shrink the public sector and curb job creation and public investment.

The impact of Brexit and any contagion in Europe may also impact negatively on tourism. Consumption growth may also be somewhat diminished by planned tax increases along with a falling birth rate, a decline in the number of foreign workers and high unemployment of around 8%. Growth will be further affected as offshore financial services and insurance firms continue to consolidate in a bid to reduce overheads.

The EIU forecast anticipates an easing of GDP growth to 2.4% in 2016 and 2.0% in 2017 and is slightly more pessimistic than Standard & Poor's estimates in Q1, 2016. Downside risks to this forecast mainly stem from Bermuda's reliance on financial services (particularly the insurance sector), which is subject to highly unpredictable investment flows as a result of market shifts in the global economy.

Any change that might affect the stability of Bermuda's tax and regulatory regime for foreign-based firms could also seriously harm business sentiment going forward. The threat of this has risen to some degree in the light of the recent disclosure of the Panama Papers.

Key Economic Indices & Forecasts

	2009	2010	2011	2012	2013	2014	2015	2016f	2017f	2018f
Economic indicators (%)										
Nominal GDP (bil. \$)	5.81	5.74	5.55	5.47	5.64	5.65	5.85	6.07	6.37	6.43
GDP per capita (000s \$)	88.2	89.6	87.8	87.7	91	91.5	94.7	98.3	103.3	104.3
Real GDP growth	-5.3	-2.1	-3.3	-4.9	-4.4	-0.4	0.4	2.0	3.1	-1.0
Real GDP per capita growth	-5.8	0.5	-1.9	-3.7	-3.7	-0.2	0.5	2.1	3.2	-0.9
Real investment growth	N/A	-14.8	-7.8	-14.5	-2.4	-8.0	22.6	-10.3	3.1	-1.0
Investment/GDP	15.3	13.3	12.70	11.4	11.6	10.7	11.5	11.5	11.50	11.5
Savings/GDP	25.8	25.6	26.3	27	26.5	24.7	26.7	25.6	25.6	26
Exports/GDP	46.5	47.1	47.6	47.3	47.1	51.3	50.4	50.4	50.4	50.4
Real exports growth	N/A	-0.8	-2.2	-5.5	-4.8	8.4	-1.5	2.2	3.1	-1.0
Unemployment rate (%)	4.0	6.0	6.0	8.0	6.0	9.0	7.0	8.0	7.0	6.5
External indicators (%)										
Current account balance/GDP	10.6	12.3	13.7	15.7	14.9	14.0	15.2	14.1	14.1	14.5
Current account balance/CARs	19.0	21.7	23.6	26.5	22.0	23.8	26.4	25.4	26.0	26.5
Trade balance/GDP	-17.3	-16.7	-16.0	-16.2	-17.7	-16.8	-15.1	-14.8	-14.4	-14.5
Net FDI/GDP	-1.4	9.3	-0.3	3.5	-0.1	2.1	-1.1	2.1	2.0	1.9
Net portfolio equity inflow/GDP	-7.0	5.9	-0.70	-23.7	28.6	0.1	-7.7	0.8	0.80	0.8
Gross external financing needs/CARs plus usable reserves	217.1	253.3	272.4	331.7	323.7	351.2	341.6	342.3	336.1	330
Narrow net external debt/CARs	-117.5	-124.1	-124.5	-102	-65.4	-91	-99	-107.2	-116.2	-128
Net external liabilities/CARs	-363.1	-477	-502.8	-495.2	-416.4	-556.5	-560.2	-575.7	-581.4	-592.7
Short-term external debt by remaining maturity/CARs	134.1	174.3	196.5	259.2	246.6	273.1	269.3	269.3	263.2	257.4
Reserves/CAPs (months)	-0.1	0.0	0.0	0.1	0.0	-0.1	0.1	0.1	0.1	0.0
Fiscal indicators (% general government)										
Balance/GDP	-6.5	-4.5	-4.4	-6.2	-5.2	-3.3	-4.0	-3.6	-1.8	-0.2
Change in debt/GDP	4.4	4.8	4.7	3.9	13	-2.1	2.6	1.8	1.5	-0.1
Primary balance/GDP	-5.9	-3.6	-3.2	-4.7	-3.2	-1.3	-2.0	-1.5	0.3	1.9
Revenue/GDP	17.7	19	18.40	16.5	18.3	19.5	18.2	18.7	19.10	20.2
Expenditures/GDP	24.1	23.6	22.8	22.7	23.4	22.8	22.2	22.3	20.9	20.4

Source: Standard & Poor Q1, 2016

Tourism Overview





Tourism Overview

Bermuda is surrounded by coral reefs, pink sandy beaches and some of the best snorkelling and scuba diving in the world. Having hosted numerous events including the PGA Grand Slam of Golf, Bermuda International Film Festival, World Rugby Classic Bermuda and the Newport Bermuda Yacht Race, one would assume that Bermuda's tourism would be up there within the top tourist destinations of the world. However, this isn't the case – or at least, not at the moment.

Airlift capacity is still limited and relatively expensive compared with many other competitive destinations in the Caribbean and Latin America and the authorities haven't succeeded yet in our opinion to effectively promote itself again to the North American and European markets, upon which most of its tourist demand is based. It had rested too long on its laurels and hadn't woken up to the changing and more competitive market environment.

As a result, tourism is far below what we would expect although there is hope for the future. Since the last elections, the government has dissolved its Department of Tourism and created the Bermuda Tourism Authority (BTA), putting tourism marketing into the hands of the private sector.

Efforts are likewise starting to pay off with upgrades for the airport and cruise ship terminal as well as several new upscale hotels being planned. Opportunities to open up airlift further (including to charter airlines) and new source markets, a more open regulatory framework, the creation of two casinos in St George's new hotel development and at the Hamilton Princess will also add to Bermuda's attractiveness. Lastly, greater emphasis on diversifying its leisure product to attract younger generations will also add further impetus to driving additional tourist demand to the island.

The launch of the America's Cup Yacht Race in Bermuda during 2017 is a good start and is anticipated to also raise considerably the profile of this amazing jewel in the North Atlantic.



Tourism Overview

According to the Bermuda Tourism Authority (BTA), total visitor arrivals for 2015 improved by 2.7%, driven mainly through a 6.0% increase in cruise ship visitor arrivals..

Arrivals by air were in comparison down 1.2%, despite a 9.2% loss in airlift to the island, which equates to some 51,000 fewer commercial airline seats. The loss was mainly due to fewer travellers from Canada which reported a decline of 17.2% over 2014 levels due to a more volatile exchange rate and economic challenges. U.S. and UK visitation by air however reported growth of 0.5% and 9.0% respectively.

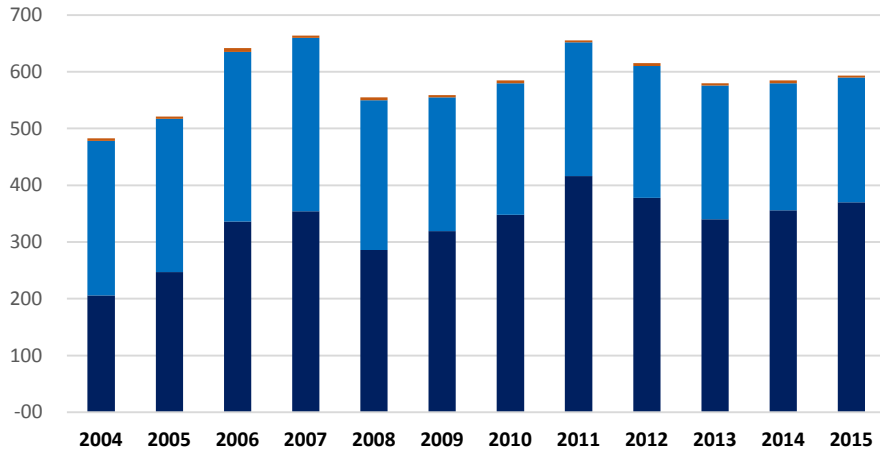
Cruise arrivals have increased for two years running by 4.7% and 3.9% respectively, with a compound annual growth of 1.23% recorded over the five years from 2010 to 2015. This increase is the result of additional calls to the island from cruise lines which have witnessed a 5.0% increase. The United States was the most important source market, accounting for 86% of all cruise arrivals.

Yacht arrivals have declined by 28% compared to 2014. This is mainly attributed to the bi-annual Newport to Bermuda race being hosted in 2014 with 2015 being the off year.

In terms of other pertinent tourism statistics, we would note that the average length of stay has remained relatively constant at around 5.7 days for leisure and 4.7 days for business guests. Typically, UK guests, whether leisure or business added on a couple of days more compared to those from Canada and the United States.

The two largest age categories which visited Bermuda by air were between the age groups of 45 and 54, and 55 and 64, which is relatively understandable given the relatively high costs of visiting and staying on the islands. That said, there is still an opportunity in the future for younger generations to be enticed to the unlimited sporting and leisure attractions that are available on the island.

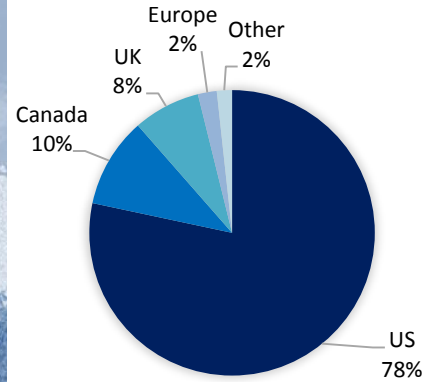
Key Tourism Statistics



Visitor Arrivals (000s)

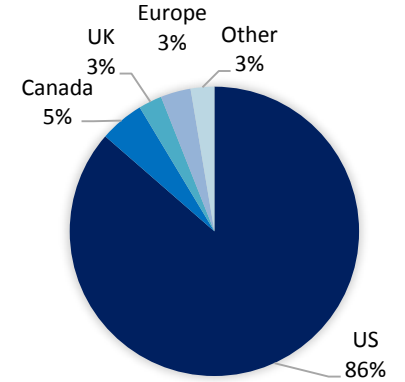
■ Cruise ■ Air ■ Yacht

Source: Bermuda Tourism Authority / Government of Bermuda



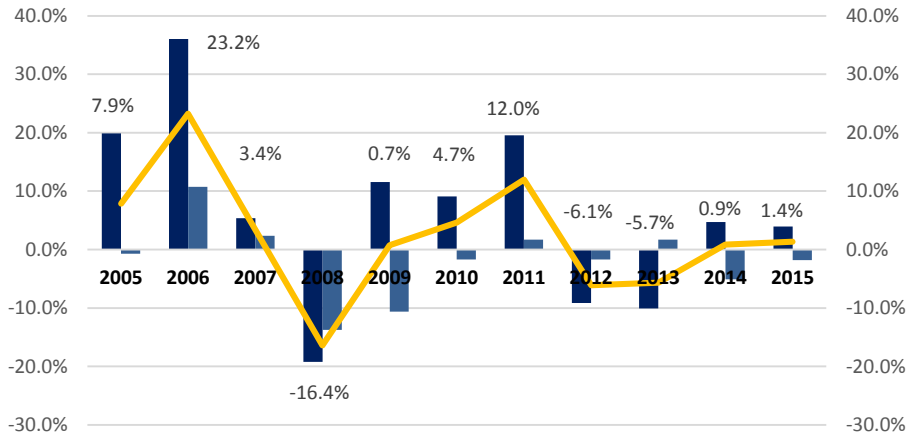
Air Arrivals by Nationality, 2015

Source: Bermuda Tourism Authority



Cruise Arrivals by Nationality, 2015

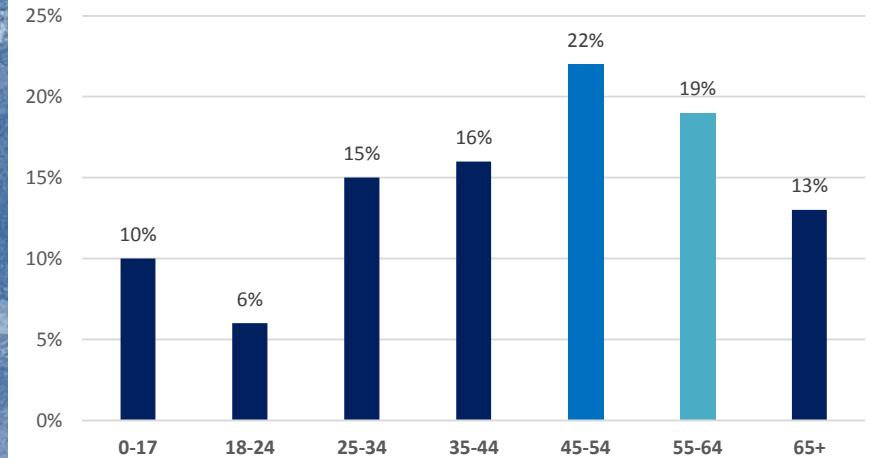
Source: Bermuda Tourism Authority



Visitor Arrivals (Growth %)

■ Cruise ■ Air — Total

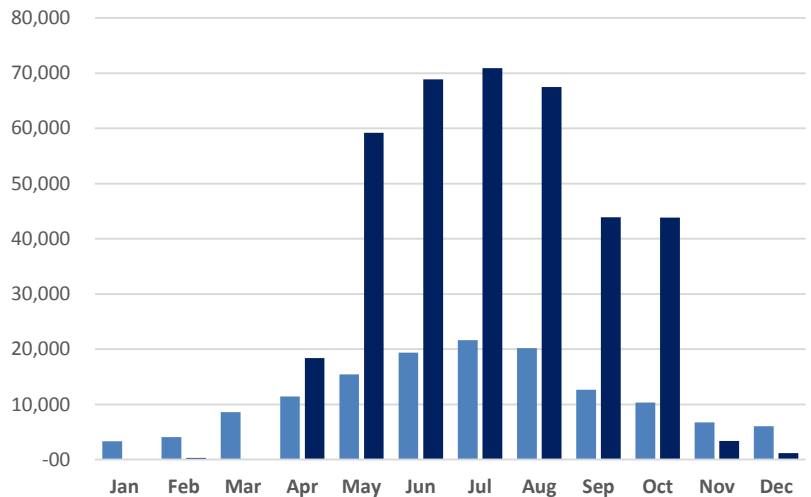
Source: Bermuda Tourism Authority / Government of Bermuda



Visitor Arrivals by Age Grouping

Source: Bermuda Tourism Authority / Government of Bermuda

Key Tourism Statistics



Vacation Visitor Arrivals, 2015

■ Air ■ Cruise

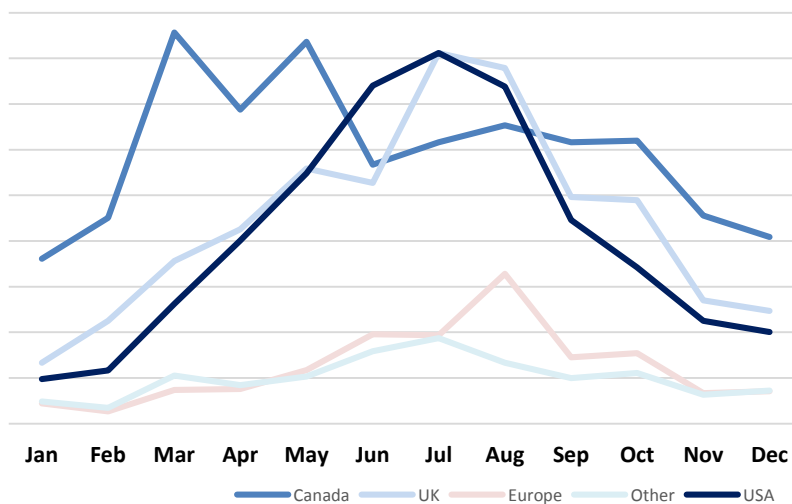
Source: Bermuda Tourism Authority / Government of Bermuda

Visitor Spending 2015	Vacation	Business	Cruise
Accommodation	633.70	672.37	-
F&B	308.83	273.11	18.00
Groceries	62.42	28.38	3.00
Souvenirs	72.36	42.67	49.00
Recreation	95.91	46.69	14.00
Transport/Excursions	73.40	58.03	36.00
Telecommunications	4.67	8.90	-
Other	35.39	25.77	-
Total	1,286.68	1,155.92	120.00

Source: Bermuda Tourism Authority / Govt Bermuda

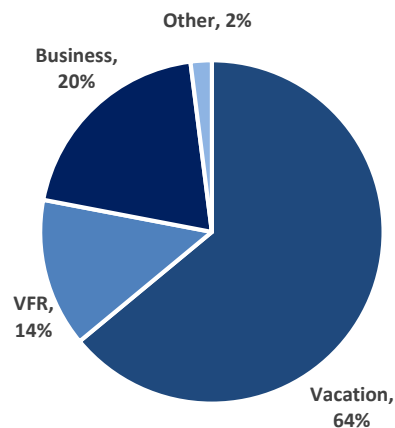
Bermuda Ranking Caribbean Tourism Quality Index 2015	
Absolute Ranking	13
Museums	4
Culture & Landmarks	7
Crime	8
Shopping	11
Nightlife	12
Outdoors	12
Food Experiences	14
Performances	14
Restaurants	15
Amusements	17
Flights	20
Hotels	21

Source: Resonance Consultancy Ltd



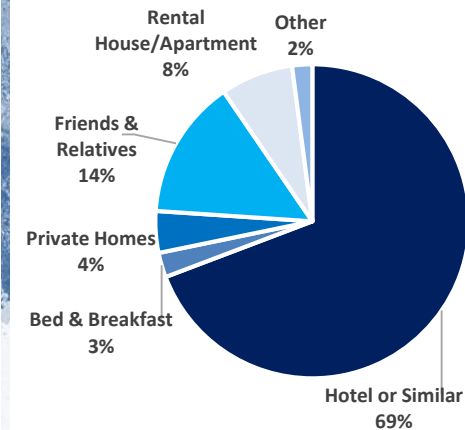
Vacation Visitor Arrival Trends by Month, 2015

Source: Bermuda Tourism Authority / Government of Bermuda



Purpose of Visit

Source: Bermuda Tourism Authority / Govt Bermuda



Accommodation Utilised by Air Arrivals

Source: Bermuda Tourism Authority / Govt Bermuda

Bermuda Tourism Masterplan

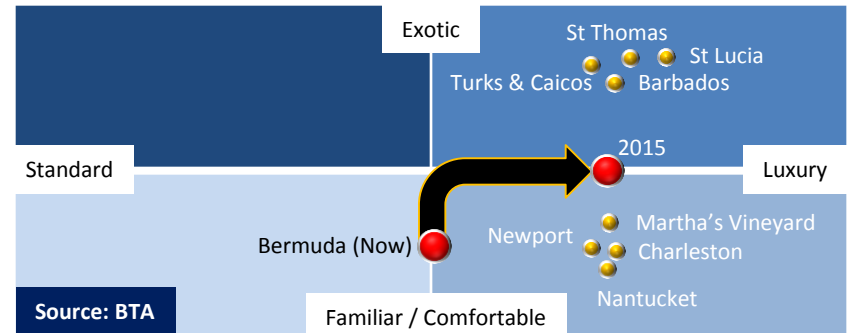




Bermuda Tourism Masterplan

The National Tourism Masterplan, which was developed through collaboration between Tourism & Leisure Europraxis and OBM International with the Tourism Board and Bermuda Department of Tourism was released in 2012.

The 8 key objectives of the plan to be achieved by 2022 include building a unique and competitive positioning; reducing seasonality and building new demand, increasing visitor spending to US\$1.471m, rebalance air versus cruise visitation, improving the quality throughout the tourism value chain, creating some 6,200 direct jobs, supporting business development and investment and creating economic, social and environmental sustainability (US\$513m).



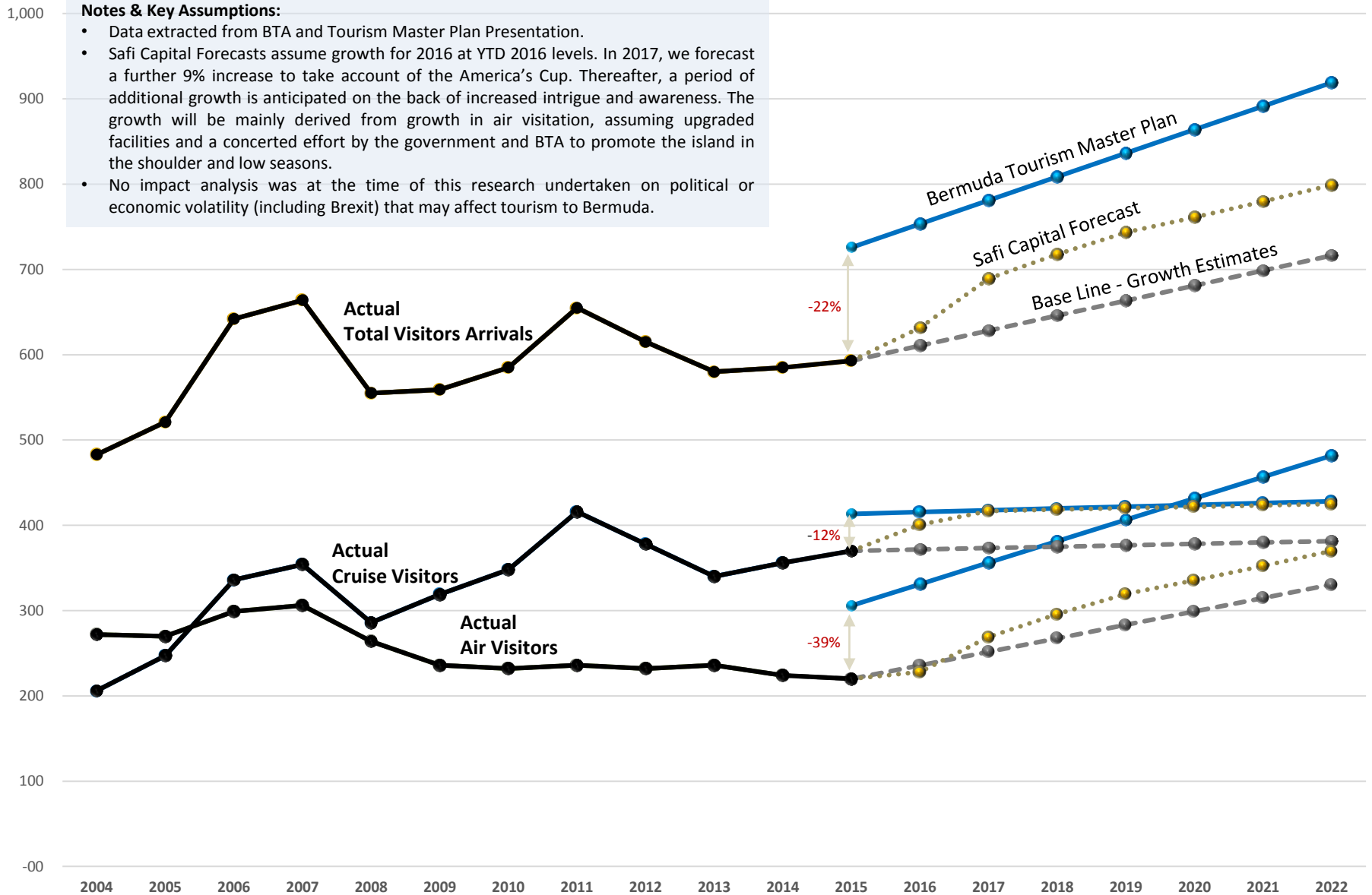
As reported in the Bermuda press, the masterplan is expected to provide a roadmap and help define the consumer's vision of the destination, as well as re-energising the entire tourism industry in Bermuda. This includes communicating a fresh and exciting way to promote the key tourism segments of the island, including: leisure and entertainment, beach, eco and nature, cultural, sports and golf, nautical, cruise, business travel, and meetings and incentive groups.

Whilst the plan has witnessed already several successes in terms of the America's Cup race and new hotels finally being developed – tourism visitation is still far below the plan and will need a mix of good luck and hard grafting to manage to achieve these now optimistic forecasts. Safi Capital have undertaken recently a sensitivity analysis, taking into account a number of factors, including but not limited to current visitation and economic trends and source market analysis which is set out overleaf.

Bermuda Tourism Masterplan

Notes & Key Assumptions:

- Data extracted from BTA and Tourism Master Plan Presentation.
- Safi Capital Forecasts assume growth for 2016 at YTD 2016 levels. In 2017, we forecast a further 9% increase to take account of the America's Cup. Thereafter, a period of additional growth is anticipated on the back of increased intrigue and awareness. The growth will be mainly derived from growth in air visitation, assuming upgraded facilities and a concerted effort by the government and BTA to promote the island in the shoulder and low seasons.
- No impact analysis was at the time of this research undertaken on political or economic volatility (including Brexit) that may affect tourism to Bermuda.



Hotel Market Supply Overview





Hotel Market Supply Overview

Bermuda has a diversified product offering that caters to leisure, corporate and group travellers. The lodging supply is varied and ranges from luxury resorts, to bed and breakfast establishments, to vacation homes, condominiums and cottage colonies.

Lodging supply has dwindled from 53 hotels (2,744 rooms) in 2009 down to some 2,372 hotel rooms, spread across 43 hotels in 2015. In our opinion, this has been principally due to the poor handling of past government's tourism marketing efforts and any effort to sustain and promote the industry in the wake of rising competition from the Caribbean and Latin America; steep construction costs and red tape, high operating costs and a very difficult labour market which has resulted in relatively poor return on investment. This has in turn damaged investor confidence and thwarted until recently, much needed hotel development and investment in the tourist industry.

Key Hotels in Bermuda				
Hotel	Built	Rooms	TripAdvisor Traveller Rating	Operator Affiliation
Fairmont Southampton	1972	593	4.0	Fairmont
The Hamilton Princess	1884	410	4.0	Fairmont
Rosewood Tucker's Point	2009	88	4.5	Rosewood
Elbow Beach, Bermuda	1908	101	4.0	Independent
Grotto Bay Beach Resort	1973	201	4.5	Independent
The Reefs Resort & Club	1948	65	4.5	Independent
Cambridge Beaches	1928	94	4.5	Independent
Newstead Belmont Hills	1923	60	4.5	Independent
Coco Reef Resort	1980	64	4.0	Independent
Pompano Beach Club	1955	74	4.5	Independent
Rosedon Hotel	1908	44	4.5	Independent
Royal Palms Hotel	1910	32	5.0	Independent
Total Rooms		1,823		

Source: Safi Capital Research / Travel Weekly / TripAdvisor

Most of the supply is small and independently run, resulting in an average room size of only some 55 rooms. Fairmont currently manage close to 45% of the total hotel room inventory on the island, with Rosewood being now the only other international operator present following Mandarin Oriental's termination of their management agreement of Elbow Beach in 2014.



Hotel Market Supply Overview

Over the past few years, Bermuda has finally witnessed a resurgence of interest and activity in terms of renovations and planned new hotels.

This started in earnest with the acquisition and US\$100m redevelopment of the Hamilton Princess, which is still undergoing the final touches with the launch of the final new product and beach club (on the old Sonesta site) slated for 2016/17.

The Fairmont Southampton (under separate ownership) soon afterwards began their own US\$11.5m renovations in 2014, as well as further renovations at other properties, including Elbow Beach and a US\$6m refurbishment for Tuckers Point which will undergo work to the restaurants, pool, beach club and marina in 2016.

In terms of new supply, we anticipate a further 5 upscale hotels and some 480 rooms with ancillary residential units to be developed over the coming 4 to 5-years, as set out in the table below:

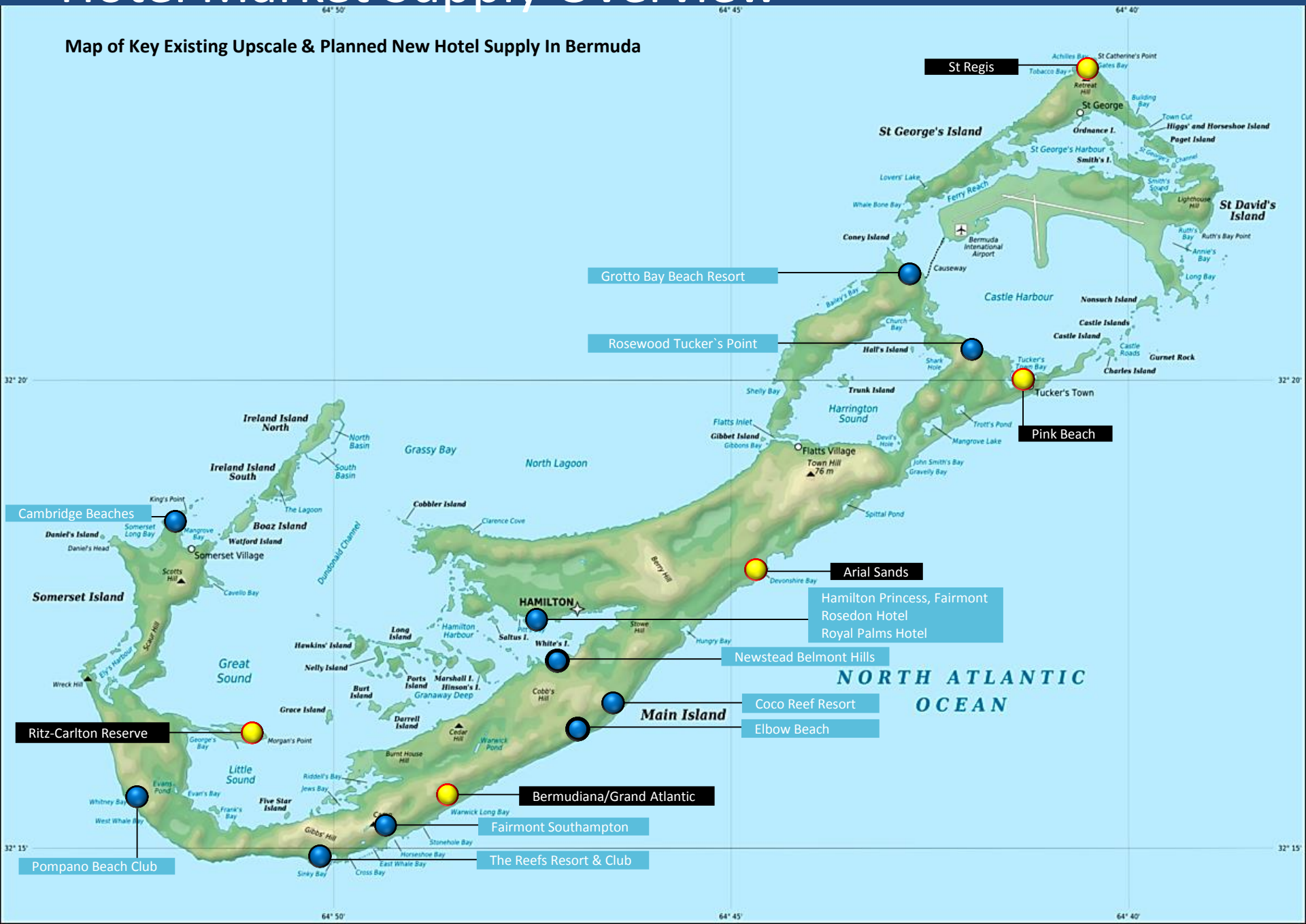
Planned New Hotel Supply						
	Estimated	Hotel			Estimated	
Hotel	Opening	Rooms	Residences	Location	Investment	Operator
Pink Beach Club	2017	94	21	Hamilton	US\$ 51.4m	-
Ariel Sands	2017	85	33	Devonshire	US\$ 85.0m	Independent
Ritz-Carlton Reserve	2018	79	173	Morgans Point	US\$ 400.0m	Marriott
St Regis	2019	122	90	St George	US\$ 120.0m	Starwood
Bermudiana Beach	-	100	145	Warwick	-	-
Total		480	462			

Source: Safi Capital Research

Subject to the success of BTA's tourism strategy, we believe it likely that hotel development in Bermuda will continue to enter a period of development activity linked to the desire to promote and develop quality tourism to enhance further the image of the Island.

Hotel Market Supply Overview

Map of Key Existing Upscale & Planned New Hotel Supply In Bermuda



Hotel Market Demand Overview





Hotel Market Demand Overview

Bermuda's lodging market is said to lag some 18 months behind the lodging trends experienced in the United States. The island is beginning to show some signs of stability post 2009, although it is still too soon to see whether the long term effects of Brexit and any contagion in Europe may have a further knock-on impact in terms of tourism arrivals and hotel performance.

Occupancy levels over the past years have been influenced by island-wide events and the loss of hotel room stock which had caused demand compression during peak periods.

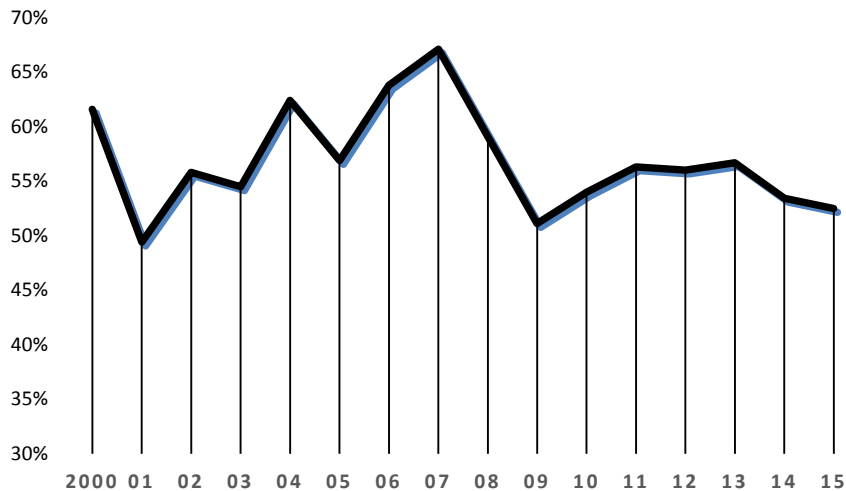
Leisure demand is the largest contributing segment to hotels in Bermuda and generally accounts for the high market occupancy achieved in recent years during the peak months. During the shoulder and low seasons, this market falls away rapidly and becomes more heavily discounted.

The corporate market predominantly emanates around the businesses in Hamilton and whilst small, is an important, high rated business segment, contributing around 8% of total room nights to Bermuda hotels, although can account for up to 20% in more corporate orientated hotels.

Bermuda's niche market is corporate group events and chiefly incentive groups that rely on the health of the global economy, particularly in the United States, Canada and the United Kingdom. Global economic volatility has impacted incentive group demand which has fallen away in recent years. This shift in market segment has caused corporate orientated hotels to start discounting more highly as well as compete with the traditional leisure-oriented hotels on the island for more lucrative leisure business.

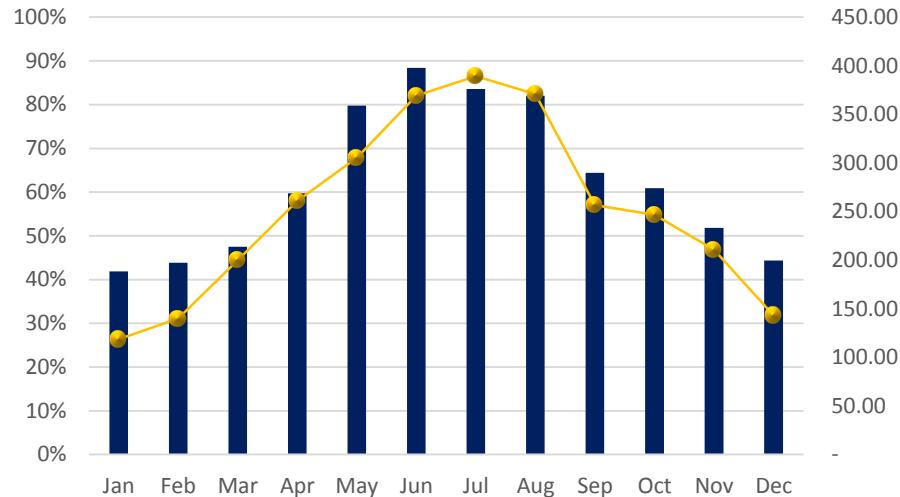
The BTA report that Bermuda achieved for YTD May 2016 a slight increase in occupancy of some 5% YoY, albeit ADR has fallen by the same percentage over the period. Performance indicators based upon Safi Capital research and the BTA is set out overleaf.

Hotel Market Demand Overview



Annual Occupancy (%)

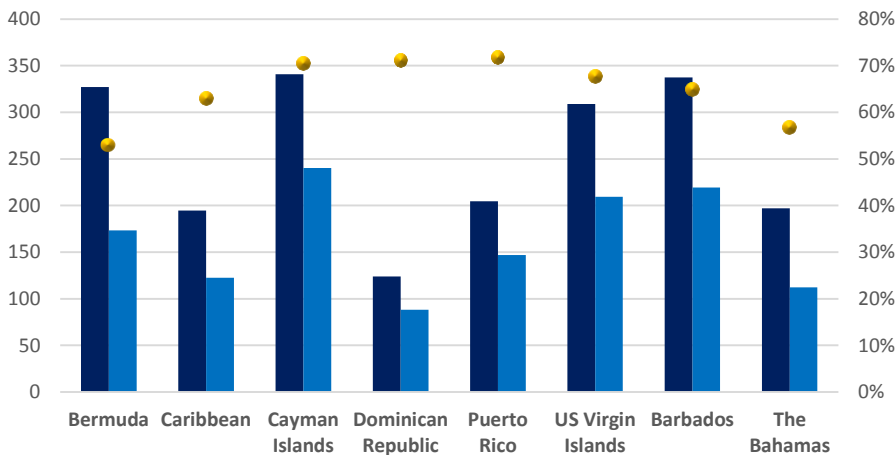
Source: Bermuda Tourism Authority



Combined 3 Year Seasonality Profile – Upscale Hotels

■ ADR ● Occ

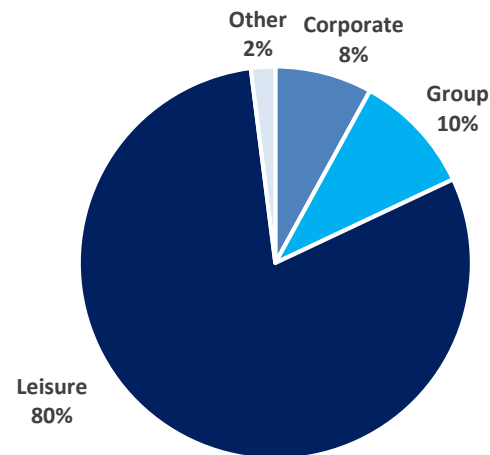
Source: Safi Capital Research



Market Trend Performance

■ ADR (US\$) ■ RevPar (US\$) ● Occupancy (%)

Source: Safi Capital Research



Estimated Segmentation – Upscale Hotels

Source: Safi Capital Research



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