

## Hotel Project – Financing – Community vote – Information sheet

### Background

The Wewaikai purchased the “**Quinsam Hotel**” (2007) as an investment opportunity, along with other potential economic opportunities, *unfortunately the Hotel was lost in a fire in 2016.*

The property was insured; however, under the terms and conditions of the insurance policy, fifty percent of the insurance proceeds are tied to the hotel being rebuilt. To date Wewaikai has received only 50% of the insurance proceeds, in addition to these funds the Hotel property was also subsequently sold. *All of these funds are set aside within our finance department.* Currently \$1.2M of insurance proceeds remains outstanding, these funds will be released at substantial completion of the NEW hotel.

### Community Consultation

Prior to engaging with an architectural firm, we first went to the community and asked a simple question; ***what would you like to see in a NEW hotel.*** We had excellent community turnout and input, we then fed this information to an architect, who in turn developed a **concept design** which was then presented back to the community for further discussion. Since the community consultation process was started, we have hosted no less than six meetings with community members, this was/is a key element to the success of this project going forward. Our design team is committed to Community Engagement and will continue that until we break ground on this project.

### Feasibility

2018 our administration applied for and received funding support to undertake a “**feasibility study**” to determine if a new hotel for Campbell River was a viable opportunity. HVS consulting was commissioned to undertake the study on behalf of Wewaikai, the study was completed and presented to Wewaikai in January of 2019. HVS Consulting is a well established and well-regarded hotel consulting company in the hospitality industry.

HVS among other things determined that ..... “***The proposed subject hotel has an opportunity given its prominent location with high visibility to a regional highway. Based on our market analysis, there is sufficient market for the proposed limited service hotel. Our review of investor surveys indicate that equity returns range from 16% to 26% with an average of 20%.***”.....

At the conclusion of the Hotel Feasibility Study, our administration then requested information and guidance from HVS to seek out potential and interested franchise’s. A list of four potential hotel chains was provided, after some due diligence this list was then short-listed down to two franchises; **Holiday Inn Express** and **Marriot Hotels**.

## Franchise Selection Process

Both Holiday Inn Express and Marriot Hotels were subsequently interviewed by Chief and Council at regular scheduled Council meetings. At the conclusion of these interviews, **Marriot Hotels** were chosen as the best fit for this project. We are fortunate that Marriot Hotels has considerable experience working with First Nations, however, mostly in Alberta region. Once we determined that Marriot was the choice, we proceeded into the **Franchise Application** process with Marriot Hotels. Marriot Hotels has an internal management group that meets on a monthly basis to determine potential new projects, in September of this year, we were informed that our application was accepted.

Marriot then provided our administration with the **Franchise Agreement**, which included terms and conditions of a franchise agreement. The term of the agreement is 20-years from the opening date of the Hotel. A \$75K (U.S.) franchise fee (mandatory) was paid upon completion of the agreement, one of the conditions of the Franchise Agreement is that Wewaikai will receive at "*Substantial Completion*" of the NEW hotel a "**\$200K (U.S.) incentive bonus**". The incentive bonus will more than cover off the franchise fees paid.

## Hotel Management

At our request Marriot Hotels provided Wewaikai with a list of approved Hotel Management companies for our consideration. Again, after considerable due diligence, we narrowed our search to two potential management companies; **Hotel Equities** and **Master Built**, both of these companies are located in Alberta, Hotel Equities located in Edmonton and Master Built located in Calgary. Master Built is currently working with Chemainus FN with a boutique hotel located on their lands. Chief and Council completed our interviews with Master Built and are scheduled to meet with Hotel Equities on January 13, 2020 at a regular scheduled Council meeting. A decision on hotel Management will be made at the conclusion of that meeting, it is most likely that a Hotel Management agreement (with either Hotel Equities or Master Built) will be completed at **the end of January 2020.**

## Hotel Branding

Marriot Hotels is the worlds largest hotel chain, with a variety of hotel brands for varying markets, for this market and this project, Marriot has determined that the best brand for the Campbell River market is a "**Four Points Sheraton**" a full-service hotel with the compliment of **100-rooms**, built over four floors.

**Next Steps:**

The following are key elements in this project and have yet to be completed.

- **Hotel Design**
- **Hotel Financing**
- **Hotel Construction**

**Hotel Design** – Marriot has a **Design Team** dedicated to various elements of the project design and development, we are scheduling meetings early in the New Year to introduce our team to their team and kick-start the Design process and timeframes.

**Hotel Design –Traditional Design Elements**

Marriot and our design team are committed to incorporating traditional design elements into the New Hotel design, we have previously posted information to the community newsletter and website requesting expression of interest from our community artists, to date two such artists have provided our administration with their interest in working on the design component of this project, we continue to encourage others to step forward.

At the end of the day this project will reflect who the owners of the New Hotel are!

**Hotel Construction -**

Most recently our administrator met with and visited a **Horizon North** facility in Calgary Alberta, Horizon North is a modular build company who are very active in the hospitality industry. We are exploring the option to do a modular build hotel versus conventional building methods. As we understand it, the primary difference is speed to market, what that simply means is a modular build could save us 50% of the time to do a conventional build. A 100-room hotel build modular would be 7-9 month from start to completion, a conventional build 16-18 months plus the timeframe for working drawings, bidding and selection process for a general contractor, add another 6-months.

*We will continue our due diligence for construction options as we progress through the design process.*

## Hotel Financing

To date we have received unsolicited interest from no less than 3 financial institutions and the **First Nations Finance Authority**, the three conventional lenders are; **RBC, TD Bank** and **BMO**.

All of these have been provided with our most current financials and other information that they require to assess further their interest in this project.

**To date we have summarized the following general project costs and equity contribution:**

Info	Construction costs estimate	Equity	Debt req	Service
100 room hotel @ \$144 per door	\$14,440.000	Insurance proceeds \$2m		
Includes furniture and fixtures for all rooms.		ISC funding program (max \$3M)		
		Land contribution value to be determined		
	<b>Total Construction \$14,440.000</b>	<b>Total equity \$5M</b>	<b>Total Debt \$9,440.000</b>	

## Construction Costs

Marriot Hotels has been in the business for a long time and knows each market very well and can estimate construction costs associated with each of their brands in various markets, we reached out to our contact at Marriot and they provided information specific to a Four Points Sheraton in a similar market, their estimate was \$144K per key/door.

The Wewaikai however have a tax advantage to the above noted cost estimate, which potentially could bring the debt service requirement down further. However, for this exercise we will rely on Marriott's cost estimate for calculation and other purposes.

## Financial Proformas

To assist in the financial proformas for this project we reached out to the management companies we are currently engaged with (Hotel Equities and Master Built), we reviewed those proformas internally and with our accounting firm (CNB). Even though we are at the early stage of this development, the proformas are sufficient to provide up to date information on market conditions and approaches to hotel occupancy and operational costs.

A budget and proforma for the first 5-years of operations were provided and can be summarized as follows:

item	Year - 1	Year - 2	Year - 3	Year - 4	Year - 5
Occupancy rate	66%	71%	76%	76%	76%
Revenues	\$4.1M	\$4.6M	\$5.1M	\$5.2M	\$5.3M
Expenses	\$2.9M	\$3.3M	\$3.7M	\$3.9M	\$4.1M
<b>Net operating income</b>	<b>\$1.1M</b>	<b>\$1.2M</b>	<b>\$1.3M</b>	<b>\$1.3M</b>	<b>\$1.3M</b>

*It should be noted that the occupancy rates estimated for each year of operation are very conservative, for example in recent years hotel occupancy for the Campbell River market were in the mid 80% range. **However, even with a conservative estimate, the Net Operating income generated by this project is sufficient to service a \$10M debt.***

### **Community Consultation and Referendum**

Because this project is a significant undertaking and the financing required is considered **substantial** Chief and Council, are of the opinion that we seek community support and approval from the membership for the Hotel project financing NOW rather than in the later stages of this project.

### **The Question**

Do you support the Wewaiwai securing construction and take-out financing (borrowing) up to \$10 million dollars for the NEW Quinsam Hotel?

***Please review and provide comments or edits at your earliest convenience, waxa'***