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Frenchman's Reef Near Deal with New Partner to Restart Construction

By Sian Cobb April 13, 2021



The Marriott's Frenchman's Reef Resort, right, closed since the September 2017 hurricanes, is awaiting major repairs delayed by the pandemic, but may see construction resume in July. (Source file photo by Bethaney Lee)

The Marriott's Frenchman's Reef Resort on St. Thomas is close to a deal with a third-party investor that could see the property reopen by the end of 2022, the Economic Development Commission board of directors heard on Tuesday.

William Tennis, executive vice president, general counsel and corporate secretary of DiamondRock Hospitality Company, the resort's owner, told the EDC board at a public hearing on Tuesday that he hopes the deal will close by the end of April and construction will resume in July on the property that has been closed since it was damaged in the September 2017 hurricanes.

Tennis was before the EDC board seeking extensions to waivers of some of DiamondRock's obligations as a beneficiary of the program that grants lucrative tax breaks to companies that qualify – namely that it keeps a minimum of 415 full-time employees and makes at least \$90,000 in charitable contributions annually.

The board voted 5-0 in executive session to continue the employment waiver that has effectively been in place since the hurricanes, extending it through December 2022, and to reduce the charitable contributions to \$33,000 for the same period. It also will require quarterly updates on reconstruction.

The island's four-star resort had been on track to reopen this year with 384 rooms, 85,000 square feet of indoor and outdoor event space and the addition of the new Noni Beach resort, part of the Marriott's Autograph Collection brand.

However, the COVID-19 pandemic halted the \$200 million rebuild in March 2020 while also decimating travel worldwide, leaving DiamondRock with "capital constraints" that prohibit it from completing the project without help from an investor, Tennis told the board.

In 2020, DiamondRock recorded an impairment loss of \$174.1 million related to Frenchman's Reef. In layman's terms, that means they reduced the value of the hotel as an asset on the company's books because they believe future earnings are less than the book value of the hotel. **DiamondRock owns the property**, under the Marriott brand, while Aimbridge Hospitality manages it. DiamondRock pays fees for the branding and management.

"Our company has had severe losses. ... We are simply capital constrained," Tennis said. "We are in discussions with a third-party who would come in as a joint venture partner basically to supply the capital that is needed to recommence and complete the rebuilding of the hotel," he said, though added after questioning by the board that that partner would really be taking over.

"The new partner, let me make no mistake about it, would essentially take over the project and complete the construction and would be the primary owner going forward, although we would remain as a joint venture partner," said Tennis.

"We would have a small minority position," said Tennis, who said he could not elaborate beyond that due to confidentiality agreements surrounding the ongoing deliberations. If negotiations are successful, he believes construction could resume in July, with a 14- to 16-month timeline to completion – barring any disasters such as a hurricane or pandemic.

While the board members lauded DiamondRock's history as an "excellent corporate citizen" of the U.S. Virgin Islands, they also sought reassurance that the property will not end up abandoned or, as board secretary Haldane Davies put it, that "we are not left hanging at the end of the day."

"I don't want to be snowed in the process. I don't want to know that we're here bending over backward trying to accommodate DiamondRock when DiamondRock may just pull out, sell off and we're dealing with somebody new altogether," said board member and Agriculture Commissioner Positive Nelson. "That's just a different ballgame. What we may consider for you, a longtime resident business here in the territory, we would consider differently for someone new."

"We understand the concern," said Tennis, but without a third party, DiamondRock will not be able to restart the project – "certainly not this year, and I could not predict now when we could start the rebuilding because of the impact of the pandemic on our company and the entire industry."

Tennis said, "The impetus is on all the parties" in the pending agreement to open the resort as soon as possible "to start earning income on the asset," and he does not anticipate the new partner seeking new EDC commitments, though there are still "a couple of key issues to work through" and the benefits have not been under discussion.

"It is a necessary business that must open as soon as possible," said board Chairman Kevin Rodriquez, who lauded the company for not giving up despite so many setbacks. "We have 26 planes landing on St. Thomas. You can't find a hotel nowhere. You can't rent a car anywhere. Frenchman's Reef would have filled that void. We have a lot of entrepreneurs

now turning their homes into Airbnbs, which is great, but I think it's needed to have a four-star, a five-star hotel of that magnitude, Frenchman's Reef, to open as soon as possible."

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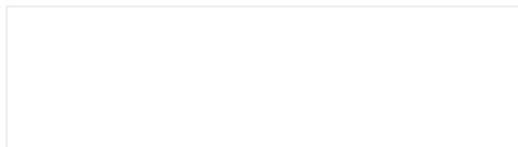


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