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Mainsail refinancing Scrub loan

• Some work, pay on hold

BY MASON MARCUS

James Talton, the senior vice president of the Mainsail Development Group, the developer of Scrub Island, spoke at the Rotary Club of Tortola luncheon on Tuesday, allaying rumours that the controversial development had shut down due to financial problems.

"For about the last 45 to 60 days we have been going through a paperwork exercise and [FirstBank has] assured us we will be getting our next draws about the first of October," Mr. Talton said.

In an interview yesterday morning, the senior VP explained that workers will be paid as soon as Mainsail finishes refinancing its loan with FirstBank, which is backing the developer.

Since workers broke ground, Mainsail has already refinanced

the Scrub Island development twice — once in November 2006 and again in February 2007. "During each, the same rumours went out," said Mr. Talton.

But the difference this time is that the refinancing process has taken almost three months, rather than two to three weeks.

Banking situation

The reason for the delay, said Mr. Talton, is that the international banking landscape has changed and FirstBank's "due-diligence has gone up about ten notches."

"The banking market in general has caused us a little bit of a challenge and that's affected the project," Mr. Talton told Rotarians, adding that "on a global perspective [the company's] biggest concerns have been the gasoline rates, the oil rates, the currency deflation, ... the real estate markets all throughout Europe and the US, and obviously the collapsing banking system."

Because of the stricter standards, Mainsail has had to switch from using a local inspection firm to an international inspection firm, Merrit & Harris, based in New York City.

The developers have also had

to hand over almost 300,000 drawings, as well as contracts and reports. For the auditors and bank to examine these reports and see the site itself takes time, said Mr. Talton. Last week the bank asked to see additional items, such as fi-

nal budget numbers and an engineering log.

Over budget

Despite being over budget — original estimates of about \$75 to \$80 million have escalated to

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between \$130 and \$140 million — Mr. Talton said the project is far from reaching a “worst case scenario.”

“I could name a hundred problems and they all collectively push the budget up,” he said, “but the reality is ... whatever number you aim for you are going to miss.”

Mainsail currently pays monthly interest rates of around \$250,000 to \$300,00 to the bank.

“The bank would not cause

us to go more in debt if they weren't going to [refinance],” said Mr. Talton, adding that the verbal indications were that the auditors will go to the bank next week and, if approved, the development will be funded within the first week of October.

New scheme

During the refinancing process, the bank has asked Mainsail to change the way it is paying for the development. Instead of envisioning the development as a whole, construction will be

broken down into three separate schemes, or parts.

Efforts will be made to finish what Mainsail calls its “core product” — the marina, marina village, welcome centre and pools — by May. “If that gets done, then you have an operating hotel,” he said. Meanwhile, the spa and health club would now be handled as separate smaller projects, the homes and long view residences as an independent project.

Formerly, seed money from the houses was being used to

develop other parts of Scrub Island, such as the reverse osmosis plant, sewage plant and marina village. This is because, Mr. Talton explained, electrical and water infrastructure like lines, pipes and roads were not already in place, and the cost of installing them was built into the price of the homes.

“It may cost me \$1.2 million to build a home,” said Mr. Talton, but “\$800,00 contributes to infrastructure and all the amenities that are there.”

Now, that money likely will be returned to home construction, while the bank will independently finance the rest of the development.

Despite problems with unpaid workers, Mr. Talton was confident the delay would be corrected shortly and that the development overall is good for VIslanders.

“To date, we have spent \$70 million, about 80 percent of which is written to VI companies,” he said, adding, “I sign every cheque.”