

Update from the Executive Committee

January 2022

We hope everyone had a good holiday season and is staying healthy amidst the continuing threat of Covid-19. While rapid spread of the Omicron variant is having some renewed impact on travel in the short term, we do expect 2022 to be closer to a normal (pre-Covid) year than 2020 and 2021.

While the emergence of Omicron created a flurry of confusion and last-minute cancellations and arrival changes, the resort still managed to finish slightly above its 2019 revenue numbers for December.

January bookings have been affected a bit more, running about 85% of the pre-Covid 2019 benchmark, but remainder of the first quarter is at or slightly above the 2019 pace. This is a vast improvement over last year, when bookings were only about 1/3 of pre-Covid levels.

The management company is keeping a close eye on competitors as traffic comes back. For now, it is focusing on offering flexible cancellation policies in preference to discounted rates. Providing there are no more Covid surprises, it expects revenue levels for 2022 as a whole to be similar to the strong performance we enjoyed in 2019.

One unavoidable issue flowing from the highly contagious nature of Omicron is the number of cases among staff. Both the management company and the government are taking extensive measures to boost testing, contact tracing and Covid protocols.

While almost all of the current cases are relatively mild, a positive test result requires a minimum quarantine of 5 days (if vaccinated) or 14 days (if not), so even one positive test among our employees can have a significant impact on operations.

Developers certainly have not been deterred by the impact of the pandemic. Provo is a beehive of more hotel, condo and commercial construction that will come on stream in the years ahead.

However, the opening last summer of the Ritz-Carlton already has triggered island-wide competition for experienced hotel and resort staff, and the poaching has been pushing up salaries sharply. Nor has TCI avoided the supply chain issue, with the global shortage of containers both delaying shipments and pushing up the costs of goods and materials on the islands.

The resulting uptick in both expected rental revenue and costs for salaries and goods led the Executive Committee to approve a 2022 budget at our December meeting that includes a 2% increase in strata fees. These have been unchanged since 2019. Our total annual expenses have risen 8% over those three years, and within the total, our payroll costs are up by 12%.

The strata fee increase, along with the extra \$60,000 in revenue from the new Rental Management Agreement, will let us cover the deficit incurred from the prolonged reduction in strata fees during the worst of the pandemic and our anticipated inflation in costs. That said, we will be keeping a steady eye on payroll and staff retention, and may need to adjust if the island-wide competition for people intensifies.

The Executive Committee also decided to reinstate the Major Reserve Fund assessment starting this month at its previous level. Assuming there is no need to draw on it, this should bring it to our target level of \$500,000 before the end of 2022, at which point the assessment will end.

The Executive Committee had an extensive discussion of potential capital expenditures for 2022 but decided more information was needed on some items. We will hold another meeting in February to finalize that part of the budget, and will send another update after that meeting.

In the meantime, best wishes from all of us for a healthy and happy 2022.

The Executive Committee

Strata Plan # 25

The Sands at Grace Bay