



cutting through complexity

ADVISORY

2014 Caribbean Hospitality Financing Survey

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Introduction

We are delighted to present KPMG's 10th annual Caribbean Hospitality Financing Survey, highlighting lending trends in the region's hospitality and tourism industry and the outlook for the future of the industry.

To recognize this special 10th anniversary of this Survey we thought we would "mix things up" a little bit this year by expanding the survey base beyond lending institutions to equity investors and non-bank capital providers.

Whilst the general underlying theme amongst both groups of financiers, bank and non-bank, remains conservative with little expectation of any meaningful growth returning in the short-term, there are definite signs of cautious optimism.

Our annual Caribbean Financier Confidence Barometer, which measures the level of confidence of financiers for the next 12 months, is always one of our very best indicators of prevailing sentiment. It is now at its highest level since 2008 representing the fifth year in a row that confidence has grown amongst banks. Furthermore, our new community of non-bank Survey

participants is appreciably more confident than banks.

However, it is clear that all lenders remain cautious. When asked to indicate what best describes their outlook for the next 12 months from a variety of options linked to our "Uncovering hidden treasure" theme, 50% of both bank and non-bank populations fell firmly in the "I need a clue" middle of the range. On a positive note, however, those who chose to deviate from this option were more inclined to choose the "I'm making good progress" option rather than "I've lost the map!"

How are we to interpret these findings?

Continuing with the hidden treasure theme, not a single participant felt they had found the treasure chest and so it appears we must all be careful not to "give up our day job"!

We reiterate that cautious optimism appears to be the prevailing sentiment. We cannot rely on winning the lottery but the lending environment continues to improve. Fingers crossed, we appear to be over the worst and can look forward positively to the future.

If you have any questions concerning this survey please feel free to contact us.

We would like to take this opportunity to thank, once again, all the participants in this Survey. We very much appreciate your continued support and invite you to encourage others to participate as obviously the more feedback we have the more valuable our findings will be.

Sincerely,

KPMG's Caribbean Travel Leisure and Tourism Group



Simon Townend
Partner

KPMG in
The Bahamas



Gary Brough
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**Charlene
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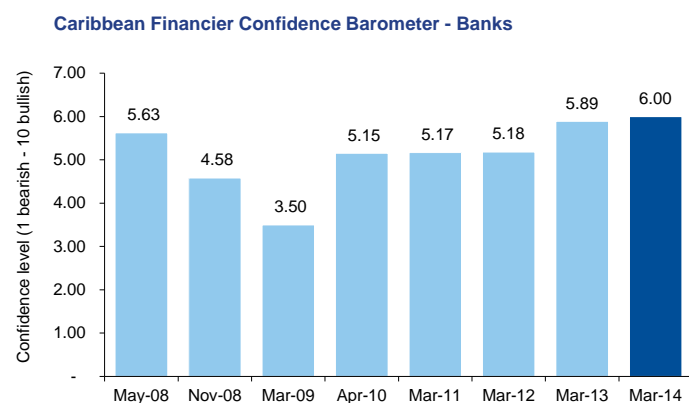
KPMG in
The Bahamas

Industry Outlook

We appear to be at an interesting stage in the economic cycle. It certainly seems as if we are over the worst effects of the economic crises and lenders are generally looking forward positively to the future, albeit with cautious optimism.

Lenders are more confident than they have been for nearly a decade and most believe that meaningful growth will return to the Caribbean as early as 2015. Non-banks are even more confident than banks although they believe that it will be 2016 before meaningful growth returns. Either way it seems that growth is close at hand.

On a scale of 1 (bearish) to 10 (bullish) bankers' confidence in Caribbean tourism for the next year is higher than it has been for many years. Our Caribbean Financier Confidence Barometer shows a rating of over 6 for 2014 which is higher than at any time since before 2008.



Source: KPMG International, KPMG's 2014 Caribbean Financing Survey

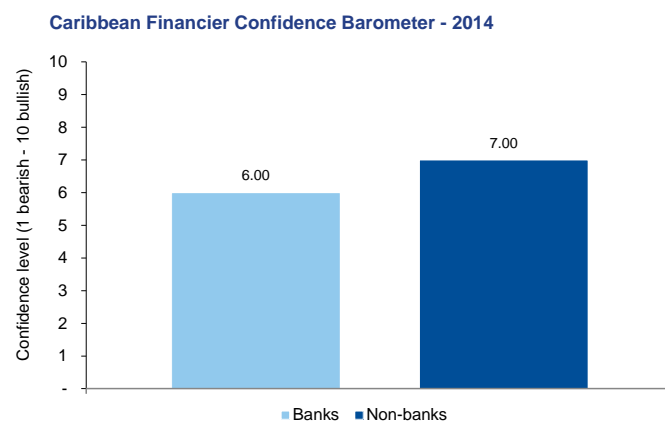
As can be seen above confidence levels reached an all time low in 2009. However, our Caribbean Financier Confidence Barometer has now risen for the fifth year in succession and if the current trend continues it is likely to double 2009 levels.

It really does look like the worst is over and that the Caribbean region can now look forward positively to the future having endured several years of restructuring, cost cutting etc.

"Tourism sector assets are considered more attractive with more upside value having seen substantial discounts in recent years."

"Most properties are repositioned to be competitive and the economic crisis really shook out the weaker operators in the region."

Non banks are even more confident than banks.



Source: KPMG International, KPMG's 2014 Caribbean Financing Survey

Whilst not wishing to "bite the hand that feeds us" we must recognize that banks are not renowned for their optimism (!) but equity and mezzanine finance are generally more difficult to secure than bank finance so it bodes well for the future that non-bank confidence levels are currently running so high.

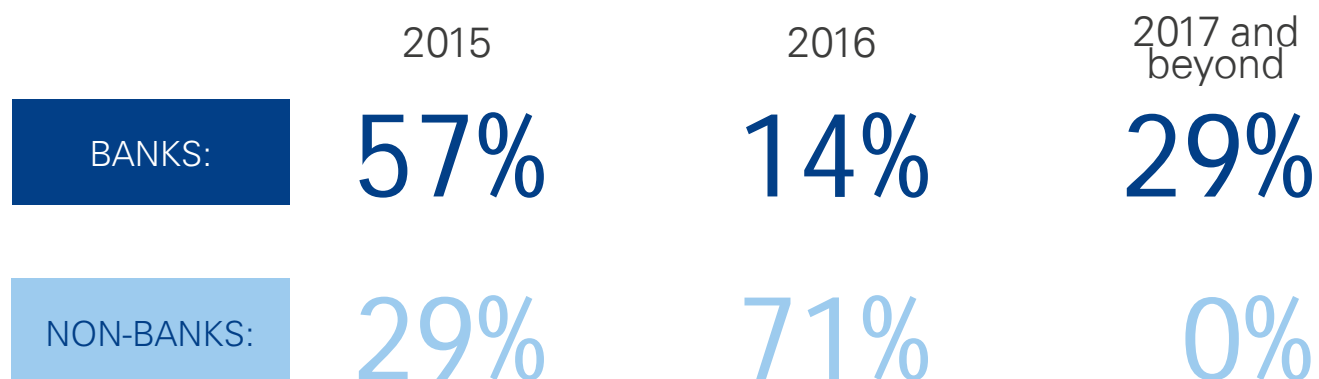
"Debt is still hard to find but it's time to invest."



When will meaningful growth in tourism return to the Caribbean?

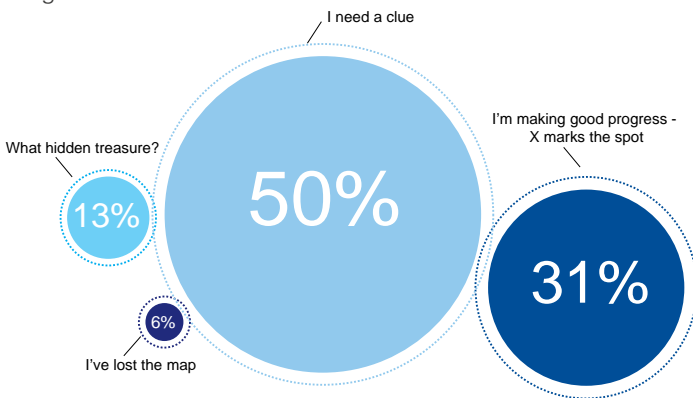
More than half the banks surveyed think that meaningful growth will return next year although nearly a third do not think growth will return until 2017 and beyond.

Most non-banks think meaningful growth will not return until 2016 but all non-banks surveyed think that growth will return before 2017





When asked what the outlook was for the industry over the next 12 months using the “Uncovering hidden treasure” theme where “Yippee! Found it. I’m rich” represented the most bullish outlook and “What hidden treasure?” the most bearish outlook, half of both bank and non-bank respondents were cautious and opted for the safe “I need a clue” option at the middle of the range.



Source: KPMG International, KPMG's 2014 Caribbean Financing Survey

Encouragingly, those participants who opted to move away from this safe option gravitated to a more bullish “I’m making good progress” option rather than “I’ve lost the map” but no-one felt like they had found the treasure chest and so clearly there is no quick fix!

Some of the most interesting comments we received were in response to our question about untapped geographic markets and new concepts.

Latin America and Asia appear to lead the way in terms of new markets.

“Latin America will increasingly become an interesting market – especially Colombia, Brazil”

Non-banks were even more vocal.

“China, Hong Kong and Singapore. The days of London, New York and Tokyo are yesterday’s news.”

“Growth in both economy and welfare is currently located in Asia, that’s where the money/capital will be coming from.”

The hot topic of economic citizenship received a lot of attention. Generally, the potential of this concept was recognized but questions were raised about its sustainability .

“Short term – economic citizenship for countries that care to harbor capital flight. Not sustainable in long-term.”

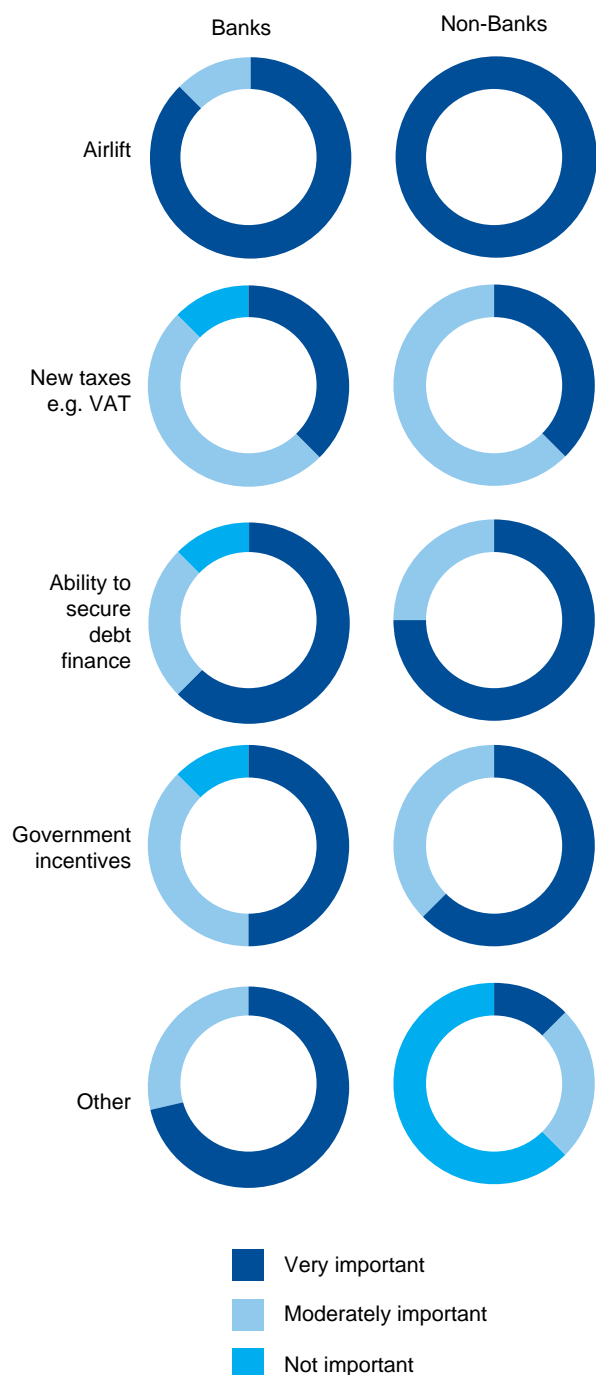
“The citizen structured transactions likely have certain reputational risks for the lending community, which will likely prevent major traction for this initiative.”

Little concern was expressed concerning the significant new inventory that will be introduced to the market in late 2014/early 2015, most notably with the opening of the Baha Mar project in The Bahamas. Other than a comment that existing inventory in The Bahamas may be negatively impacted the consensus appears to be that this is a positive development for the region, raising its profile and bringing economic benefits.

“Will bring press coverage back to the area.”

“I believe that new properties will have a positive impact on the region’s market. New properties will also positively influence the market as investors like to follow others.”

When asked to identify the current issues of critical interest to hoteliers the bank and non-bank communities were consistent in their views. Airlift was clearly identified as the most critical issue and the availability of debt finance was an equally clear second most critical issue.



Numerous other issues were raised such as the need to maintain competitiveness, investing in infrastructure, proper funding of destination marketing and there was a very clear message on the negative impact crime can have on the industry.

"Crime most important of all."

"Impact of crime"



Financing Trends

Last year when we asked banks what properties they had lent to in the previous year it was clear that there had been very little activity. One bank even stated that it had “no interest in the sector currently”.

This year is different. There has been some lending activity but that lending has been very cautious and generally restricted to established brands in strong markets with no apparent interest in greenfield developments. This would appear to be a natural progression in the lending cycle as banks move from virtually zero lending activity to “dipping their toes in the water” again.

“Projects in strong markets with a strong developer and strong brand.”

“Prime location, dominant hotels with established operators and brands.”

“Property acquisition and renovation loans have been the bulk of lending activity. There have been no new “greenfield” building loans in our portfolio in this region.”

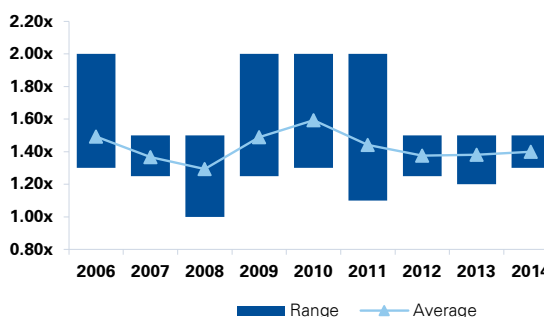
When looking at which locations in the Caribbean banks are most bullish about in terms of lending and the reasons for their choices, a cautious theme is again prevalent. Aruba featured heavily because it is considered to be stable with a government that has a vision. Cayman received honorable mentions for similar reasons. The Turks and Caicos Islands and the Dominican Republic also scored heavily because of strong airlift. For the non-bank community, The Bahamas joined Aruba and the Turks and Caicos Islands as favored jurisdictions with proximity to the US cited as one of the attractions.

“Aruba – stable economy, government with clear vision and strategy.”

“Turks and Caicos Islands and the Dominican Republic – good airlift, positive operating trends.”

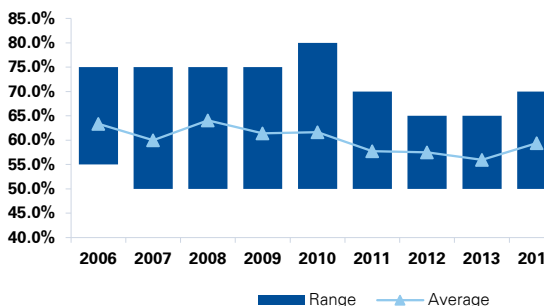
Average loan terms have become more favorable although there have not been any dramatic changes in the ranges seen.

Debt service coverage ratio



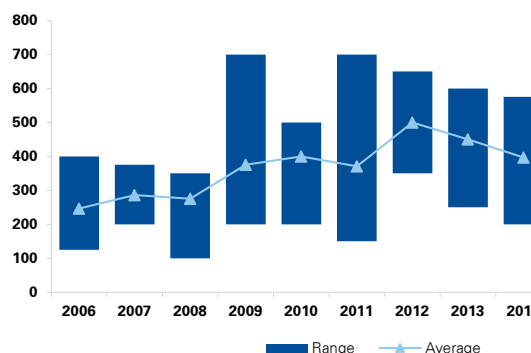
Source: KPMG International, KPMG's 2014 Caribbean Financing Survey

Loan to Value



Source: KPMG International, KPMG's 2014 Caribbean Financing Survey

Interest rate margin (bps)



Source: KPMG International, KPMG's 2014 Caribbean Financing Survey



Non-bank survey participants

The introduction of non-bank participants to our Survey represents a new and welcome development and we hope their involvement is here to stay.

Their responses are well documented elsewhere in this Survey but generally they appear to be more optimistic about the future than banks and more bullish about the potential of new markets and new products.

However, in support of the banks' position they have generally been in the region for much longer than non-banks. We actually challenged the non-banks on this point citing several periods in the past where new financiers entered the Caribbean marketplace but exited quickly when the economy took a downturn. Generally the responses from non-banks was to attribute this to the nature of the industry.

"The hospitality sector is a very unpredictable sector which makes it less attractive to invest in. By definition this makes it difficult to consider it a sustainable venture."

"The comeback in the Caribbean has been lagging the mainland market. Deals are now scarce on the mainland and the Caribbean is seeing capital investment again."

Our Survey included other questions aimed exclusively at non-banks.

When we queried whether, when investing in the Caribbean, non-banks are concerned that the deals are too small and there is insufficient scale to make the investment worthwhile there was general disagreement with this sentiment.

There was less opposition when we asked whether, for those not familiar with the region, it is just "too difficult" to do business in the Caribbean.

"Different jurisdiction and unfamiliarity with the laws can make a country less attractive to work in."

In terms of financing projects, non-banks tend to look for an IRR of at least 20% and to use capitalization rates/yields of at least 10%. The average hold period is around 10 years although debt parameters such as DSCR and LTV are in line with those of banks.

Uncovering hidden treasure

Survey participants were asked what assets are we not exploiting and what opportunities are we overlooking?

We received several very innovative responses. A recommendation that greater emphasis be placed on the history and culture of the region featured strongly in those responses identifying under-utilized assets.

“Historical and cultural aspects of the islands”

“Greater emphasis on our region’s history in tourism offerings”

Ecotourism, sports tourism, lifestyle, health tourism and music tourism all received honorable mentions.

However, there were also some reality checks regarding the need to improve infrastructure and technology in the region and how important such factors are when considering what represents an ideal destination.

“The Caribbean still struggles to deliver the level of service that you typically experience in other markets, for example the lack of island infrastructure – poor airports with long customs lines.”

“A destination island with modern infrastructure, improved technology and well presented draw factors to support year round tourism.”

Non – bank responses echo these sentiments and concentrate on the technology and environmental issues.

“More eco-friendly tourism. Use alternative energies.”

10th anniversary

As this is the 10th anniversary addition of our Financing Survey we invited respondents to reflect on the last 10 years and share what they considered to be the major changes over the last decade.

It seems to be an appropriate conclusion to this Survey to share with you some of their responses in this regard.

“Risk awareness changed dramatically – fewer international lenders present in the Caribbean.”

“Shift to all-inclusives, growth of gaming.”

“Financial crisis finally over.”

“It’s been a very tough 10 years!”

“That’s the problem. It’s stayed the same!”



KPMG's Caribbean Travel, Leisure and Tourism Contacts

Please contact the KPMG member firm represented in your country if you have any questions. KPMG member firms are represented in more than 15 countries in the Caribbean region, and have a specific knowledge and understanding of the business, cultural, economic and political facets of conducting business in each country.

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