KPMG

2017 Caribbean Hospitality Financing Survey

Travel, Leisure & Tourism

April 2017

Introduction

We are delighted to present KPMG's 13th annual Caribbean Hospitality Financing Survey, highlighting financing trends in the region's hospitality and tourism industry and the outlook for the future of the industry.

As we have mentioned previously the expansion of our survey beyond just banks to also include non-bank capital providers such as equity and mezzanine investors has been a welcome addition to our survey. Typically non-banks have provided a significantly more confident outlook about the prospects for Caribbean tourism than banks but this year we have noticed a much closer alignment of positions. Confidence levels of banks have increased for a very impressive eighth year in a row but confidence levels of non-banks have declined slightly for the second year in succession. Overall non-banks remain slightly more confident than banks registering 7.00 out of 10 in terms of their level of confidence versus 6.83 out of 10 for banks but this marginal difference of 0.17 is greatly reduced from a difference of 1.67 back in 2015 when non-banks registered a confidence level of 8.17 versus 6.50 for banks.

The steady increase in confidence of the banks appears to reflect their relative success at working their way out of an extremely difficult period for them following the 2007 recession. Initially they embarked on a very cautious path financing renovations and expansions primarily for existing, established clients. Now they appear to be taking a slightly less cautious path with acquisitions now being given favorable consideration and even some new builds.

For many years we have been highlighting the difficulties in securing financing for tourism projects in the Caribbean but when we asked whether respondents agreed that the general high level of optimism and favorable economic environment does not seem to be translating into readily available capital we were pleasantly surprised that 63% of bank respondents disagreed with this sentiment although only 29% of non-banks disagreed.

Furthermore we received very positive feedback generally in terms of financiers' appetite for issuing senior debt not just for expansions and renovations but acquisitions and also in some cases new builds, the banks surprising us again with an apparently greater appetite for the latter than non-banks.

However major challenges still remain. There are clear obstacles holding back the flow of capital with airlift, crime and utility costs again cited as the most critical issues impacting financing activity in the region.

Canadian headquartered banks have for many years been the primary financiers of developments in the region's tourism industry. However it is now firmly established that the landscape has changed.

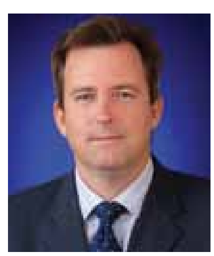
For the second year in a row there was virtually unanimous agreement amongst both bank and non-bank respondents that there has been a change in the "major players" lending in the region and that the long-term traditional lenders are not as dominant as they once were. Also for the second year in a row the banking community were more inclined to believe that this change is a fundamental and sustainable change.

The new landscape, featured extensively on page 4 of this survey, involves more financiers who typically favor a select few jurisdictions rather than the funding of projects throughout the region.

Overall, whilst it is far too early to be making any widespread conclusions it does appear that we are seeing the banks make something of a comeback. They are more optimistic and are willing to look at acquisitions and in some cases, new builds albeit in a new landscape which they, even more than non-banks, believe to be the "new normal".

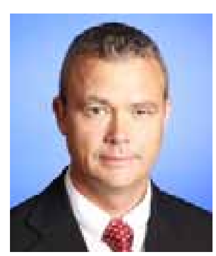
Gary Brough
Head of Travel, Leisure & Tourism

KPMG Islands Group



Simon Townend
Head of Advisory

KPMG Islands Group



Steve Woodward
Managing Director

KPMG in Bermuda

Charlene Lewis-Small
Director

KPMG in The Bahamas

Industry Outlook

Confidence levels remain high

In fact confidence levels for banks have increased for the eighth year in a row.

Interestingly the confidence levels of banks and non-banks have become more aligned. The confidence levels of non-banks are still slightly higher than for banks (7.00 out of 10 versus 6.83 out of 10) but they have nonetheless decreased for the second year in a row.

The steady increase in confidence of the banks appears to reflect their relative success at working their way out of an extremely difficult period for them following the 2007 recession. Initially they followed a very cautious path financing renovations and expansions primarily for existing, established clients. Now they appear to be taking a slightly less cautious path with acquisitions now being given favorable consideration (page 5) and even some new builds.

The final position of our survey showing confidence levels of banks and non-banks very closely aligned with non-banks slightly more confident is an accurate reflection of the feedback generally from our respondents from both banking and non-banking communities.

There is virtual unanimous agreement amongst banks and non-banks that there has been a change in terms of who is now lending in the Caribbean, specifically that the long-term traditional lenders are not as dominant as they once were.

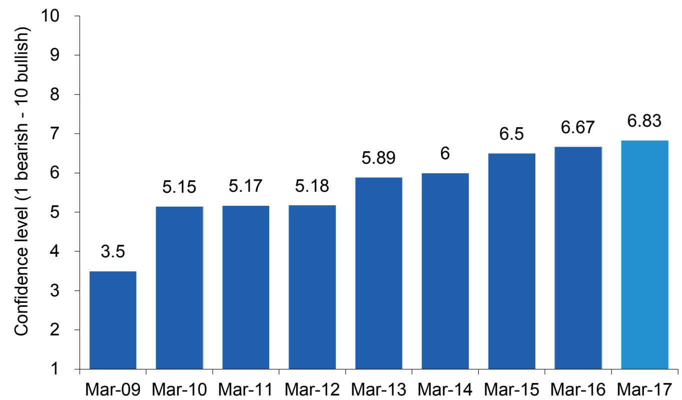
Somewhat surprisingly 71% of bank respondents versus "only" 43% of non-bank respondents believe that this change is a fundamental and sustainable change.

Even more surprisingly is that when we asked whether respondents agreed that the general high level of optimism and favorable economic environment does not seem to be translating into readily available capital 63% of bank respondents disagreed whereas only 29% of non-banks disagreed.

Comments from those that believe capital is available include:.

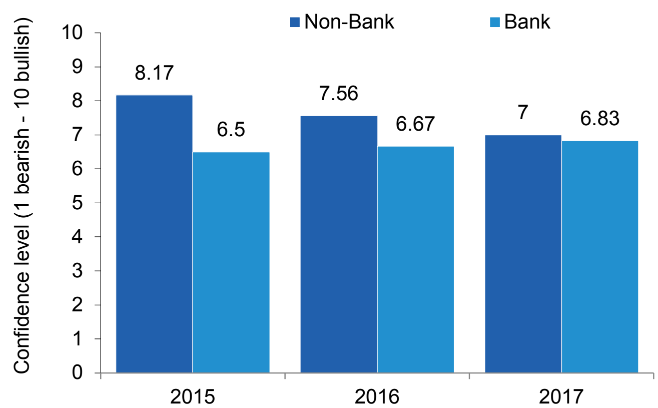
"Capital is available, but only on a very select basis."

Caribbean Financier Confidence Barometer - Banks



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

Caribbean Financier Confidence Barometer



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

"We still believe in growth for the Caribbean…"

"The balance of debt/equity is still the critical factor, rather than the absolute availability of either source."

And from those who believe capital is not readily available.

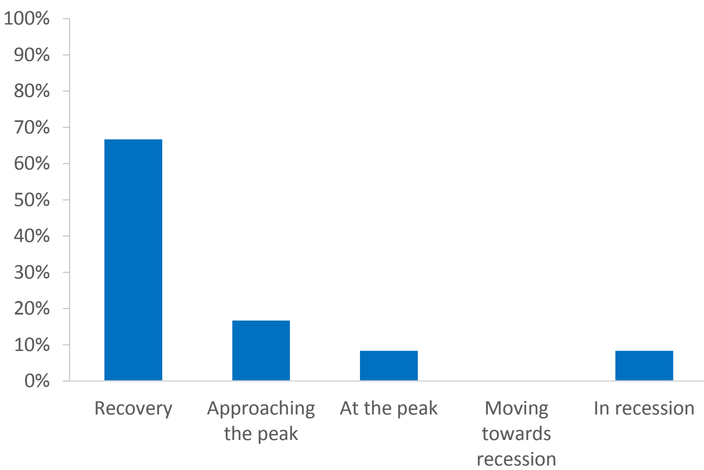
"Banks are still reeling from financing projects prior to GFC; many of these were poorly conceived without real strong sponsors willing to support financially."

"Risk remains high for investors who require near term returns. Investing in hospitality and resort projects in the Caribbean attracts 'vanity' investors."

State of economic cycle

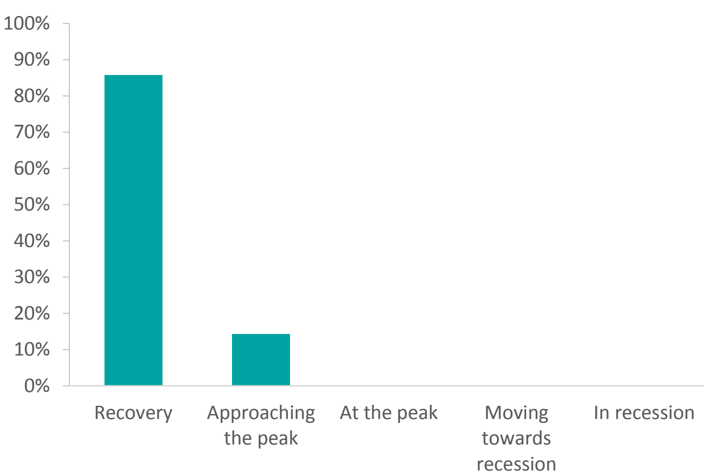
The overwhelming majority of banks (67%) and non-banks (86%) believe that the Caribbean is still in the recovery stage of the economic cycle.

Banks' view on economic cycle



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

Non-Banks' view on economic cycle



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

New landscape

There is unanimity that the financing landscape has changed.

The new landscape is characterized by more players who favor a select few jurisdictions, rather than financing projects throughout the region.

The traditional lenders remain very much part of the new landscape but in a different role. They are being more selective and funding on a smaller scale.

Our survey respondents can describe this new landscape better than most and so we include below examples of their comments which range from a belief that the traditional lenders are not yet ready to get back in the marketplace in any material way,

"I think Canadian banks will continue to be conservative and sit on the sidelines."

to others who believe that traditional lenders are back in the market but in a different form having learnt some important lessons,

"Banks learned how difficult it is to enforce & then sell properties in the Caribbean, deal sizes and risk appetites have been reduced from previous levels. Future deal flow will be very selective."

and finally those who believe it is just a matter of time before traditional lenders return in response to market forces.

"The fiscal policies of the traditional long term lenders will over time have their hesitancy to fund local projects extinguished as they see more outside financing institutions become engaged."

"Lenders will come back as the region continues to remain stable/grow."

"...natural ebb and flow of different capital sources..."

Appetite for Issuing Senior Debt

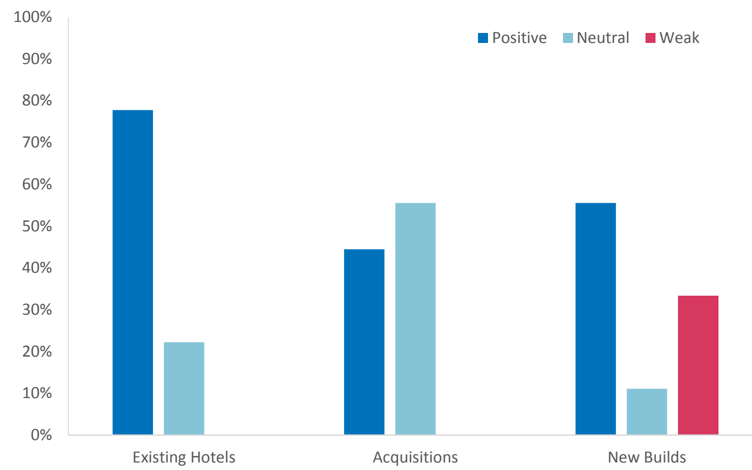
One of the most positive set of results we received was in response to a question as to what appetite financiers had for issuing senior debt for different types of tourism related projects in the Caribbean.

Nearly 80% of banks and 86% of non-banks said they had a positive appetite for issuing senior debt to existing hotels for refinancing, expansion and renovation.

Remarkably 100% of non-banks had a positive attitude towards financing acquisitions as did nearly half of banks. No weak appetites for acquisitions were reported in either bank or non-bank communities. Not surprisingly, new builds were a more difficult category to register a positive attitude but whereas previously such opportunities were not even being considered more banks had an appetite for new builds than for acquisitions and nearly 30% of non-banks had a positive appetite for new builds.

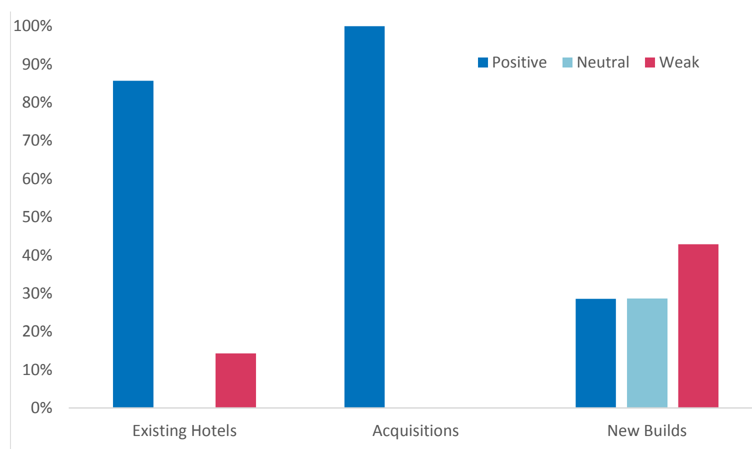
Whilst new builds was the only category where banks registered weak appetites (33%) this still represented a stronger appetite than that of non-banks (43%).

Banks' appetite for issuing senior debt



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

Non-Banks' appetite for issuing senior debt



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

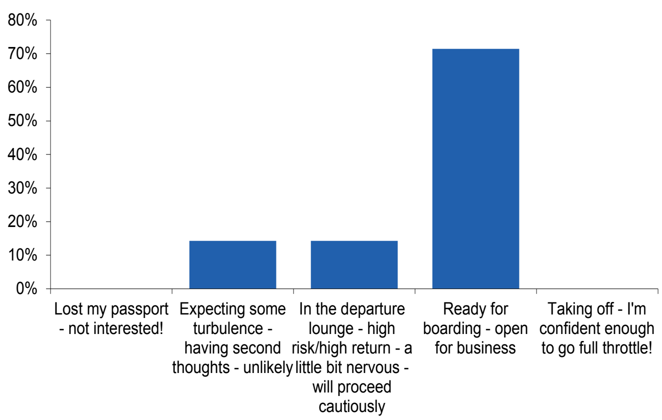
Financing Trends

Consistent with our findings for the last couple of years none of the banks think it is a perfect time to lend to the Caribbean tourism industry while 14% of the non-banks do think it is a perfect time to lend.

However, like last year, the banks' most popular response was the second most bullish category with even more votes than last year, a very strong 71% representing a distinct "uptick" in the willingness of banks to lend compared to last year.

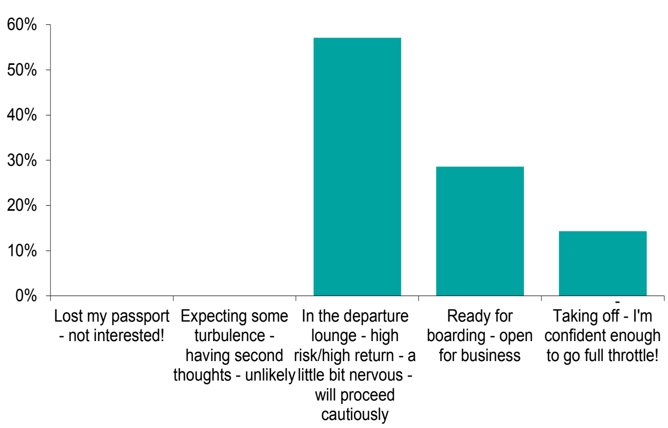
Non-banks also showed a greater willingness to lend with higher representation than last year in all the top 3 categories.

Banks' willingness to lend in the Caribbean



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

Non-Banks' willingness to lend in the Caribbean

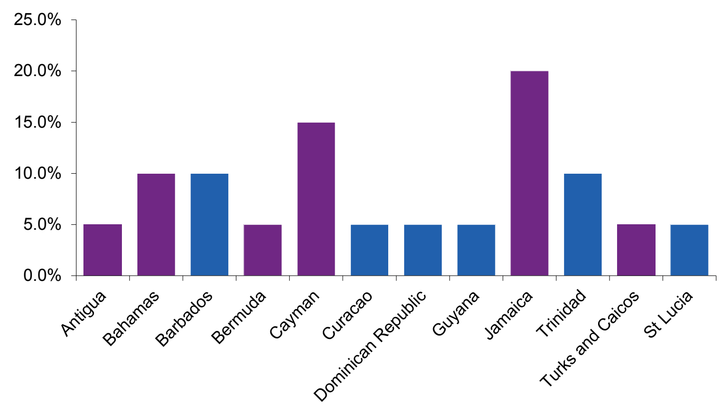


Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

Unlike last year there were no respondents in the most pessimistic category either for banks or non banks.

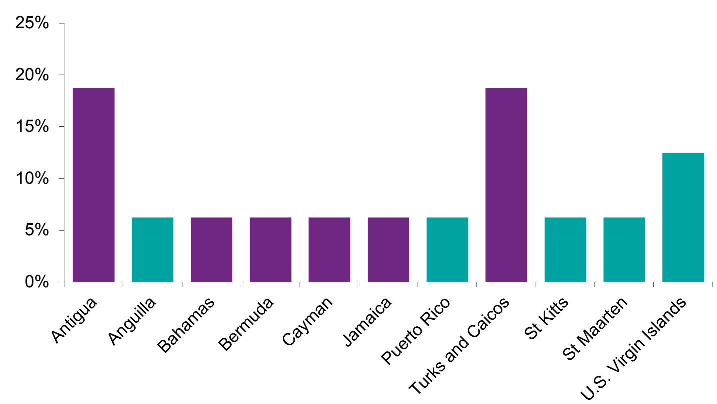
When we looked at which destination in the Caribbean financiers are most bullish about there were 17 different destinations put forward of which only 6 were nominated by both banks and non-banks, and are highlighted in purple. This further corroborates the position that the financing landscape has changed and that the new landscape involves financiers favoring a small number of jurisdictions rather than financing projects across the region.

Banks' top countries for new lending



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

Non-Banks' top countries for new lending



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

Regarding the terms of financing there have been no significant changes.

Again the big issue is not the terms but whether the financing is available or not.

It is highly unlikely that there is anything in the average loan terms that will prevent an investor moving forward should they be fortunate enough to be presented with such terms.

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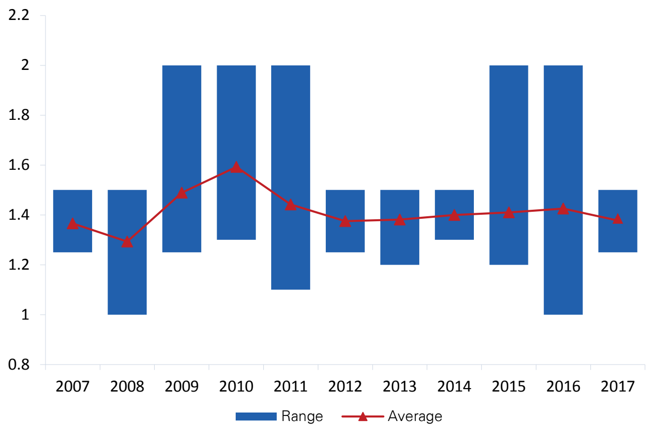
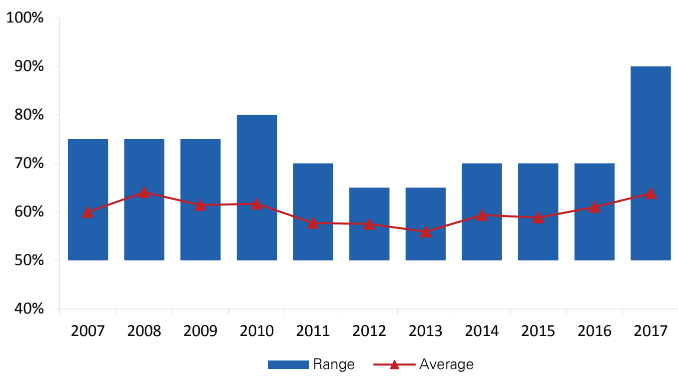
Debt service coverage ratio



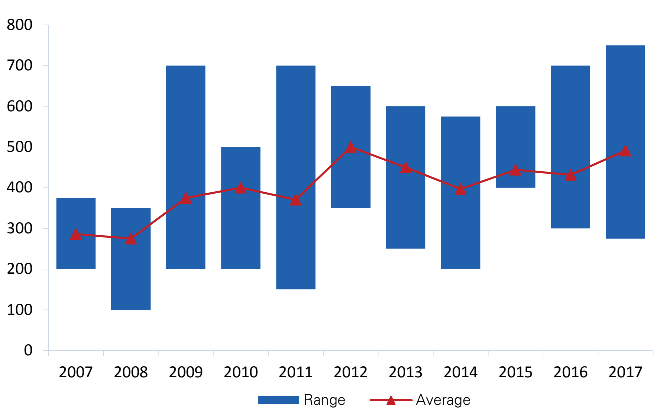
Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

Loan to value



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

Interest rate margin (bps)



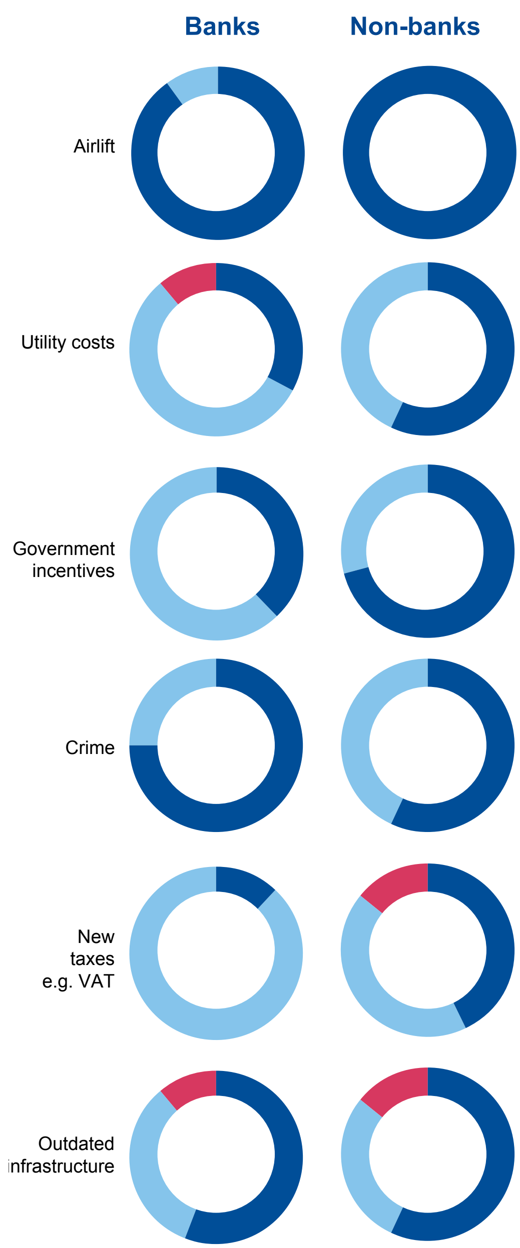
Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

Other Trends

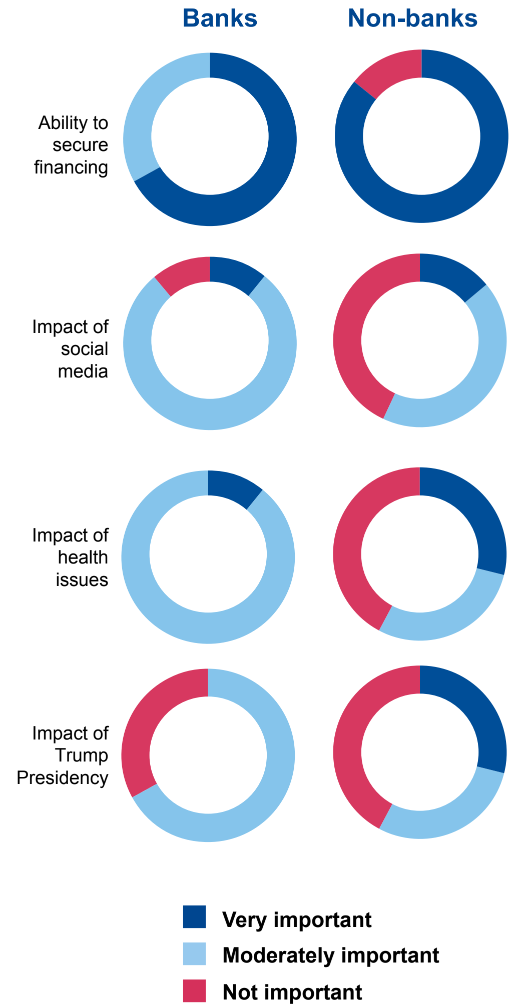
The critical issues impacting financing activity in the region are once again very clear.

Airlift was once again identified as the most critical issue for both banks (90%) and non-banks (100%).

For banks the second most important issue was crime (75%) with the ability to secure finance third (67%) an issue which was the second most important for non-banks (86%) who considered utility costs (71%) the third most important issue.



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey



Source: KPMG International, KPMG's 2017 Caribbean Hospitality Financing Survey

Respondents had some ideas on how these critical issues could be mitigated which involved a role for governments in the region.

"Working closely with the local government so that they can understand the impact policies have on investors and the repercussion of a loss of appetite."

"Through a combination of policies which are supported by the governments in each jurisdiction..."

"...material capital investment in infrastructure - utilities (reduced cost/ improved efficiency)... Improved immigration system—speed/ cost/ service/ technology..."

Impact of Cuba and the U.S.

Whatever anyone's political views are there can be no doubt that the U.S. election generated a lot of media attention, both before and after the event, and so we expected that when we asked respondents to opine on what effect the Trump administration would have on a more "open" Cuba and its impact on tourism elsewhere in the region we would receive some quite passionate responses. Not so! 73% of banks and 71% of non-banks thought the Trump administration would have "no material impact" on a more open Cuba. However, of those respondents who thought it would have an impact i.e. 27% of banks and 29% of non-banks, all of them thought the Trump Administration would delay the impact of a more open Cuba on tourism elsewhere in the Caribbean.

When asked what impact if any the election of President Trump to the White House will have on the tourism industry in the Caribbean and the availability of US capital investment in the region the most popular response was "negligible impact" for both banks (45%) and non-banks (57%) with the balance of bank respondents split equally between considering it will have a positive or negative impact and 29% of non-banks thinking it will have a positive impact versus 14% who think it will have a negative impact.

None of the financiers surveyed are currently considering any opportunities in Cuba and for the overwhelming majority of financiers the prospect of a more open Cuba makes no difference to their approach to financing projects in other jurisdictions.

So there we have it. Financiers of Caribbean tourism projects are one of the very few groups taking a relatively dispassionate, detached approach to the often emotive subjects of the Trump administration and Cuba.

Emerging Opportunities

We asked survey participants what single new opportunity excited them the most and filled them with optimism about the future of the tourism industry in the Caribbean.

Some commented on specific events.

"...America's Cup 2017...potential catalyst for future investment..."

Others commented on specific, strategic projects.

"...Baha Mar finally opening..."

Most commented on general positive factors of the financing environment.

"...better and more affordable air lift..."

"Expansion of air lift and airport expansions or infrastructure projects."

"Stronger sponsors willing to commit significant financial resources and stand by the project."

"New political change in America will drive more business to the Caribbean."

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 throughout 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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