



TRAVEL, LEISURE & TOURISM

KPMG 2007  
Regional Banking  
A Survey

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In order to prepare this third annual study on investment trends in the Caribbean, KPMG regional member firms carried out interviews with the leading banks in the region.



The detailed questionnaire was structured around the following key topics:

- Outlook for the region
- Market and location
- Financing trends
- Industry trends

The surveys were conducted directly with senior commercial lending decision makers from each of the participating banks, which collectively noted significant exposure in the region, totaling more than **US\$2.6 billion**.

The following are the highlights drawn from these key interviews.

### General outlook for the region

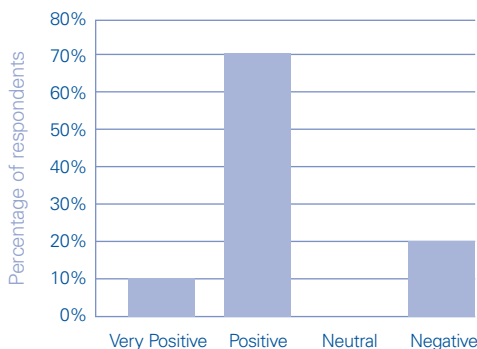
Regional financiers surveyed were generally optimistic concerning tourism in the region with most respondents giving positive or very positive replies.

The stabilizing of the U.S. economy and the demographics of the U.S. market have been cited as reasons for the positive regional outlook. Airlift to the region has been, and continues to remain strong. World economic growth and the increasing strength of European currencies have produced several new entrants to the market.

While few respondents were negative key concerns were also raised. The softening of the U.S. housing market and its mid-term impact was of prime concern to lenders. Development hurdles have also arisen as a concern to financiers, with barriers being imposed by policy makers leading to lags in the realization time of projects. In at least one jurisdiction, declining occupancy rates were cited as a concern.

80 percent of respondents reported a positive outlook for tourism in the Caribbean with only 20 percent of replies indicating a negative outlook.

Lenders' outlook for tourism in the region



### Key strengths

- Proximity to the U.S.
- Reliable and affordable airlift
- Demographics of U.S. tourists
- Weak local currencies, especially versus the Euro
- Natural beauty and weather
- Unique tourist product

## Financing Trends

The 2007 survey revealed that LIBOR continues to prevail as the most popular base rate used by lenders in the region. All of the respondents indicated that LIBOR is used as the base rate in contrast to the 2006 survey where only 86 percent of respondents indicated using this rate.

2007	2006
Premium to base rate: 2% to 4%	Premium to base rate: 1.25% to 4%
Debt service coverage: 1.25X to 1.75X	Debt service coverage: 1.3X to 2X
EBITDA to interest multiple: 1.5X to 3X (used by 40% of the banks)	EBITDA to interest multiple: 1X to 2.5X (used by 57% of the banks)
LTV ratio: 50% to 75% (lower for greenfield builds, higher for existing stable hotel businesses)	LTV ratio: 55% to 70% (lower for hotels, higher for existing condos)
Commitment fees: 1% to 2.5%	Commitment fees: 1% to 2.5%
Amortization period: 10 to 15 years	Amortization period: 10 to 15 years

*“Projects are moving up in terms of quality, with more hotels at the higher end. We are seeing more private equity firms investing but they are trying to get deals done with less equity – they are using their relationships with U.S. commercial banks to get higher leverage.”*

*“There has been a rush of private equity transactions in the likes of St. Maarten, Aruba, Jamaica etc. and there will be a continued appetite for hotels with a good track record...”*

While financiers indicated varying average financial ratios, virtually all respondents indicated a fair degree of flexibility around these averages.

Premiums to base rates were in the range of 2 percent - 4 percent, a contraction from the range of 1.25 percent to 4 percent in the 2006 survey. Financiers, however, varied their premiums based on several factors including the size of the hotel and whether the project is greenfield or simply a renovation. Some financiers indicated they go to the extent of setting tiered rates which vary based on the performance of the borrower using debt service ratios as indicators.

### Typical Covenant Requirements

Minimum financing ratios	Cash sweeps
Capital reserve requirements	Recourse to principals
Quarterly operating statements	Minimum pre-sales
Asset sales restrictions	FFE maintenance requirements
Capex restrictions	Equity withdrawal restrictions
Change in ownership restrictions	Additional debt restrictions

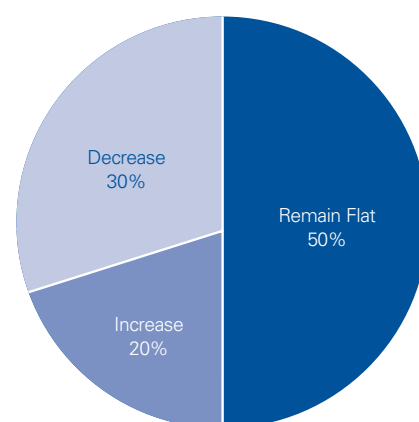
With the emergence of U.S. financing institutions in the region, financing requirements are changing to manage risks. In the 2007 survey, respondents indicated a shift away from exposure in their loan portfolios toward greater securitization of loans.

The majority of banks expect interest rates to remain flat in the short term, while few expect rates to decline and even fewer expect an increase.

## Key weaknesses

- Quality of service
- Lack of skilled labor in the region
- Reliance on the U.S. economy for stability of the tourist product
- Crime in certain areas
- Seasonality of tourist arrivals in the region

## Banks opinions regarding short term interest rates



## Key opportunities

- Condo-hotels
- Mixed use properties
- Disposable income levels in the U.S.
- Growth of yachting business and ownership

## Industry Trends

Of the local financial institutions surveyed half of respondents agree that The Bahamas, with its historically strong tourism product, has significant growth potential. As the market for condo-hotels in the region continues to grow, regional lenders are becoming more optimistic about the growth and sustainability of such projects. While concerns over the U.S. economy and the softening of the housing market increase, the outlook for condo hotels is even more optimistic than last year and multiuse properties continue to grow in popularity.

The perspective of respondents on condo-hotels has also changed compared to last year. While lenders are still optimistic as these projects become more popular, the recent focus has been a shift toward condo ownership, rental pools and fractional components.

In the most recent survey, more than half of respondents indicated that The Bahamas and Turks and Caicos are viewed as having the most potential for growth in the region. The Dominican Republic has also emerged as a front runner with 44 percent of respondents indicating high potential future growth. Other countries cited as having strong growth potential are the Dutch Caribbean, Jamaica, Trinidad & Tobago and the U.S. Virgin Islands.

## CWC Impact

The earlier expectation of regional banks was that the Cricket World Cup would lead to economic growth in the Caribbean. This view has somewhat changed. Financiers now feel that it will yield significant publicity for the region, primarily in Europe. Also, with the infrastructural improvements leading up to the event, banks believe this will improve the overall tourism product in the participating countries.

There have, however, been concerns over the amount of debt undertaken by governments to finance the event.

## Emerging Trends

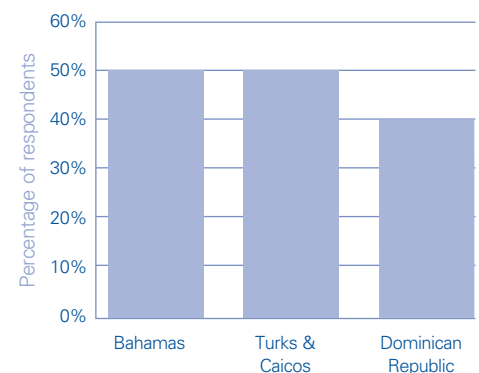
Current property development trends in the region have been centered around the development of larger, more upscale projects. In many instances, these projects are for mixed use properties and often have a marina component attached.

There have also been changes in the sources of financing. The region has seen the emergence of more mezzanine and private equity financing of projects. These new financiers are largely operating out of Europe and the U.S. Most of the regional banks surveyed agree that there is a role for these players. With the increased interest of these financiers, financing of tourism and hospitality products in the Caribbean is changing.

The emergence of several new low cost carriers in the region has not had as significant an impact on boosting tourism regionally as originally expected according to financiers. While competition from these new carriers has assisted in lowering ticket prices according to 88 percent of respondents, the impact is only seen in countries with large tourist volumes and pre-existing strong airlift. According to one financier, in regions that cater to the high end tourist market, there has been virtually no impact.



## Countries with greatest growth potential



## Key threats

- U.S. housing market softening
- Hurricanes/terrorism
- Labor shortages
- Increased preference for cruises
- Opening of the Cuban market to U.S. nationals
- Reemergence of Mexico in the tourism market
- Increase in the cost of debt

*"...upscale properties, an improved infrastructure, more direct flights, and a good dose of cash are giving the Dominican Republic newfound cachet",  
Cachet Magazine*

*"(In The Bahamas) 53 projects valued at \$13.6b are currently under various stages of construction",  
IMF*

## Caribbean Tourism Industry Overview

### Travel & Tourism in the Caribbean in 2006

- US\$51.3 billion of economic activity (Total Demand).
- Direct and indirect impact of 16.4 percent of GDP and 2.6 million jobs

### Growth of Travel & Tourism Demand in the Caribbean

- 4.8 percent growth in total demand in 2006
- 3.9 percent per annum growth in total demand, in real terms, from 2007 to 2016
- US\$102.1 billion of economic activity (nominal) by 2016

### Capital investment (direct & indirect) Caribbean, 2006

- Estimated at US\$9.1 billion (19.9 percent of total investment)
- By 2016, this should reach US\$16.7 billion or 20.3 percent of total investment

### World ranking

The Caribbean Travel & Tourism economy is ranked:

- #1 in relative contribution to regional economies
- #13 regionally in absolute size worldwide
- #10 in long-term (10-year) growth

### Tourism growth in the Caribbean

- January to October 2005: 19 million tourists (stop-over visitors)
- 4.6 percent increase over the same period in 2004
- Visitor expenditure of US\$21 billion in 11 Caribbean Tourism Organization member countries in 2004



#### Sources:

*Travel Markets Insider, Vol. 8-16, February 2005*

*Tourism Executive Brief, Caribbean Tourism Organization, December 2005*

*World Travel & Tourism Council, The 2006 Travel & Tourism Economic Research*

## KPMG's Regional Travel, Leisure and Tourism Contacts

KPMG firms are present in more than 20 countries in the region, each with a specific understanding of the business, cultural, economic and political facets of each country.

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