

# Agenda

- Introduction
- Financing Trends
- Industry Trends
- Emerging Trends
- Summary

# Introduction

- Leading regional banks and developers surveyed
  - senior decision makers
  - credit committee executives
  - international banks doing business in region
  - indigenous banks
- Aggregate exposure for entities interviewed:
  - Banks - more than US\$4.5 billion
  - Developers - approx. US\$1.1 billion

**“British Central Bank suggests credit crisis is easing.....markets unnecessarily pessimistic” – *Intl. Herald Tribune, May 1 ‘08***

**“CDB president Prof. Compton Bourne said the region is already experiencing a down turn in tourism job losses ..... fallout occasioned by the high global oil prices, the decline in the value of the US dollar and the likelihood of a severe contraction in the US economy. .” - *(CMC), March 31, 2008***

**“People are being more cautious about the lesser-known smaller islands and going back to Barbados, where there’s an established resale market with reasonably balanced supply and demand,” says Julian Cunningham, a senior negotiator at Knight Frank - *Sunday Times, April 20, 2008***

**‘World Food Crisis Like A Silent Tsunami’ .....**

**Rising food prices pose as great a threat to world prosperity as the global credit crunch,” Gordon Brown has said – *Sky News, April 25, 2008***

**“S&P: Bahamas growth 1% below projections.....reliance on US for 86% of visitors means Bahamas most exposed on tourism front” - *Bahamas Tribune, May 1, 2008***

.....A Google news search for “Credit Crisis” yielded 60,081 articles in the last hour (12.05pm May 1) – and 337 the same day when “Caribbean” was added to the search

**= uncertainty, speculation,  
and differing opinions**

.....so what are the banks in the region saying?

# Outlook for the Region

Developers more bullish than lenders

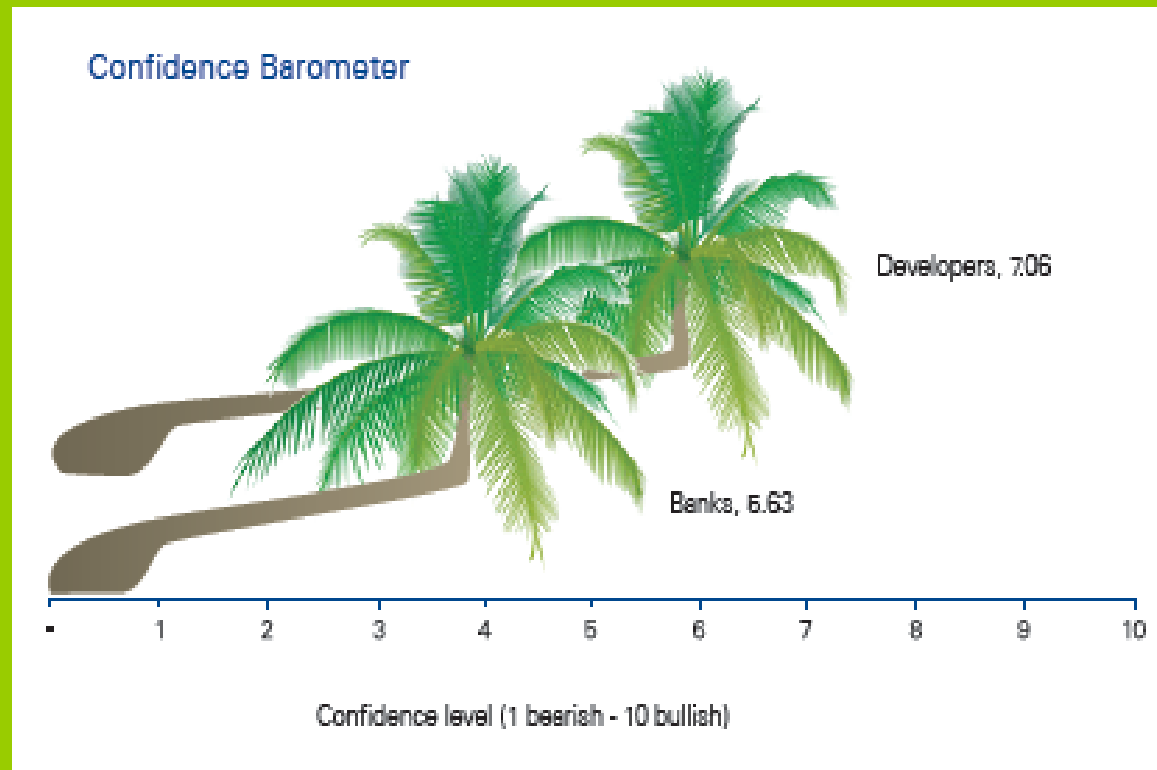
■ Mixed outlook:

## Negative

- US credit crunch
- economic downturn

## Positive

- Resiliency of Caribbean tourism
- Dollar weakness benefits



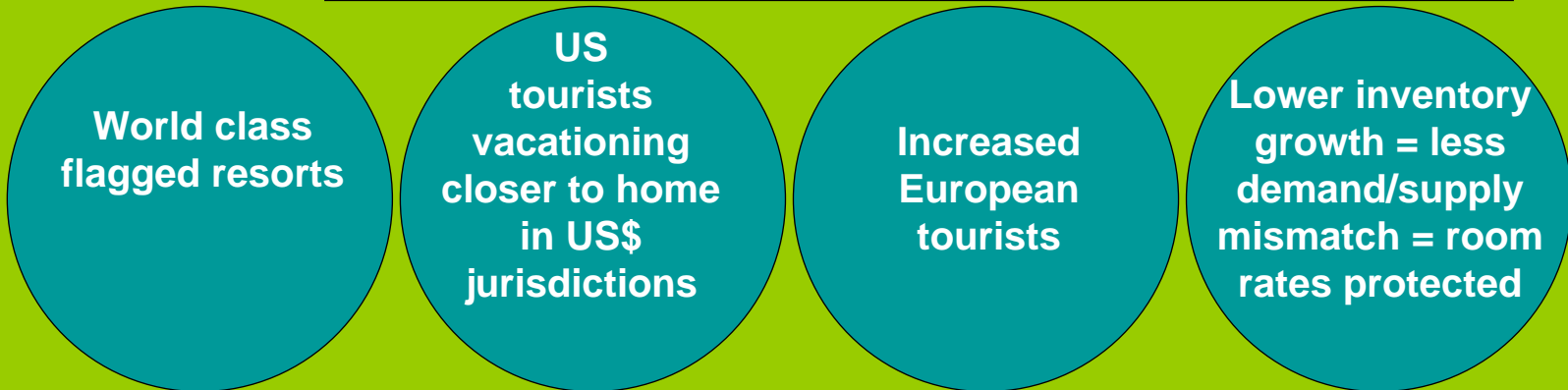
# Outlook for the Region

Reasons to be negative



## Outlook on Caribbean Tourism

Reasons to be positive

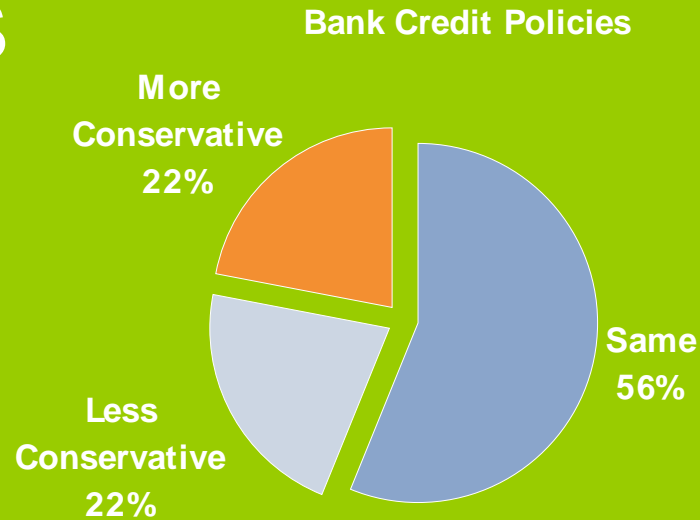


# Financing Trends

Parameter	2008				2007	2006
	Land	Construction	Greenfield	Existing	Average	
Premium to base rate:	2.5% – 4.0 %	2.5% – 4.5%	2.0% – 4.0%	1.0% – 3.5%	2.0% – 4.0%	1.3% – 4.0%
Debt service coverage:	1.3X – 1.5X	1.3X – 1.5X	1.3X – 1.8X	1.0X – 1.5X	1.3X – 1.8X	1.3X – 2.0X
EBITDA to interest multiple:	1.5X – 2.5X	1.5X – 2.5X	1.4X – 3.0X	1.4X – 3.0X	1.5X – 3.0X	1.0X – 2.5X
LTV ratio:	50% – 75%	50% – 75%	50% – 65%	50% – 75%	50% – 75%	55% – 70%
Amortization term:	5 yrs – 10 yrs	2 yrs – 15 yrs	5 yrs – 15 yrs	5 yrs – 15 yrs	10 – 15 yrs	10 – 15 yrs
Commitment fees:	1.0% – 1.5%	1.0% – 2.0%	1.0% – 2.0%	0.5% – 1.5%	1.0% – 2.5%	1.0% – 2.5%

# Financing Trends

*“Overall we are seeing tightening of credit in the market and increased pricing. With some competitors easing off in the region, we are seeing more loan requests.”*



## Examples of conservatism in credit policies:

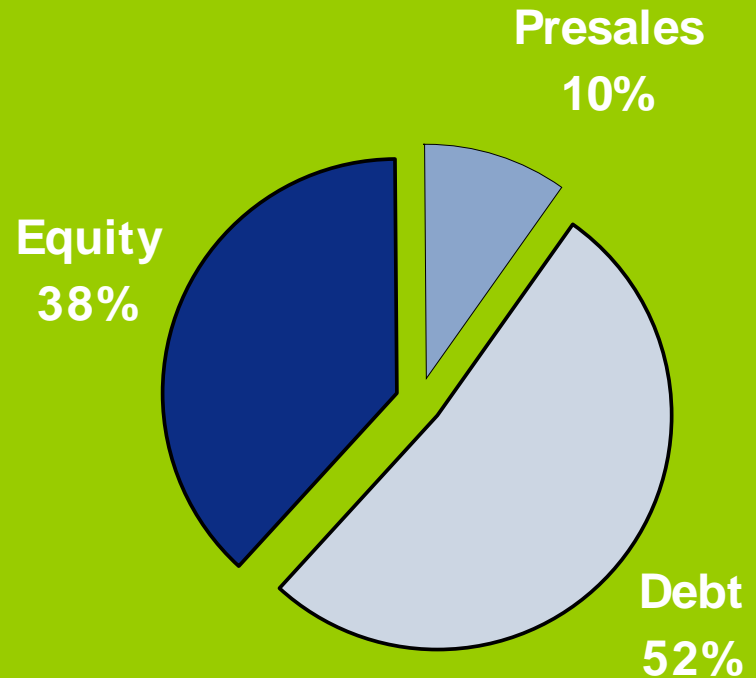
- Stricter adherence to standard credit guidelines
- Greater pre-sale requirements
- Increased interest rate spreads
- Tightening of lending ratios

# Financing Trends

## Developers:

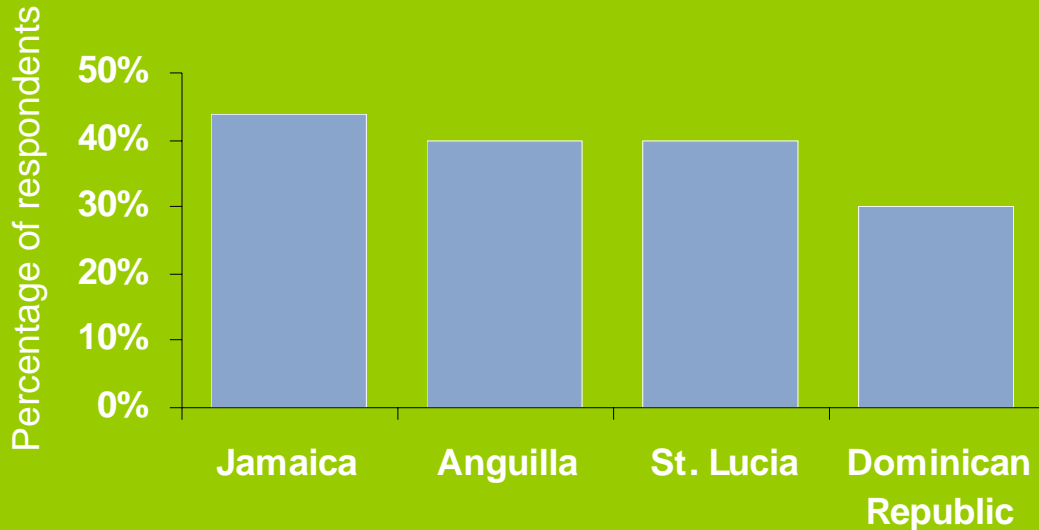
- Average time to secure regional debt financing ~ 6 months
- Majority of loans led by or included Caribbean based financial institutions

Average Project Financing Structure



# Industry Trends

Countries with greatest growth potential

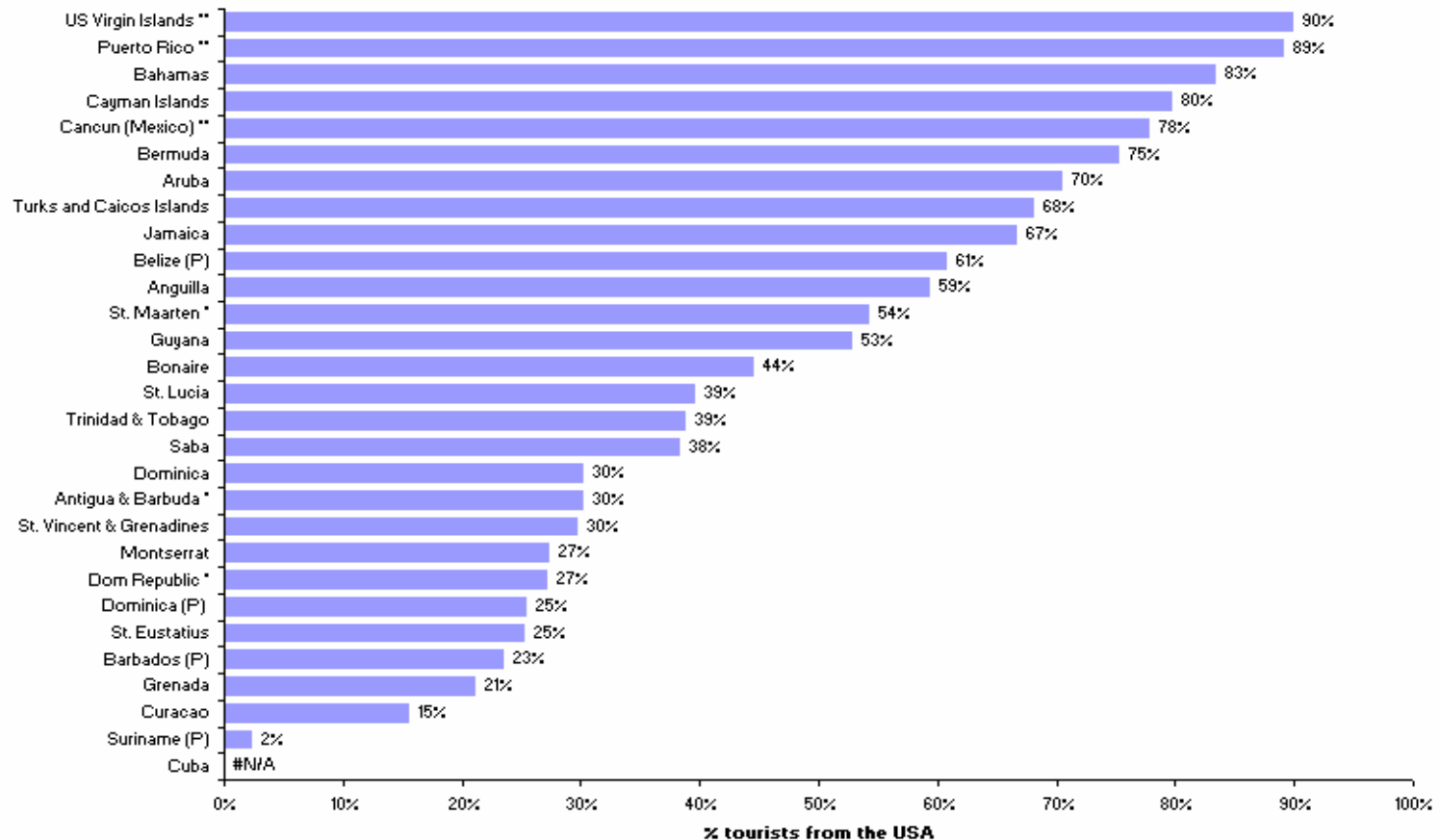


## Reasons:

- Ability to attract European travelers
- Diversified economies
- Good airlift
- Low cost carriers
- Lesser reliance on US

...last year's favorites including The Bahamas dropped primarily due to relative reliance on US tourists – Jamaica seeing big investments by Spanish and others.

### Percentage of tourist arrivals from the USA, by destination



**Notes:**

Percentages based on full year or partial year 2007 data with the exception of Dominica, St Eustatius and Turks and Caicos Islands, which are based on 2006 data.

\* Non-Resident Air Arrivals; \*\* Non-Resident Hotel registrations only; (P) - Preliminary figures; #N/A - Not available

N.B.U.S.V.I reported figures in this tables are Hotel Registrations whereas they reported Stay Over totals are Air Arrivals

N.B: Figures are subject to revision by reporting countries

**Sources:**

Percentages calculated from data from: (1) CTO, Latest Statistics 2007, as of March 28, 2008; (2) Turks and Caicos Islands Tourist Board;

(3) CTO, Latest Statistics 2006 as of June 11, 2007.

# Industry Trends

## **U.S. Credit Markets**

- Slowdown in vacation home sales
- U.S. reliant markets hit hardest (e.g. Puerto Rico, USVI)
- Higher end products generally less affected

## **Oil Prices**

- Increased cost of operations
- Increased cost of travel
- Caribbean more expensive vacation destination

# Industry Trends

## Impact of Weakening U.S. Dollar

Ninety percent of those surveyed predicted that an increase in European tourists would result from the Euro strengthening against the US

dollar as the Caribbean will become a more competitively priced destination for Europeans. Financiers also expect that this will attract additional investment from Europe. Fuel prices aside, it was also

suggested that the weakening US dollar would encourage US tourists to vacation in US dollar destinations closer to home.

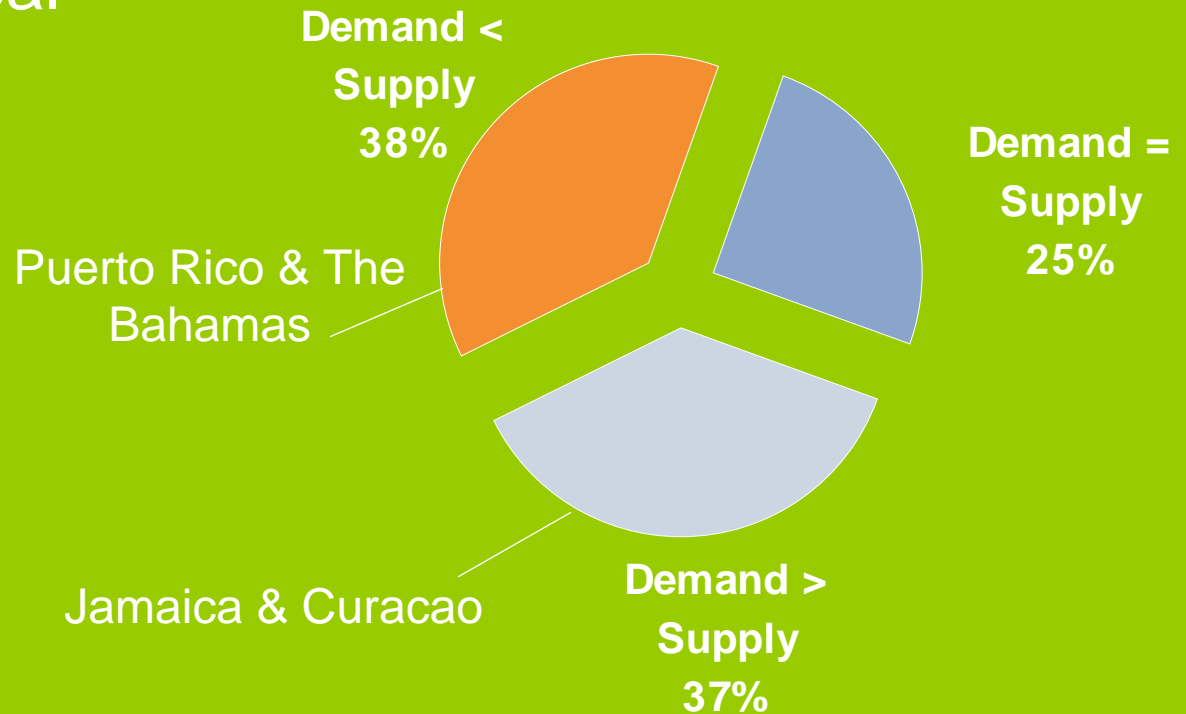
## Weakening U.S. Dollar Impact:

- Caribbean more competitively priced  
→ More European tourists
- Increased European investment
- U.S. tourists vacationing closer to home and in U.S. dollar jurisdictions
  - Buffer to rising fuel prices

# Industry Trends

- Slowdown in pre-sales on projects with real estate component
- Mid-priced, U.S. reliant markets hit hardest

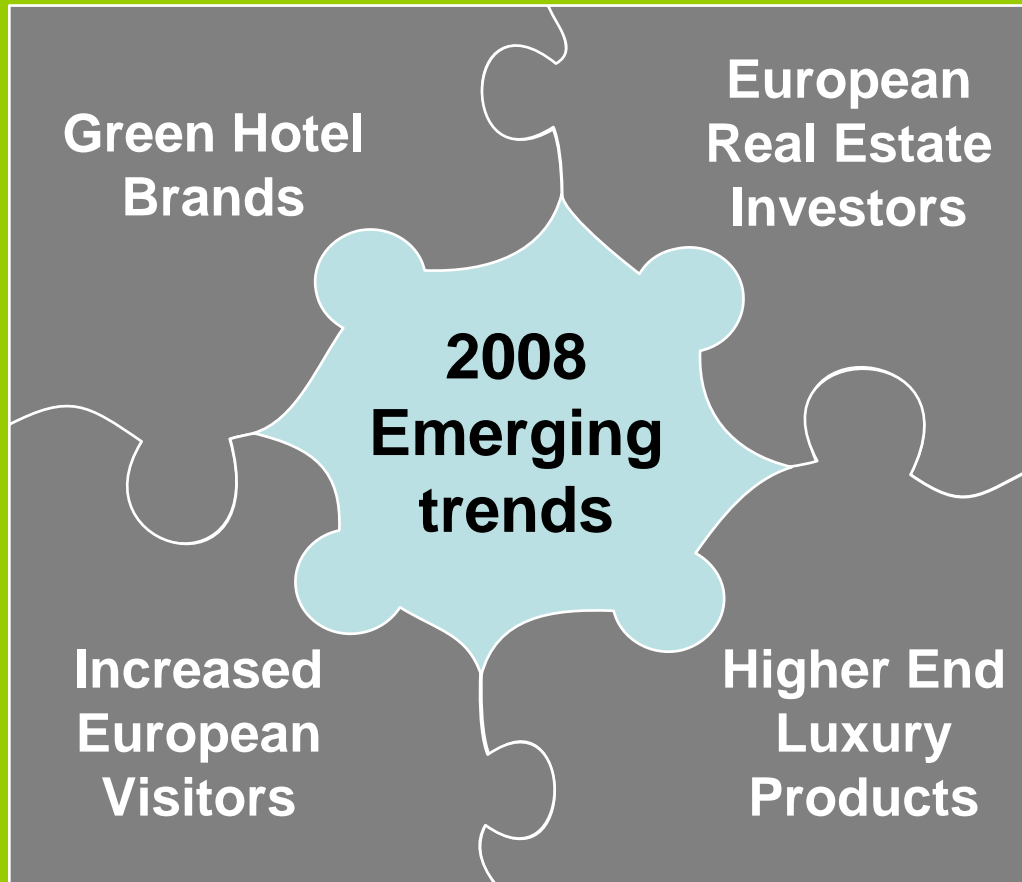
Balance of current product supply and demand



# Industry Trends

<i>Reasons for Project Failure – Lenders</i>	<i>Reasons for Project Success – Developers</i>
Cost overruns	Premier branding
Poor management	Realistic budgets and timelines
Over leverage	Flexible debt arrangements
Undercapitalization	Availability of financing
Poor planning	Regular upgrades
Poor marketing	Extensive market knowledge
Inadequate research and understanding of the market	Strong project management and team quality/commitment

# Emerging Trends



# Summary

Where does this leave developers?

- Focus on fundamentals – look through the hype
- More equity needed
- Need to reduce reliance on pre-sales
- More reliance on regional lenders - less lender options
- Slightly tighter borrowing terms
- If you are mid-priced and reliant on US, rethink timing
- Destinations with infrastructure and a known and proven tourism product are faring better
- “culling for quality”



TRAVEL, LEISURE & TOURISM

KPMG 2008 Caribbean  
Region Banking Survey

ADVISORY

Copies of the KPMG 2008 Caribbean Region Banking Survey are available at our booth

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