

14th ANNUAL

CARIBBEAN HOTEL AND TOURISM INVESTMENT CONFERENCE

# Caribbean Tourism's Official Investment Conference

MAY 4-6, 2010 | PUERTO RICO

Caribbean Tourism's Business-to-Business Event.



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# Financing Outlook for the Caribbean

## May 5, 2010



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- **“We expect the Caribbean tourism industry to lag this recovery by six months or more, given the amount of time required for confidence in the economic upturn to take root.” - Companies and Markets, January 13, 2010\**
- **“The Caribbean suffered from a major slowdown in tourist arrivals in 2009 ....they appear to have stabilized and we believe the tourism industry is past the worst.” - Companies and Markets, January 13, 2010**
- **“Activity within the real estate industry has improved...at a tepid pace and certainly not a strong rebound. While fear is subsiding and investors are starting to snap up a few of the best bargains, no one is in any hurry. It will likely be this way until later in the year.– Lund Report (Cayman) 2010**
- **“The weight of delinquent real estate and construction loans amid a long recession led to Puerto Rico's biggest bank consolidation in more than two decades, analysts and finance officials said Monday.” Associated Press May 4, 2010**

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## What are the lenders thinking?

- Discussed trends with major financial institutions in the Caribbean
  - Major US/Canadian banks, national banks and development banks
  - Over \$2.5 billion combined exposure to hotel and real estate
  - Presence in 20 countries
- 
- What is your outlook for the Caribbean?
  - What type of projects have succeeded/
  - What type of projects have failed?
  - How have your lending parameters changed?
  - What lessons have you learned in the last few years?



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## What lenders are saying....

**“See little lender upside to refinancing a “broken project”...we have declined every proposal received to date”**

**”Projects heavy in real estate as a driver of success will not come back for a long time”**

**“It’s no longer feasible for developers to invest their way out of trouble”**

**“Hotel projects will be scrutinized much more carefully by lenders, relying only to a very limited extent on the value of land and other assets and instead focusing on the viability of the hotel operation as a cash flow generator”**

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## What lenders are saying....(cont'd)

**“For mixed used models the hotel needs to be viewed as a viable financial proposition in its own right”**

**“Lend for the long term, consider the best of times and the very worst of times in all lending decisions”**

**“Stick to proven credit underwriting practices and not follow the market with trends that are unsound”**

**“Don't build out projects if the market is not there”**

**“Good project fundamentals are key – strong sponsor, good customer flow and airlift”**



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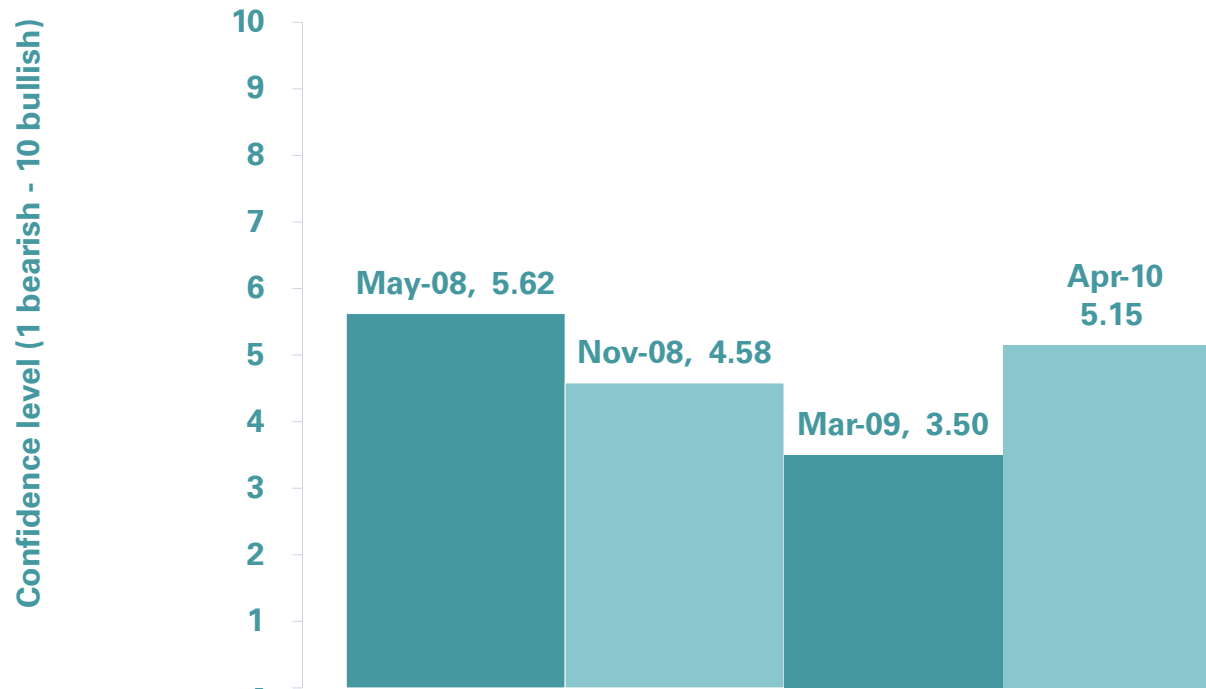


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## Banks confidence barometer



## Lessons learned



- ✓ **Return to conservative, long term approach to lending**
- ✓ **Obtain more cash support from promoters**
- ✓ **Adhere to “proven” credit underwriting practices**
- ✓ **Avoid higher risk funding models**
- ✓ **Reduce level of reliance on pre-sales as a source of funding**



## Lessons learned (cont'd)

- ✓ **Seek professional advice at the first signs of difficulty**
- ✓ **Stress test of valuation assumptions and due diligence**
- ✓ **Monitor development projects more closely**
- ✓ **Improve collateral/security**
- ✓ **Encourage clients to plan for the bad times**

## Why were projects successful?

- ✓ **Financed conservatively with sufficient cash equity**
- ✓ **Location and airlift**
- ✓ **Supported by strong sponsors with a proven track record**
- ✓ **Phased with good pre-sales – build out in line with market demand**
- ✓ **Diversified client base**

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## Why projects failed?

- × **Highly leveraged financing structures**
- × **Decreased access to private equity & US debt financing sources**
- × **Unrealized and overly aggressive projections or forecasting**
- × **Insufficient cash equity or external cash resources**
- × **Poor cost control and monitoring of construction**
- × **Lack of strong management and financial control**
- × **Heavy presales reliance**

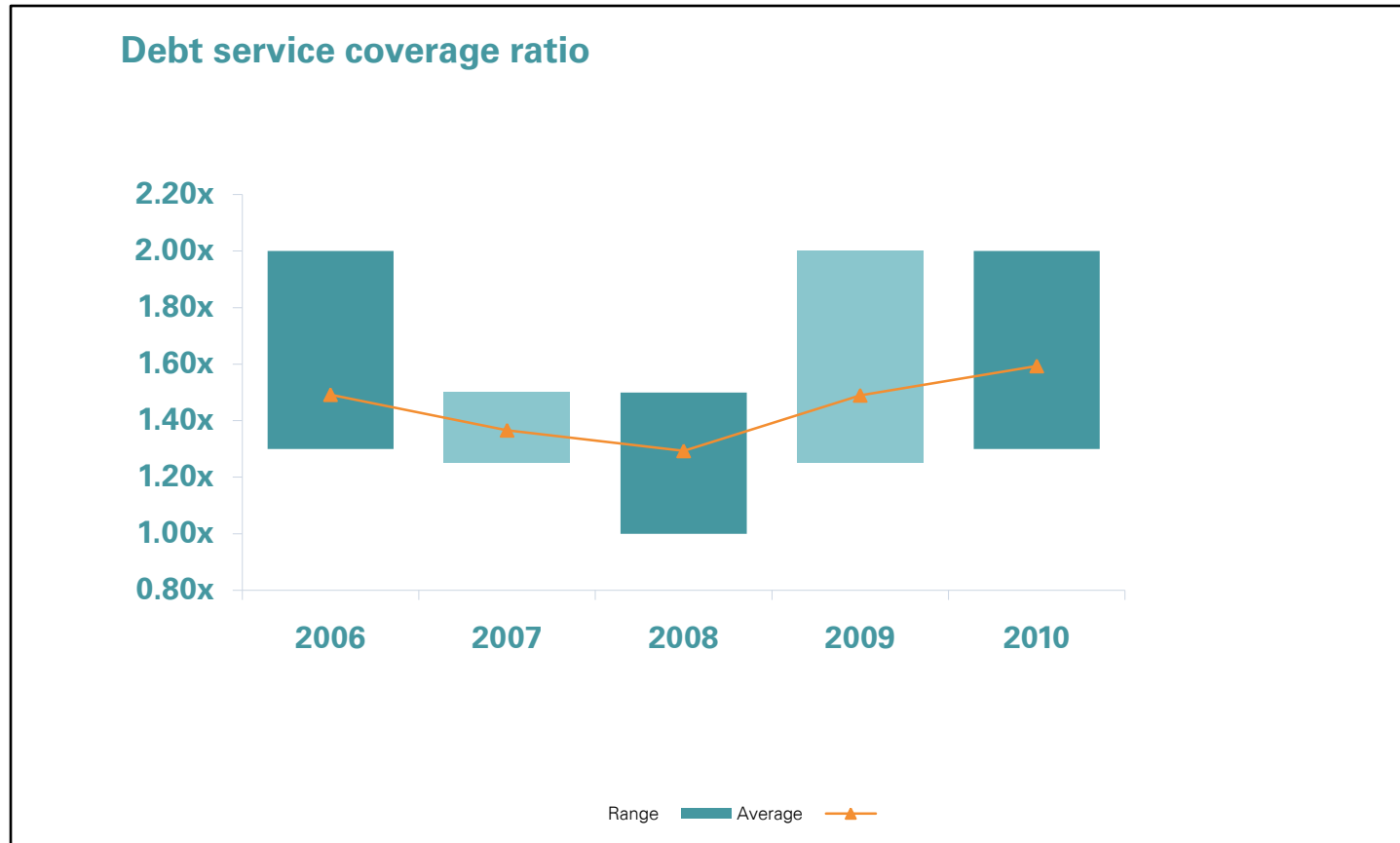
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## Government responses to the crisis?

- ✓ **Infrastructure/PPPs/PFI**
- ✓ **Divesting of hotel assets/Recovery of crown land by exiting joint ventures**
- ✓ **Little direct investment....Governments have seen significant economic issues, and financial collapses, to deal with in the region and do not generally have the capacity to subsidise or intervene in failed hotel and real estate developments**

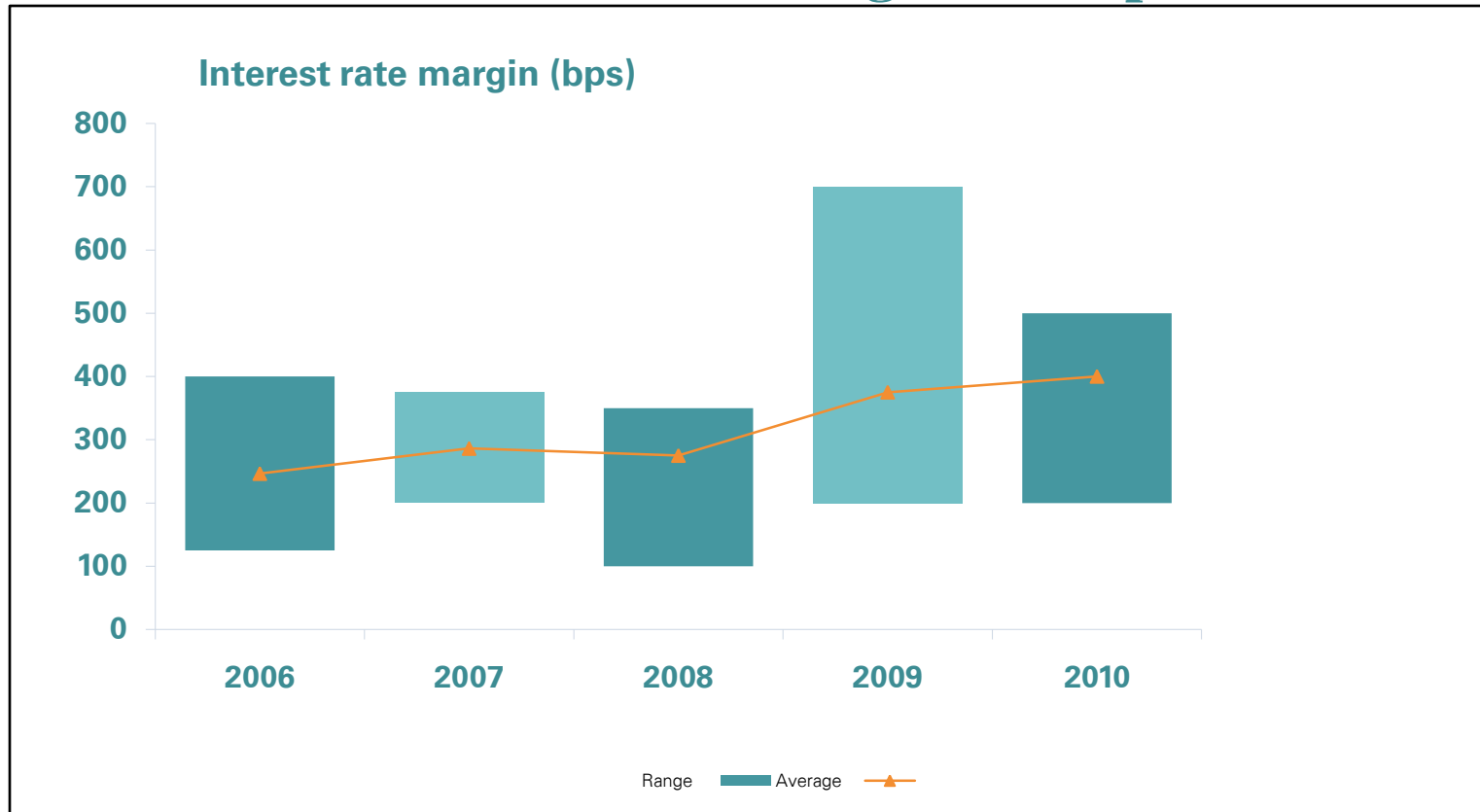
.....with the exception of Barbados' proposed US\$60 million loan guarantee to revive the Four Seasons project.

## Debt Service Coverage Ratios are moving up



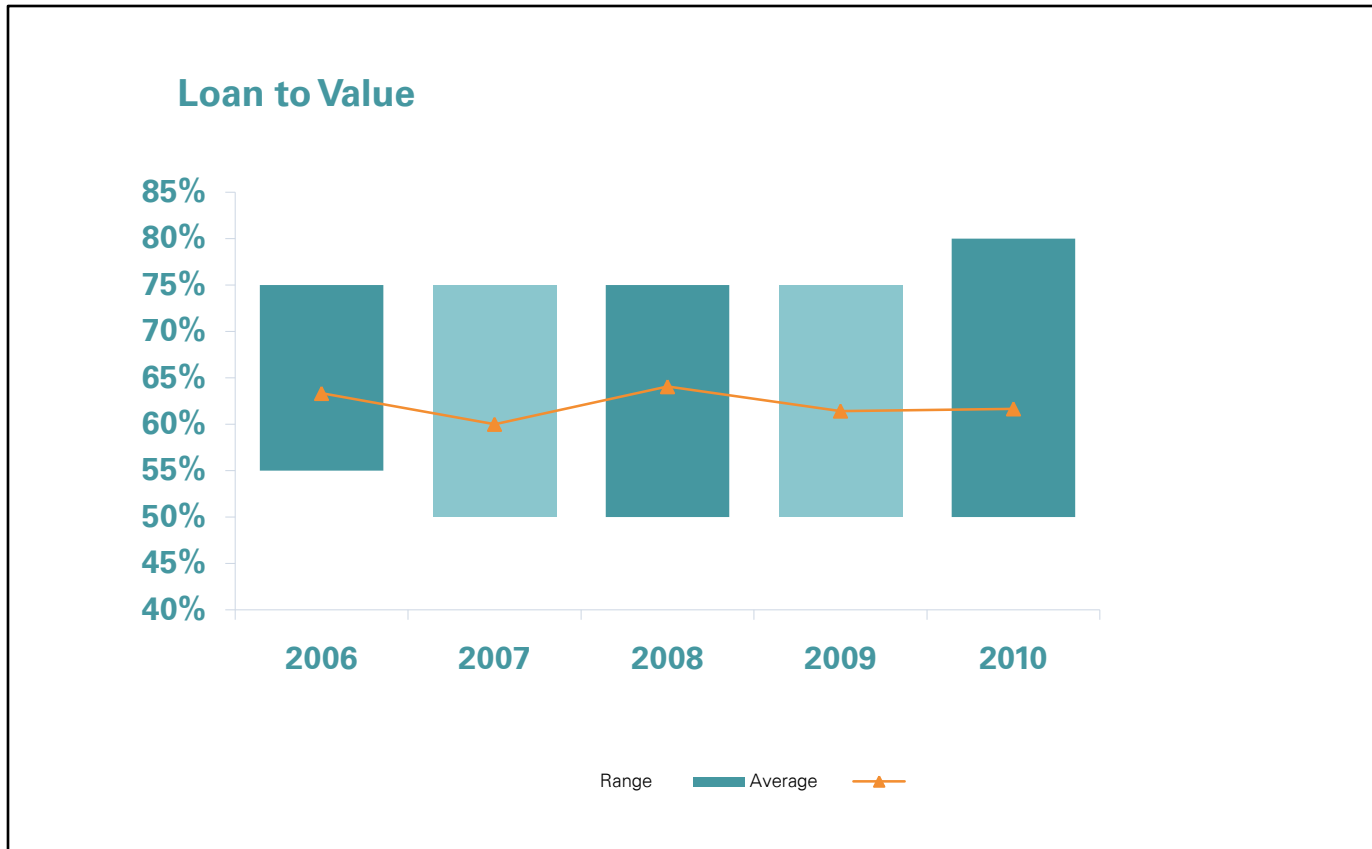


## Interest Rate Margins are up



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## Loan to Value ratios are relatively stable



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## What are the current preferred markets?

Lenders' current top three markets:

1. The Bahamas, Barbados, Bermuda
2. Dominican Republic, St Lucia
3. Cayman, Southeast Mexico, Jamaica

Lenders' markets of interest for the future:

1. The Bahamas, Costa Rica, Jamaica
2. Barbados, Bermuda, Brazil, Dominican Republic
3. Dutch Caribbean, Panama, St. Lucia

Reasons for market interest:

1. Good airlift
2. Good market demand
3. Interest in Latin America



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## New Financing Sources?

- The China EXIM Bank recently financed the Baha Mar project in The Bahamas
- \$2.5 billion single phase project - 3,000 rooms, a 100,000-square-foot casino, an 18-hole Jack Nicklaus Signature championship golf course, three spas, 200,000 square feet of meeting space
- Has entered into partnerships with the InterAmerican Development Bank to “*co-finance public and private sector projects in Latin America and the Caribbean, increasing credit flows to this region amid the global financial crisis*”.



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Baha Mar Sketch



IABD  
Inter-American  
Development Bank

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## Our views?

- **Those projects being financed will be smaller/phased, not so high end, well capitalized, with sound fundamentals and experienced backers**
- **A refinancing bubble is around the corner as hotels already struggle after 2 years of poor performance**
- **Failed, half built projects will continue to find it very hard to refinance**
- **More rigorous financial modeling and forecasts, and more detailed due diligence will become the norm**
- **Lower returns and longer investment horizons for equity holders, higher margins and shorter tenor for banks**
- **The 2<sup>nd</sup> home market will not fully recover for at least a few years with surplus inventory already, and more discerning buyers with less equity**



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