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ADVISORY

2013 Caribbean Region Financing Survey

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Introduction

We are pleased to present KPMG's 9th annual Caribbean Region Financing Survey, highlighting lending trends in the region's hospitality and tourism industry and the outlook for the future of the industry.

The general theme amongst lenders is, once again, one of conservatism. The consensus appears to be that the industry is in largely the same position as it was last year and that it will be at least 2-3 years before any meaningful growth in tourism returns to the Caribbean. A similar time horizon is anticipated before we can expect to see a return to strong sales of real estate, timeshare and fractional units and condominiums.

On a more optimistic note our annual Caribbean Financier Confidence Barometer, which measures the level of confidence of financiers for the next 12 months, is at its highest level since 2008, representing the 4th year in a row that confidence has grown.

It is clear, however, that lenders are still very cautious and a great deal of uncertainty remains.

When asked to indicate what best describes their outlook for the next 12 months from a variety of options ranging from "smooth sailing" to "perfect storm", most lenders settled for the "bit choppy" option with a possibility of "rough seas".

How should developers and investors interpret such comments?

Continuing with the sailing analogy we suggest that whilst it is safe for you to take your boat out, you should make sure you are wearing your life jacket - just in case!

Please feel free to contact us for further information, clarification, questions or comments regarding this survey. We would like to take this opportunity to thank, once again, all of the lenders who participated in this survey.

Sincerely

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Overview

As this is our 9th annual survey we thought it would be an appropriate time to take stock and comment on some of the clear trends that are being revealed in the results of our survey so that we have a better understanding of the environment in which we are all operating.

There is no region in the world more dependent on hospitality than the Caribbean.

The percentage contributions of the hospitality industry to the GDP of many countries in the region rank amongst the highest in the world.

For several countries there is no "Plan B" – no alternative to hospitality.

Many of the same countries are facing large budget deficits and the only way to remedy such deficits is to impose charges and taxes on participants in the hospitality industry, which then makes them less competitive which further weakens their economies – a classic "Catch 22" situation.

So what are they to do?

The first step is to recognise the reality of the situation.

There is no simple solution. The results of our survey show that continued patience is needed.

The region's hospitality industry has been in the doldrums for several years now as a result of the global economic downturn and volatility.

Lenders are cautious and wary of uncertainties. However, so are developers, investors and governments. Many participants in our industry have suffered greatly in recent years. When they return to the market it will be on the basis of "lessons learned" with a new, more conservative, approach to managing risk.

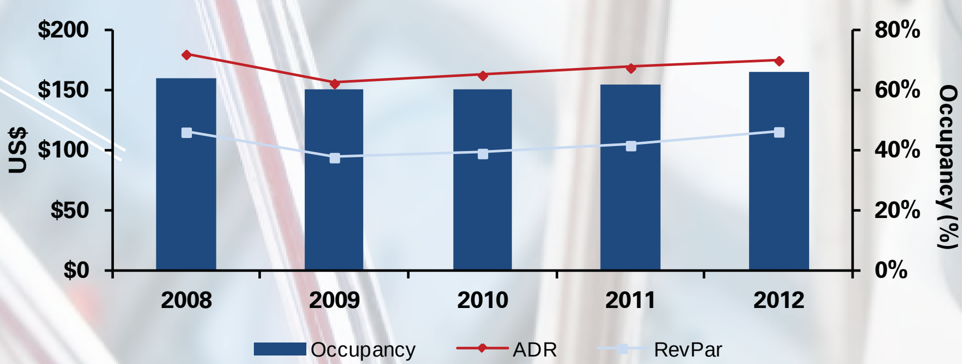
There are fewer lenders to the industry and those entities that are lending are doing so more cautiously with more demanding terms and conditions.

It is not all doom and gloom though by any means.

There are relatively few new troubled assets being reported by lenders and there are signs of recovery and more stability.

There was a slight lag in occupancy which did not hit rock bottom until 2010 having previously been boosted by lower rack rates.

Caribbean Key Performance Indicators



Source: Smith Travel Research

With this more conservative approach there will be a natural gravitation to perceived safe options based on established jurisdictions with strong airlift and modern infrastructure, hotels with established brands and less reliance, if any, on real estate pre-sales.

The pre-sale model of financing condo-hotels may survive but it will look very different with larger stage payments etc.

Timeshare and fractional developments may be perceived as safer investments compared to second home ownership.

As can be seen from the above, all KPIs are now on an upward trend, a message which is consistent with Smith Travel Research's early indicators for 2013 as well as our confidence barometer.

So hopefully we are over the worst but we still have lots of hard work ahead of us before we return to the good old days of booming tourism and strong sales of real estate and second homes.

Financing Trends

When financiers were asked what type of hospitality projects they lent to within the past year, it was clear that there had not been a great deal of activity.

> *"We have been lending to full service and limited service hotels but most of this new lending has been concentrated in Central and South America markets."*

> *"No interest in the sector currently"*

Interest appears to be in "safe" projects with established brands.

> *"Dominant hotels – with strong operators / brands, equity backed by major investor / hospitality groups"*

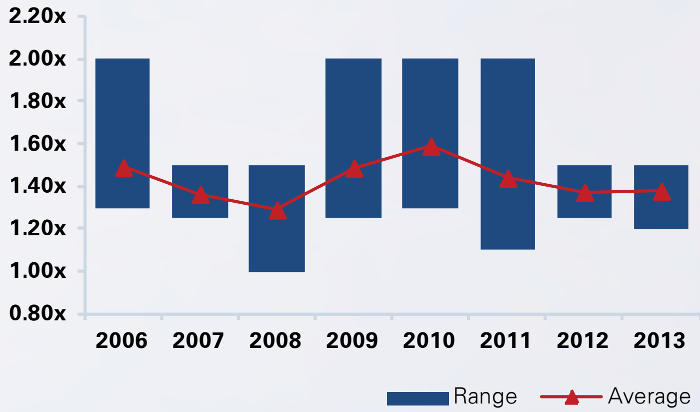
> *"Existing hotels. No green field. Strong brands located on islands with good airlift. Typically 3.5 – 4 star branded properties."*

However certain niche areas received an honourable mention.

> *"Hotel, Marina and condo; going forward we will be looking at proposals in these categories."*

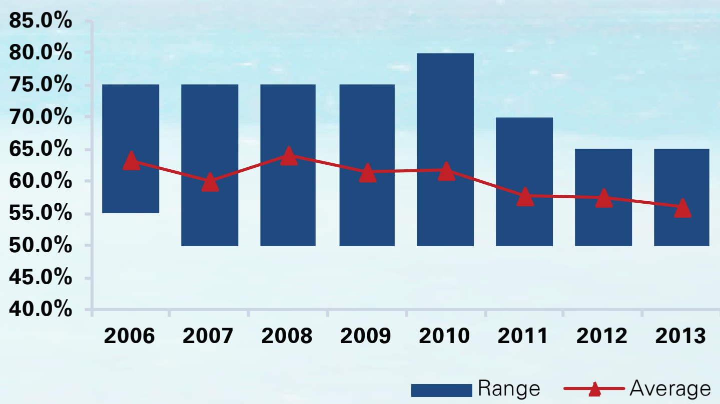
> *"What is probably going to work is Timeshare. Lenders, developers and investors are more cautious and in terms of financial commitment timeshare fits nicely between a vacation and home ownership."*

Debt service coverage ratio



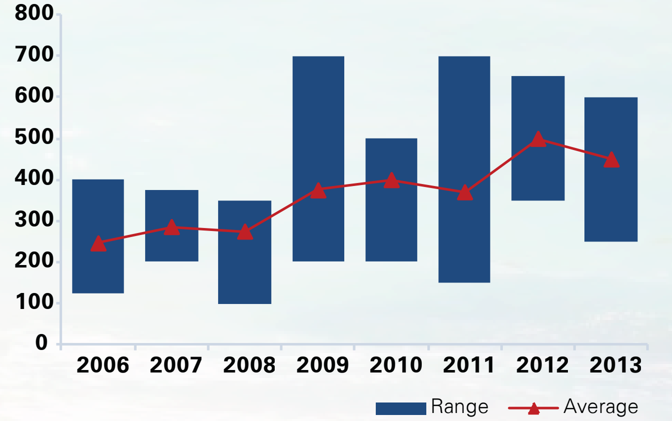
Source: KPMG International, KPMG's 2013 Caribbean Financing Survey

Loan to Value



Source: KPMG International, KPMG's 2013 Caribbean Financing Survey

Interest rate margin (bps)

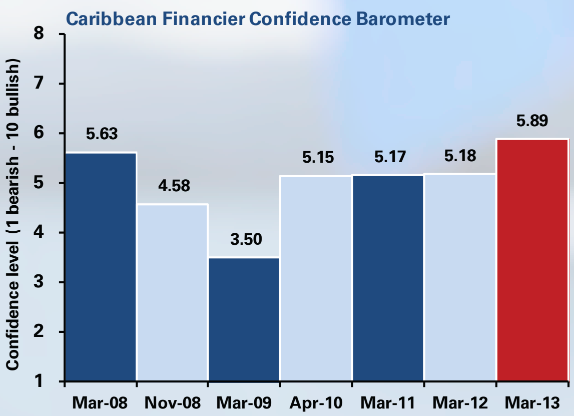


Source: KPMG International, KPMG's 2013 Caribbean Financing Survey

Industry Outlook

Expectations of growth remain conservative and continuing uncertainty is reflected in lenders' cautious outlook for the industry.

Describing lenders' outlook for the Caribbean and Central America tourism over the next year on a scale of 1 (bearish) to 10 (bullish), the Caribbean Financier Confidence Barometer rating of 5.89 for 2013 is the highest rating since 2008.

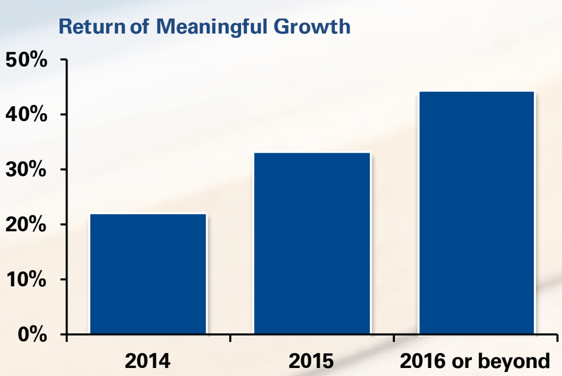


Source: KPMG International, KPMG's 2013 Caribbean Financing Survey

Our Caribbean Finance Confidence Barometer has now risen for the fourth year in succession. Confidence grew at a glacial pace over the 2010-2012 period but this year's increase represents a decided "spike" in the growth trend, which is encouraging.

However, patience remains the order of the day. Most respondents think we are at least 2-3 years away from seeing any meaningful growth in tourism and envisage a similar period before we see a return to strong real estate sales, sale of timeshare and fractional units and condominium sales.

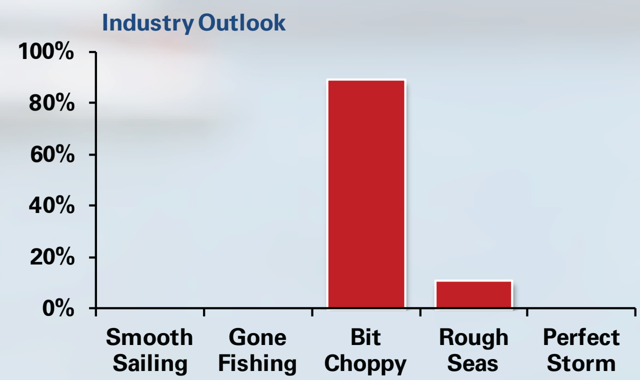
When will meaningful growth in tourism return to the Caribbean?



Source: KPMG International, KPMG's 2013 Caribbean Financing Survey

Nearly 50% of the respondents felt that meaningful growth in tourism will continue to be slow in the Caribbean. They don't expect growth until 2016 or beyond.

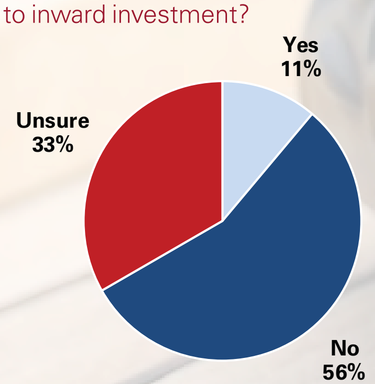
When asked what the outlook was for the industry over the next 12 months using a sailing analogy where "smooth sailing" represented the most bullish outlook and "perfect storm" the most bearish outlook, most respondents forecasted the waters would be a "bit choppy" with the possibility of "rough seas".



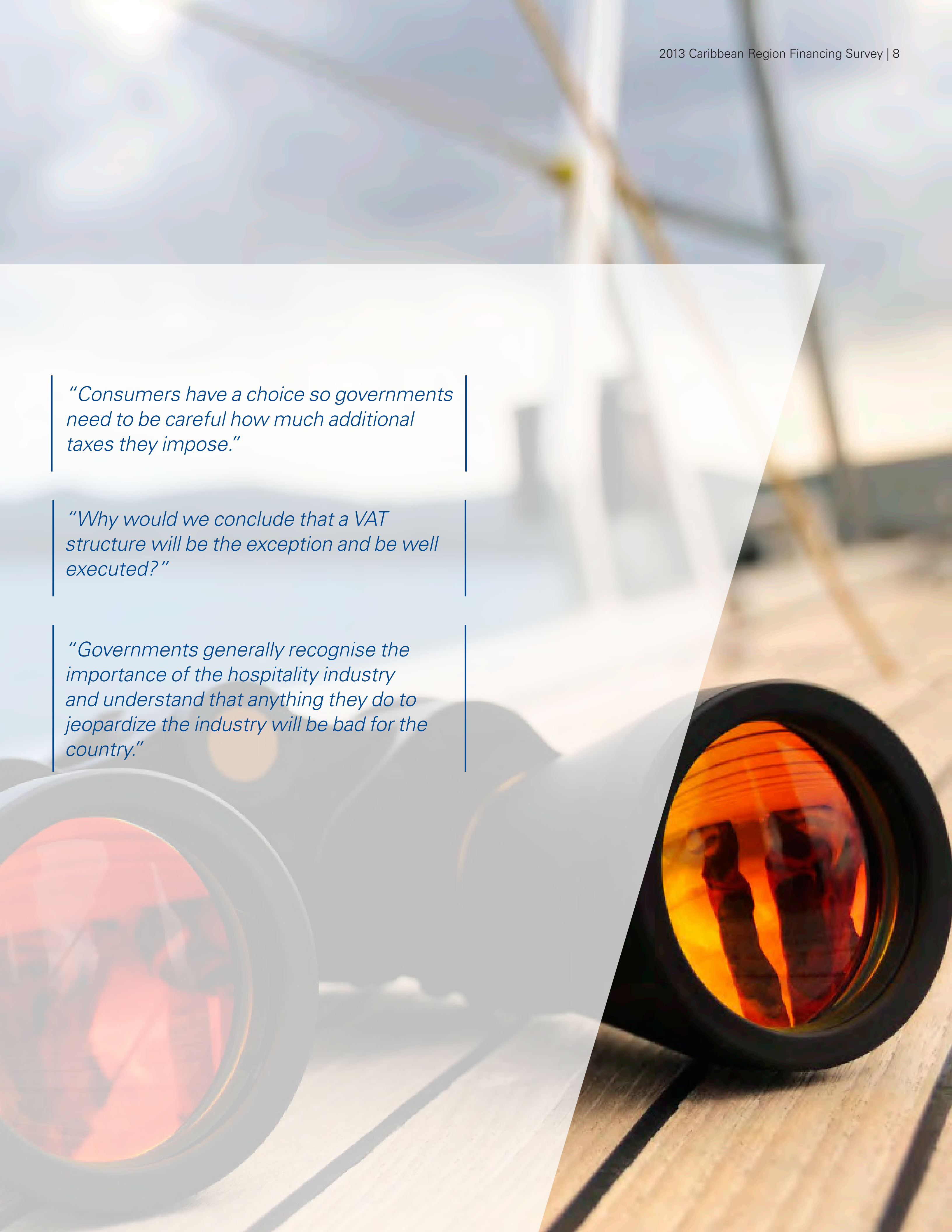
Source: KPMG International, KPMG's 2013 Caribbean Financing Survey

Whilst recognising that many governments in the region face financing challenges and are having to look at new revenue streams, respondents were sceptical that new revenue raising measures such as value-added tax (VAT), could be implemented successfully in the region without deterring inward investment.

Are you confident that new revenue streams such as VAT will be implemented successfully in the region and will not act as a deterrent to inward investment?



Source: KPMG International, KPMG's 2013 Caribbean Financing Survey



> *"Consumers have a choice so governments need to be careful how much additional taxes they impose."*

> *"Why would we conclude that a VAT structure will be the exception and be well executed?"*

> *"Governments generally recognise the importance of the hospitality industry and understand that anything they do to jeopardize the industry will be bad for the country."*

When asked their opinion on the pre-sale financing model, there was quite a wide spectrum of views but the strongest held opinions were negative.

> *"No, it should not come back based on the previous experience with broken deals in the Caribbean region. Also, this model really does not work for lenders, as there is so much potential for litigation from pre-sale purchasers in the event the project runs into problems."*

> *"Not now. Lenders are afraid."*

> *"There will always be a role for pre-sales but the terms of the pre-sales will be much tighter in future. For example, the amounts of the deposit and stage payments will be much higher."*

We tried to determine from survey participants what stage we are now at in the restructuring cycle, for example are we at the early stages typified by breaches of loan covenants and attempts to cut costs or at the advanced stages of receivership and liquidation? There is a consensus that we are at the advanced stages of the cycle with some encouraging comments that there appear to be few new troubled projects and some signs of recovery.

> *"Clear signs of recovery and heading for more stable operations."*

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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