Caribbean Hospitality Financing Survey

2025

Now, for tomorrow

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Introduction

This is the 20-year anniversary of our Caribbean Hospitality Financing Survey. Monitoring the development of the Caribbean tourism industry over this period has never been boring.

Every year over the last 20 years, there always seems to have been a major event capturing the headlines, the most obvious being the impact of the COVID-19 global pandemic. Other memorable events, such as the 2008 economic crisis, spring to mind, not to mention the all-too-familiar challenges of recovery from various catastrophic hurricanes.

On the 20th anniversary of this now well-established publication, we thought surely some major event would come along and naturally steal the headlines. However, early indications suggested otherwise.

We opened the survey on 30 January 2025 and closed it to responses on 13 March 2025. Whilst the findings were very interesting and reassuring, with results generally suggesting an underlying message of cautious optimism, we still didn't have our headline – and then along came tariffs!

So, we now have our headline for the 20th anniversary edition, and it is a disclaimer! We caution readers that the findings of this year's survey are based on opinions expressed before 2 April when the U.S. government announced tariffs on a wide range of goods imported into the U.S. from many different countries.

Why do we feel the need to make this subject our headline? We certainly have no intention of predicting the impact of the potential imposition of tariffs or passing judgement on the relative merits of various government policy decisions. It would, however, be remiss of us not to mention the subject of tariffs when comments like "end of world free trade" and "global trade war" from reputable individuals and institutions are featured heavily in the news. Furthermore, it would be naïve of us not to recognise that knowledge of recent events would have impacted some of the results of our survey. For example, we have asked questions on inflation. It seems likely that the responses received would be very different if we were to ask the same questions today. 71% of our bank respondents and 54% of non-bank respondents stated that inflation "*will broadly stay at current levels over the next 12 months*".

Having asked questions in 2023 and 2024 about the likelihood of a recession and having received responses indicating that 83% of banks (2023: 64%) and 81% of non-banks (2023: 65%) did not believe we would go into a recession over the next 12 months, we chose not to ask questions about a potential recession this year. At the time of writing, Goldman Sachs put the odds of a recession at 45% and J.P. Morgan at 60%. We would certainly be asking respondents about the likelihood of a recession were we preparing our questions today.

Returning now to the "*cautious optimism*" sentiment: what once looked like a boring statement typical of accountants is starting to look very reassuring.

There is real value in memorialising the state of the Caribbean tourism industry just before the start of this period of uncertainty. In a time of dramatic change, it is important to have a reliable reference point to fall back on when making decisions.

Cautious optimism certainly reflects the prevailing underlying sentiment. Confidence in the Caribbean remains high. Whilst bank confidence has dipped from the record levels of last year, it aligns with the 10-year average. Meanwhile, confidence of non-banks is up a fraction from last year.

The real estate boom shows no sign of ending any time soon, with 86% of banks believing it will continue for at least 12 months or considerably more than 12 months.

2024 was hardly a quiet year from a geopolitical perspective, with several dramatic, unsettling events in Europe and the Middle East, for example, and numerous high-profile elections globally. Reassuringly (that word again), most respondents believed these

events had little impact on tourism in the Caribbean and that the Caribbean was in fact seen as a safe haven.

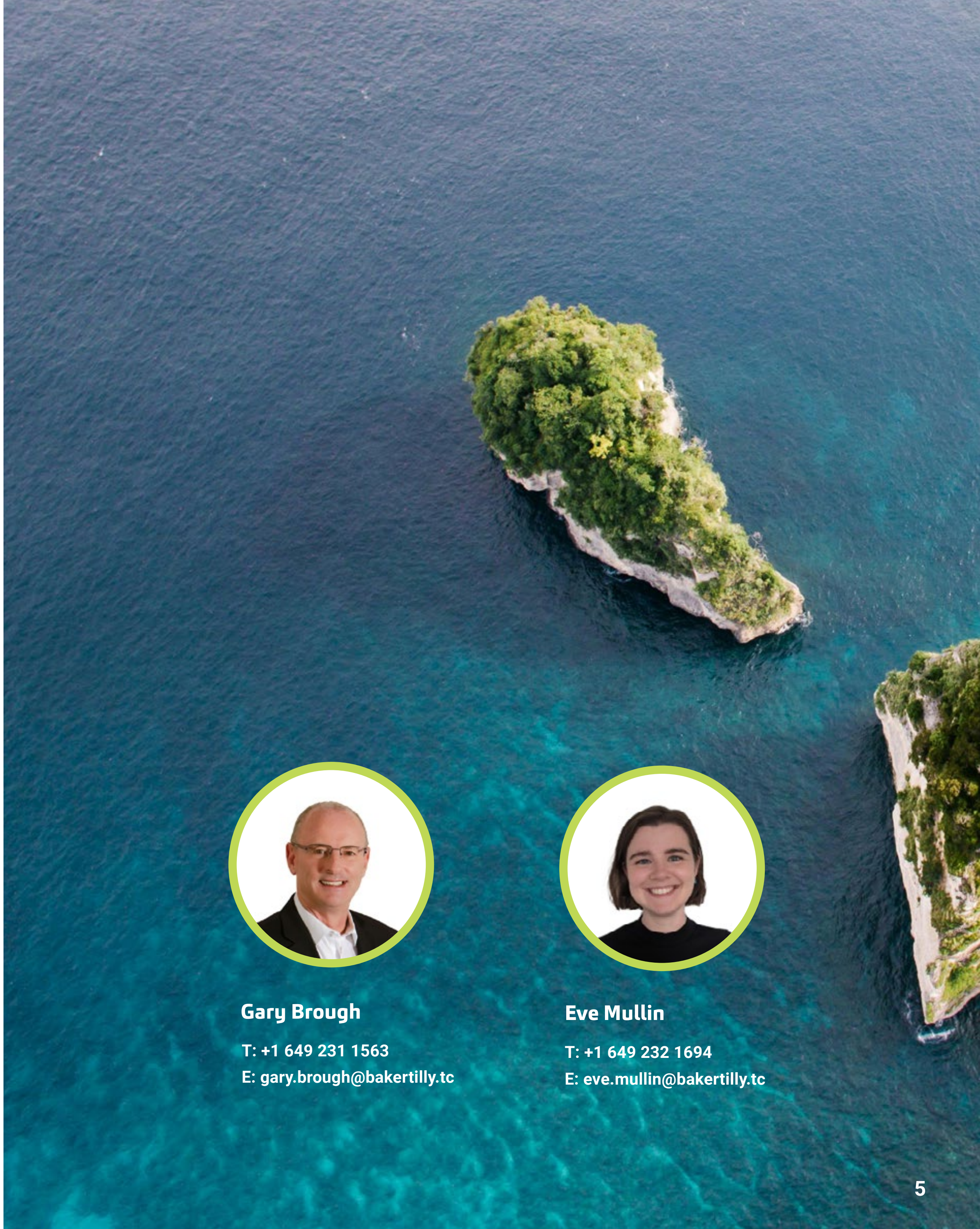
Most banks consider their pipeline to be stronger than last year and, over the last 12 months, they have seen increased transaction activity and an improvement in the performance of their tourism clients.

The appetite to finance Caribbean tourism projects remains strong and financing terms have seen no material change. There are many good reasons to be optimistic, but it is not all positive news.

The ability to acquire adequate insurance coverage at a reasonable price, if at all, continues to be a problem, as featured heavily in last year's report. This is causing problems for developers and banks alike, with the latter often having to choose between changing their normal mandates or letting good opportunities go.

Whilst the feedback from respondents on how difficult it is to conduct business in the Caribbean has improved somewhat from last year, there is still more work to be done, particularly in the areas of innovation, bureaucracy and the role of government.

We will close as we opened on the subject of tariffs and the associated geopolitical climate generally. It is an old cliché that markets hate uncertainty. We are sure this is true for many investors and tourists. Anything that can bring more certainty and reliability to decision making can only be a good thing and we hope that in some small way, this report makes a positive contribution in that regard.



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Importance of tourism to Caribbean economies

As we have disclosed in our previous annual surveys, the Caribbean remains the most tourism dependent region in the world.

On an annual basis, the World Travel & Tourism Council (WTTC) surveys 185 countries to determine the importance of tourism to a particular economy. It then produces league tables to show the most tourism-dependent countries in the world. This year, **7 of the 10** most tourism-dependent countries globally in terms of tourism's contribution to GDP are Caribbean countries. Another **7 Caribbean countries** feature in the top 10 for direct contribution of tourism to employment.

Direct contribution to GDP, share of whole economy GDP, %

Rank	Economy	2023
1	Macau	50.2
2	Aruba	33.7
3	Antigua and Barbuda	28.3
4	St Lucia	28.3
5	US Virgin Islands	27.4
6	Maldives	24.2
7	Anguilla	23.7
8	Seychelles	22.4
9	Grenada	21
10	Bahamas	19.7

Direct contribution to employment, share of whole economy employment, %

Rank	Economy	2023
1	St Lucia	44.4
2	Aruba	43.9
3	US Virgin Islands	39.3
4	Maldives	30.9
5	Anguilla	29.5
6	Antigua and Barbuda	29.1
7	Macau	24.7
8	Bahamas	24
9	Seychelles	22.5
10	St Kitts and Nevis	20.5

Caribbean nations

Source: WTTC

It should be noted that several highly tourism dependent Caribbean countries were not included within the 185 countries reviewed by WTTC. Caribbean representation within the top 10 would have been even higher had they too been included.

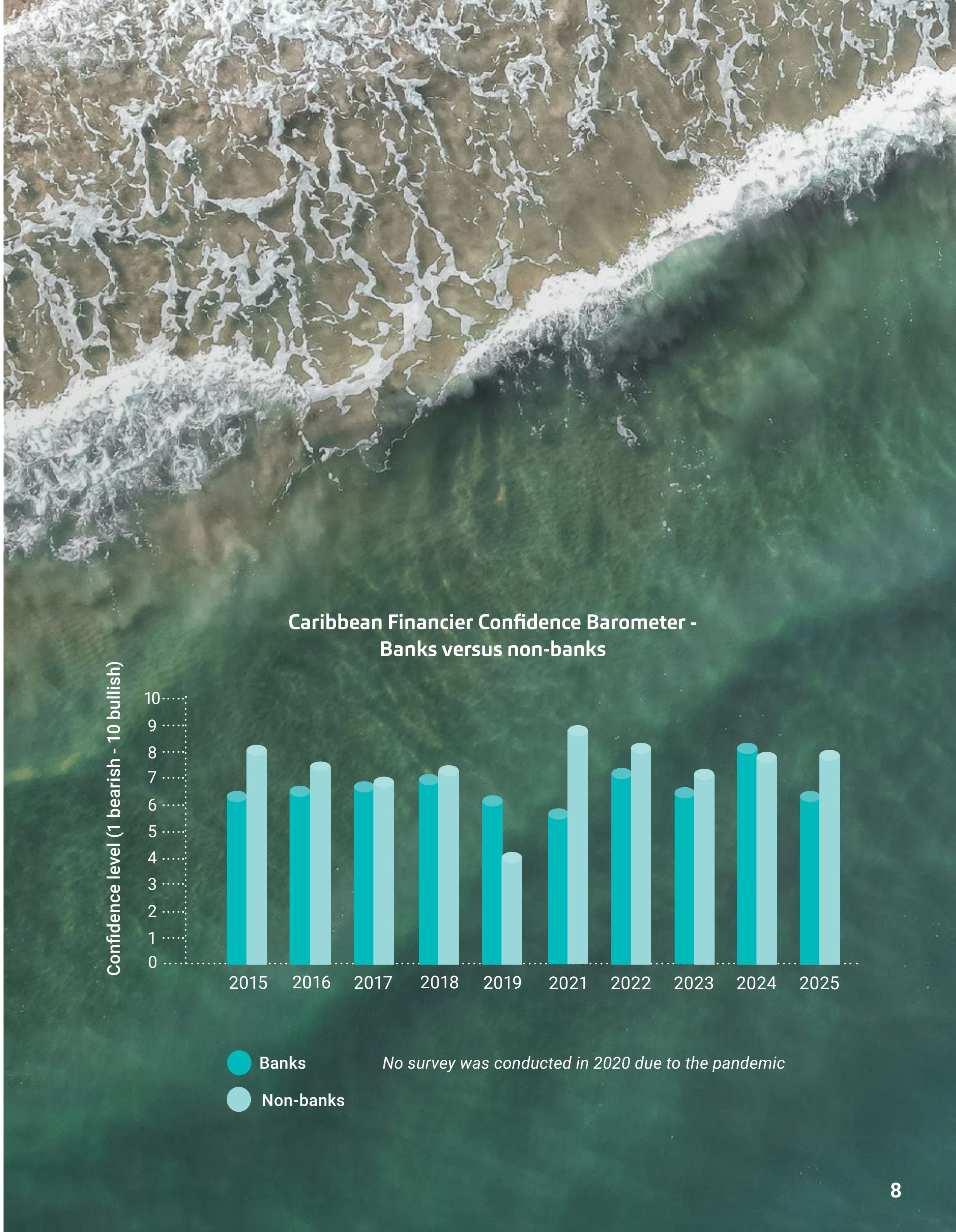
It should be noted that the tables only show the direct impact of tourism on an economy. Whilst there are very few formal Input-Output models of Caribbean economies, it is widely accepted that a multiplier of at least 2.5 times direct impact should be applied to reflect tourism's indirect and induced impact on a nation's economy, which can equate to 80-90% contribution to a country's GDP.

Furthermore, according to the WTTC, the potential of tourism in the Caribbean has yet to be fully exploited. It estimates an average Caribbean tourism growth rate of 5.8% – more than double the 2.7% estimated for the global economy – suggesting that the Caribbean will likely remain the most tourism-dependent region in the world for the foreseeable future.

Confidence levels

As always, our Confidence Barometer remains a key feature of our annual survey. It records the financing community's confidence levels in the Caribbean tourism industry based on a scale of how bullish financiers feel regarding the prospects of Caribbean tourism over the next 12 months on a scale of 1 (bearish) to 10 (bullish).

This year we saw a noticeable decline in the bullishness of banks, from 8.20 out of 10 to 6.6 out of 10, and a very slight increase in bullishness of non-banks, from 8.0 out of 10 to 8.10 out of 10. Whilst the decline of bank confidence takes us back to 2023 levels (6.64) and should not be dismissed, it is still at approximately the average level for the last 10 years. It should also be noted that last years' confidence level of 8.20 was the highest level in the 20 years we have been preparing this survey.



In terms of the higher confidence level of non-banks, this has been the case nearly every year over the last 10 years, except for last year where there was a very small difference (8.20 versus 8.0) and 2019 (6.33 versus 4.30). We were encouraged by the consistent rating between the two populations last year, but this year, they have reverted to type. By nature, banks are more conservative.

When asked for the reasoning behind their responses, banks provided the following:

"We are taking a conservative approach to hospitality lending"

"Markets are improving gradually"

"Growth is expected albeit modest"

And non-banks noted the following:

"With such a captive audience on the east coast of the US and strong airlift, the lure of the sea, sand and sun is just too strong and will continue to be attractive to these tourists"

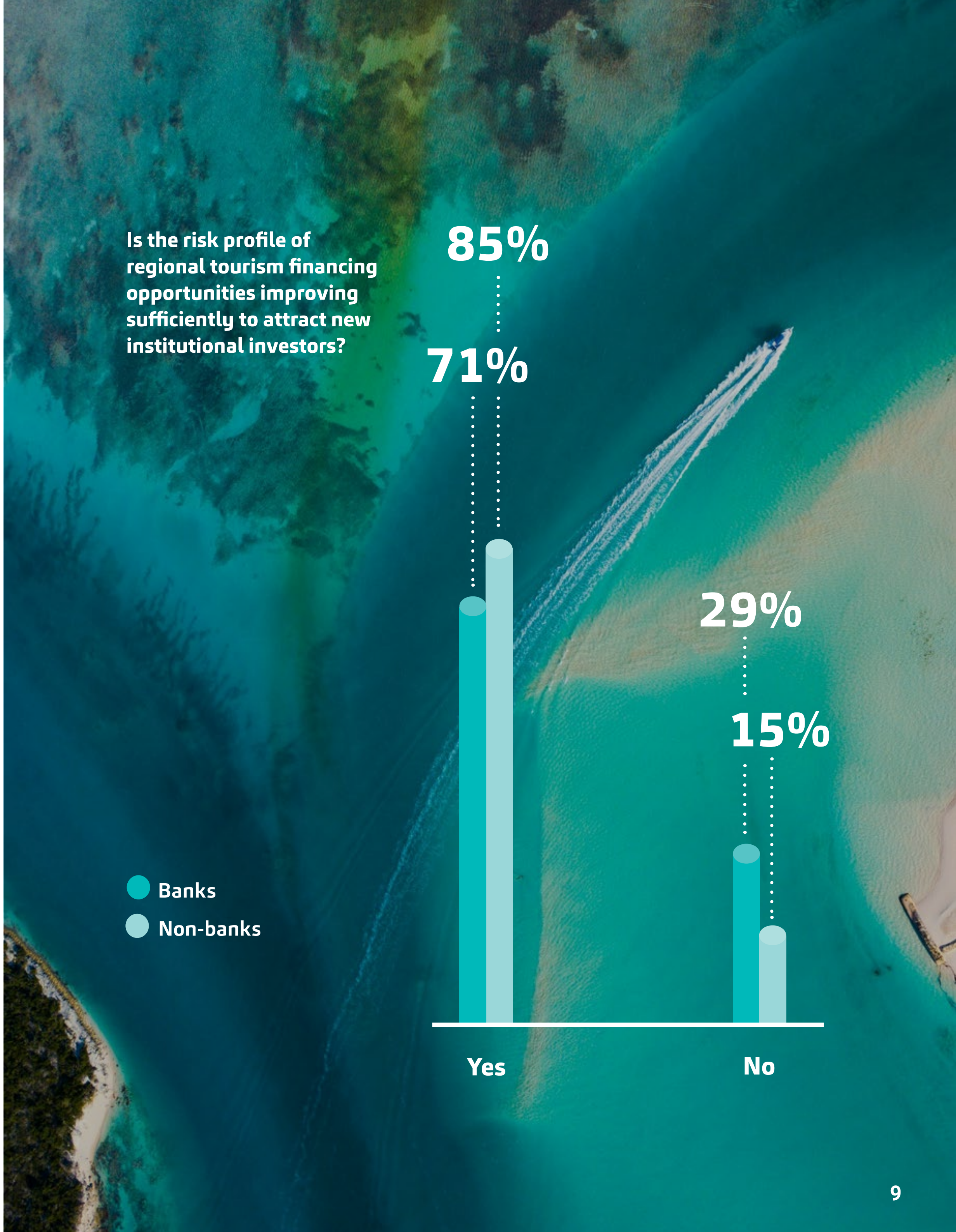
"The Caribbean was always seen as politically neutral and a safe haven for investors"

"The Caribbean combines a safe travel option alongside compelling product. While there are still some recessionary concerns, the higher-end traveler is yet to feel the pinch"

"Caribbean will remain an attractive market especially for USA tourists"

"Uncertainty on main feeder market, USA"

"Slow growth. Need more flights"



Transaction activity

The view of banks on the level of transaction activity is consistent with the Confidence Barometer. The majority of banks (71%) have seen more transaction activity over the last 12 months.

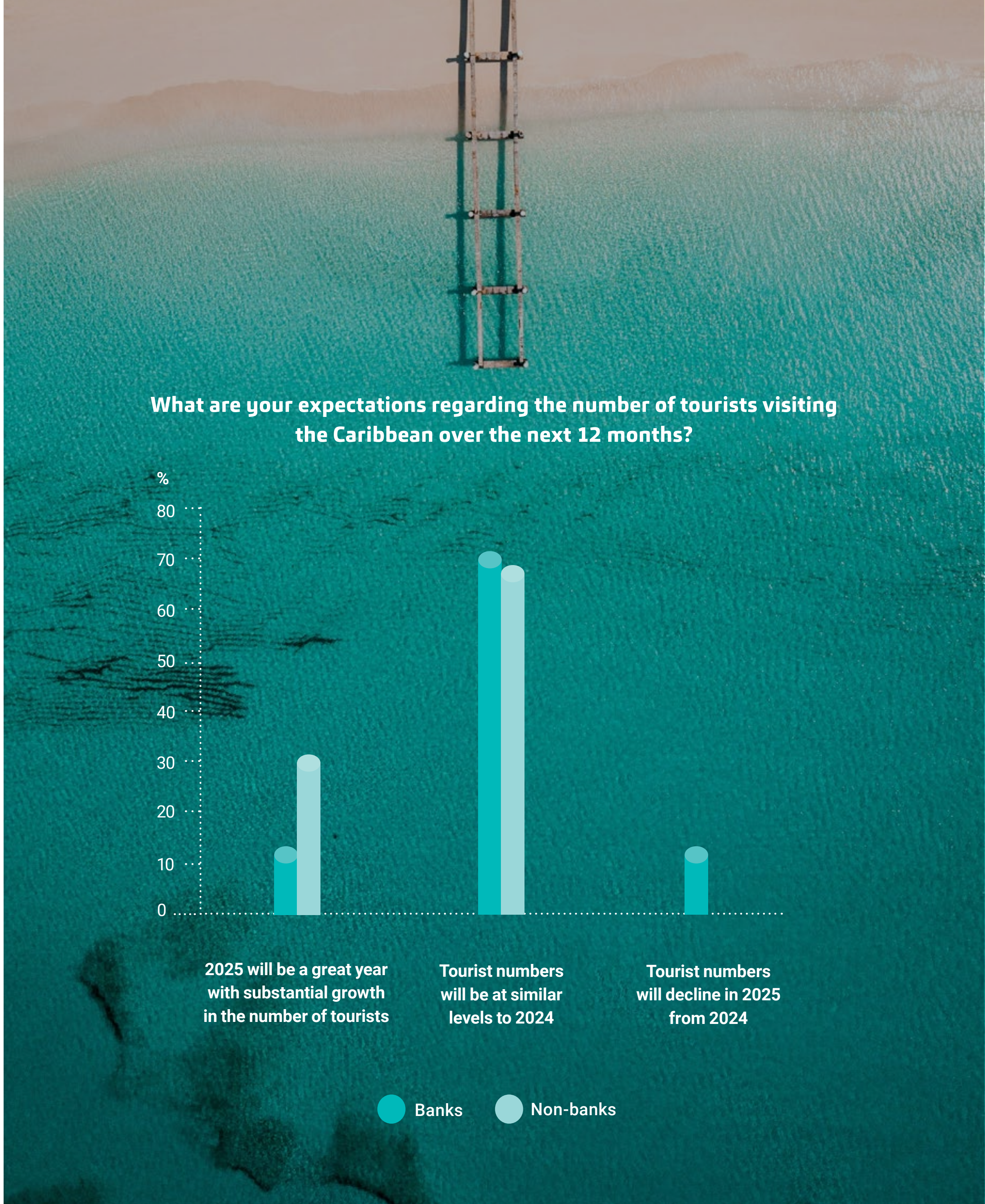
Key Performance Indicator's (KPIs)

On the same confidence theme, 58% of banks noted that they have seen either a slight (29%) or significant (29%) improvement in their resort clients' KPIs in 2024 from 2023. Going forward, 86% of banks believe that their clients' KPI performance will slightly improve in 2025.

Current approach to lending or investing

Banks' current average percentage lending to Caribbean tourism projects as a percentage of their total lending is 31%. An average of 63% of non-banks' investment is in Caribbean tourism projects.

When asked about their current deal flow and pipeline, 57% of banks (2024: 67%) indicated it was stronger than last year with 14% of banks (2024: 0%) responding that their pipeline was weaker. An impressive 92% of non-banks anticipate making new investments over the next 12 months, up from 81% in the previous year.

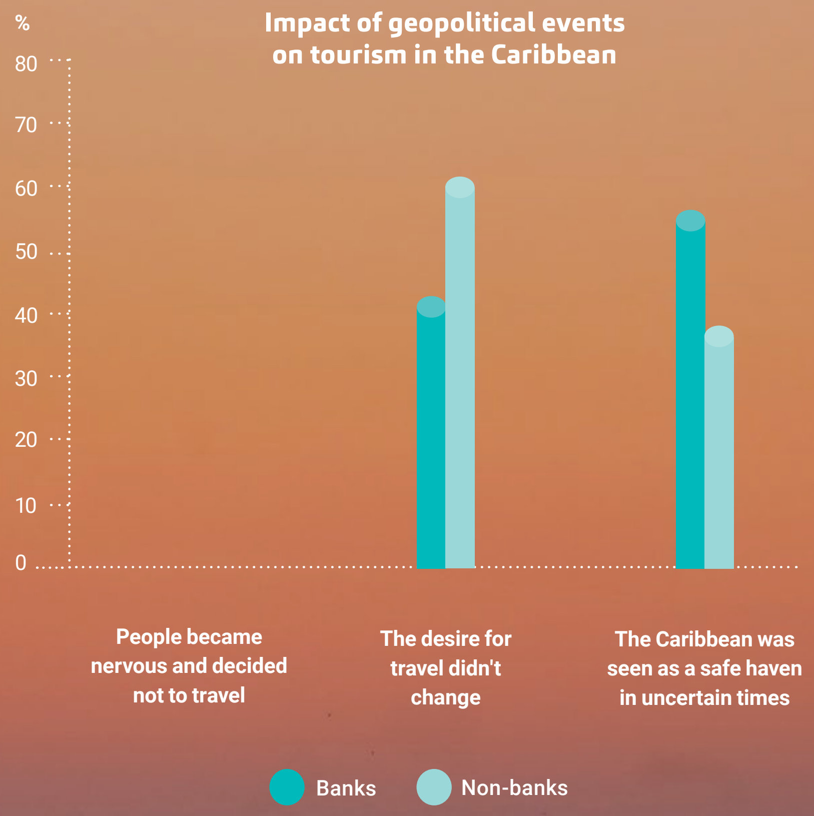


In terms of their approach to lending to projects in the Caribbean tourism industry, 29% of banks responded by stating they are "*bullish and think it is a great time to lend*", while 57% noted it was "*business as usual*". Although more conservative than when 50% of banks stated they were "*bullish and think it is a good time to lend*", these results continue to reflect a stable growth pattern.

Expectations regarding the number of tourists

Financiers remain optimistic about future tourist numbers to the Caribbean. Despite a year of dramatic geopolitical events in 2024, 55% of all respondents noted that there had been little to no impact of these events on tourism in the Caribbean, stating that they believed the desire to travel has not changed. The remaining 45% of respondents believe the Caribbean is seen as a safe haven in uncertain times, a common theme we have described in previous reports.

Furthermore, 95% of respondents expect the number of tourists visiting the Caribbean over the next 12 months to either show substantial growth (25%) or remain at similar levels to 2024 (70%). The remaining 5% expect tourist numbers to decline in 2025 versus 2024. These results are promising for the continued growth of the tourism industry that is so critical to the Caribbean economy.

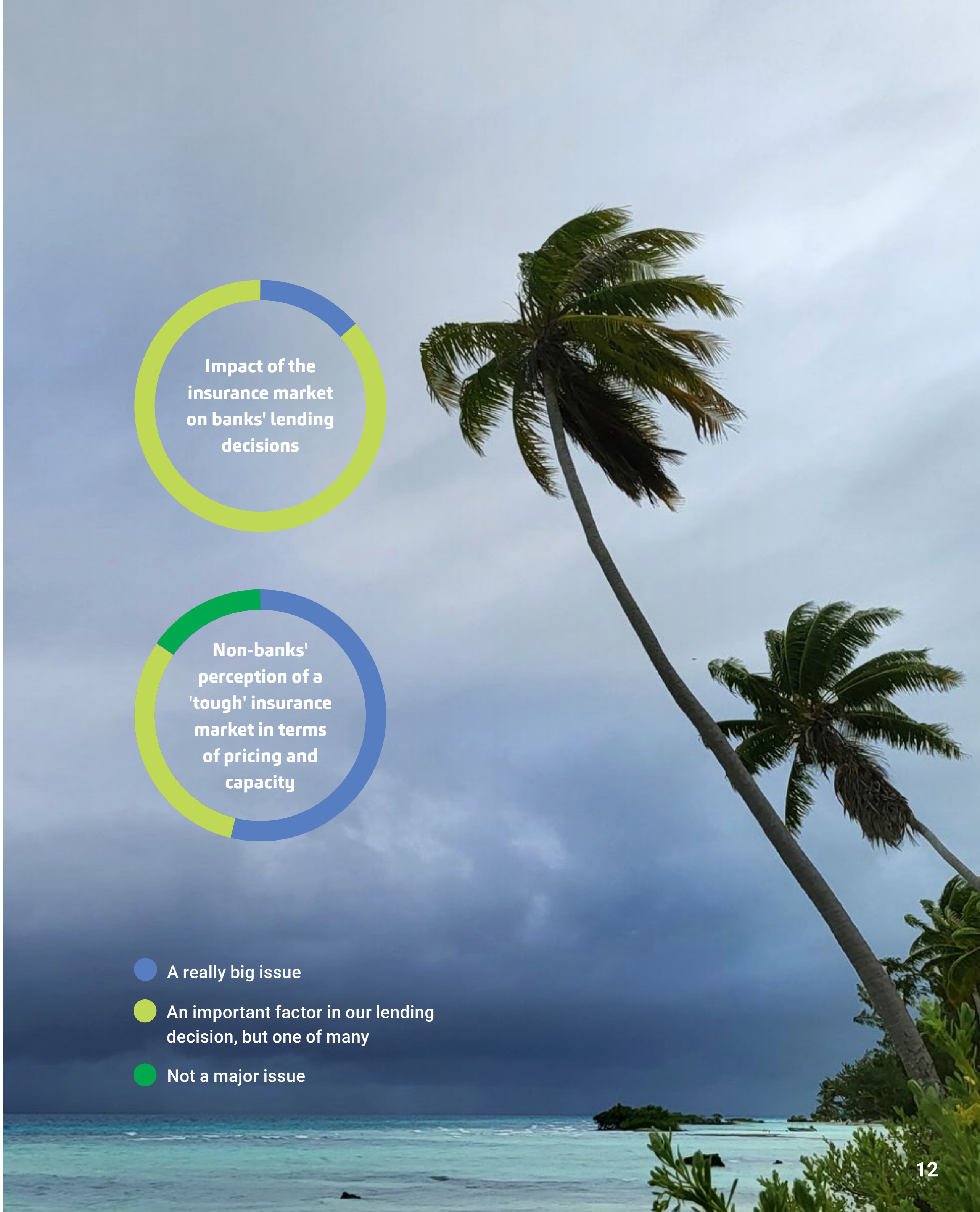


Insurance

Last year, insurance was our headline topic. Readers may recall we highlighted that not only had the price of insurance coverage gone up significantly, but the ability to get insurance coverage at any price had become an issue.

There was a finite capacity of coverage allocated to the region and that wasn't going to increase because of concerns about the level of hurricane activity and climate change in general. Without insurance coverage, developers struggled to secure financing and banks had to decide whether to compromise their usual mandates or pass on several highly promising opportunities.

Have there been any improvements this year? Well, not in terms of the weather. The 2024 hurricane season was a long one with several major hurricanes affecting the region, especially the Florida peninsula. Most notably, the season began at the end of June with Beryl, the earliest forming Category 4 and Category 5 Atlantic hurricane on record. In early October, Hurricanes Leslie, Milton and Kirk marked the first time that there were three simultaneous active Atlantic hurricanes after September. Hurricane Milton soon became the fastest intensifying hurricane causing significant destruction across Florida. The total cost of damage and economic loss is estimated to be over US$180 billion.



Last year, all banks stated that the ability, or lack thereof, of potential borrowers to evidence adequate insurance was a challenge when lending. 33% stated it was a "*really big issue*". This year, all banks continue to confirm that insurance remains a challenge. 14% now state it is a "*really big issue*", while the remaining (86%) say it was an important factor in their lending decision – but only one of many.

85% of non-banks also said that ensuring a target project had access to adequate insurance was a challenge when investing. 54% stated it is a really big issue.

When asked how they are dealing with insurance, pricing and capacity challenges from a lending perspective, 42% of banks indicated that they have turned away potential business because of this issue. Another 29% of banks stated that they have had to compromise their usual requirements regarding insurance. The remaining 29% of banks stated that they have experienced no problem with insurance, pricing and capacity challenges – describing it as "*business as usual*".

Industry's search for a solution

Last year, we hoped that the market would find a solution to this problem. We challenged the likes of the Bermuda market and Lloyd's syndicates to address it, highlighting that it could represent a potential opportunity for them, but we have yet to see any tangible progress. This issue isn't going away, so we will continue to monitor it closely whilst keeping our fingers firmly crossed for a particularly quiet hurricane season.

Inflation

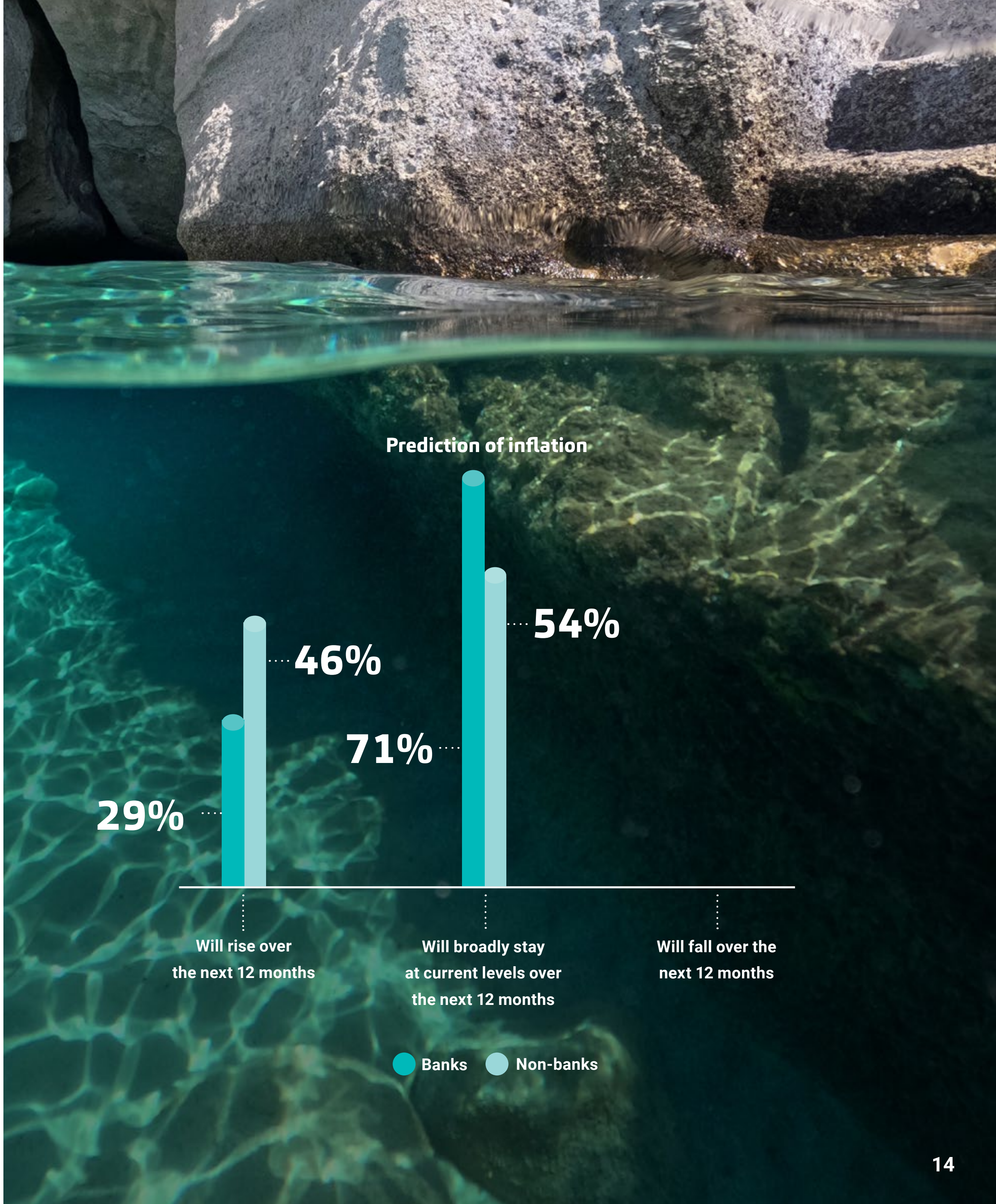
This year, 71% of banks and 54% of non-banks said they believe inflation will "*broadly stay at current levels over the next 12 months*" (2024: 50% banks and 56% non-banks).

The remaining banks (29%) and non-banks (46%) said they believe it "*will continue to rise over the next 12 months*" (2024: 17% banks and 0% non-banks). No respondents (0%) said they thought inflation would "*fall over the next 12 months*", a drop from 2024 when 33% of banks and 44% of non-banks thought it would. The opinions of our respondents were largely consistent with last year, with banks being more inclined to expect similar levels of inflation and non-banks split almost 50/50 between expecting a similar level of inflation and an increase.

As stated in our introduction, the survey was completed by respondents between 30 January 2025 and mid-March 2025, prior to the 2 April announcement of new tariffs on US imports and the international response that followed.

If we had asked our respondents to share their thoughts on inflation today, their responses would almost certainly be quite different.

However, we do think there is particular benefit in '*taking stock*' on perspectives as they were before these recent dramatic events. We will use this year's results as our 'baseline' next year, when we expect to be exploring this subject further.



ESG

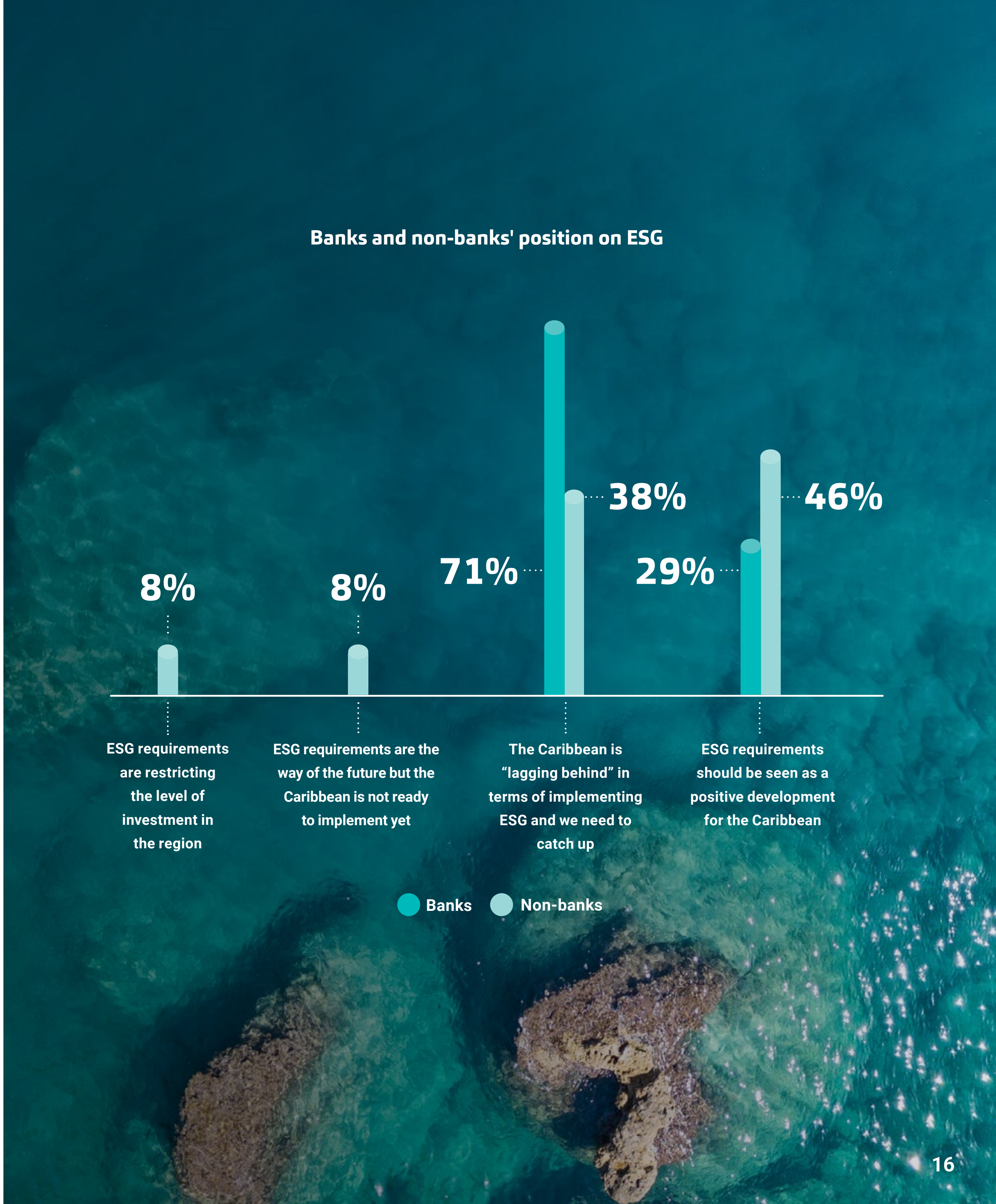
In recent years, environmental, social, and governance (ESG) considerations have become increasingly prevalent in the development of hospitality projects in the Caribbean – for example, when considering insurance coverage.

As we have seen in our section on insurance coverage above, capacity has become limited and developers will need to persuade insurers why they should be allocated some of that limited capacity. Being able to exhibit attempts to limit environmental impact could be one differentiating factor looked upon favourably by insurers.

We asked our bank and non-bank survey respondents this year what their position is on ESG. 50% of all respondents (71% banks, 38% non-banks) believe that the Caribbean is *"lagging behind"* in terms of implementing ESG, with a need to catch up. The remaining 29% of banks believe that ESG *"should be seen as a positive development for the Caribbean"*, as do 46% of non-banks. The remaining non-banks (16%), however, see ESG as either restricting the level of investment in the region (8%), or that the Caribbean is not yet ready to implement ESG requirements (8%).

Whilst 71% of banks are starting to see climate considerations specifically – and ESG in general – impacting some of the development projects they are presented with, only 14% stated that this is much more the case now than it was in the past, while another 14% stated that ESG is not really a factor as of yet.

There is no question that ESG initiatives have received a lot of attention in recent years and have been the subject of much debate. What cannot be disputed is that ESG considerations are increasingly a topic of interest, particularly in terms of how they impact the financing of tourism projects in the Caribbean.



Real estate

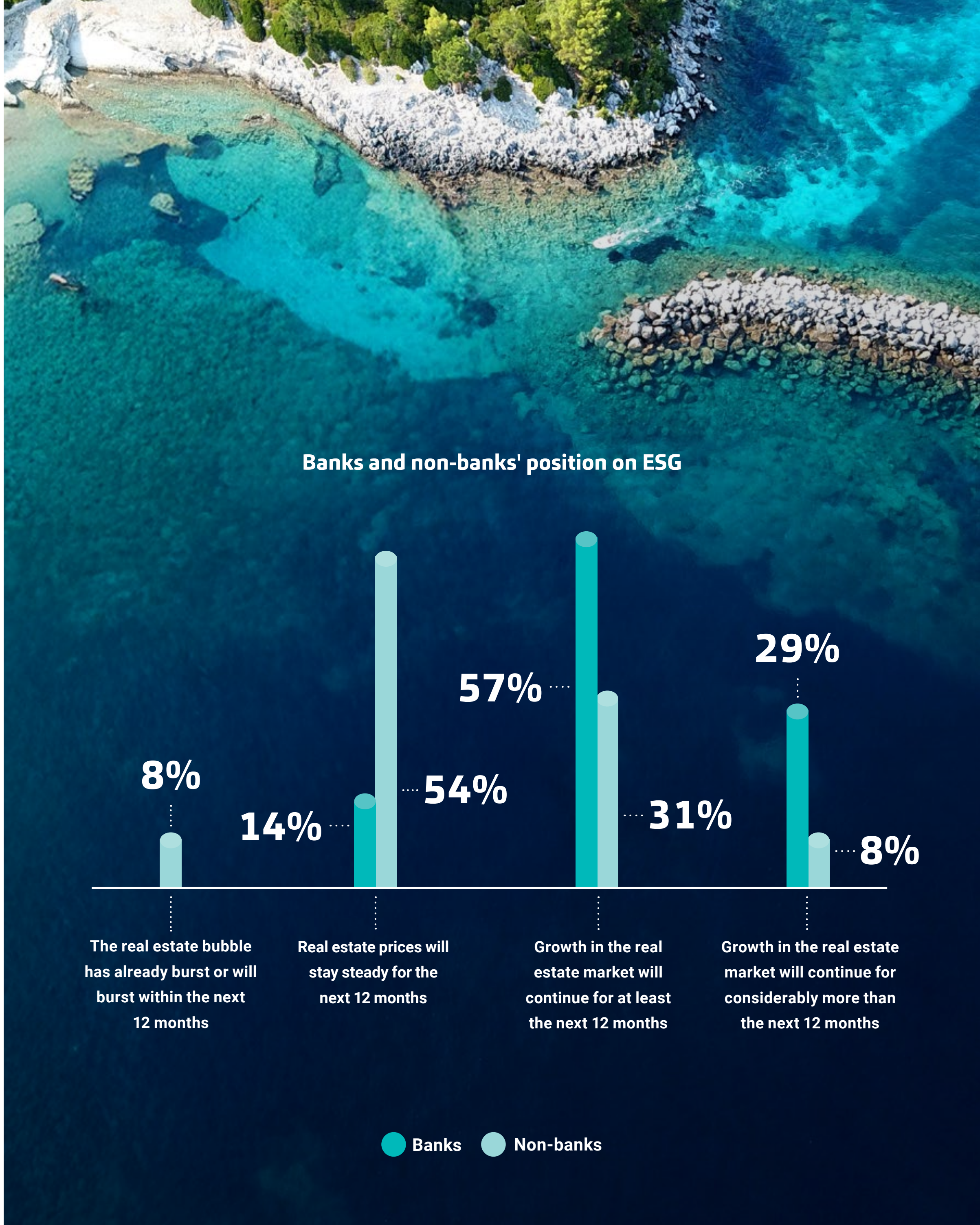
Respondents continue to remain optimistic about the future of the real estate market in the Caribbean.

The majority of banks (57%) believe that “*growth in the real estate market will continue for at least the next 12 months*” whereas the majority of non-banks (54%) believe that “*real estate prices will stay steady for the next 12 months*”. A significant number of banks (29%) and some non-banks (8%) believe that growth “*will continue for considerably more than the next 12 months*”.

This continued positive view suggests that the increasing trend of tourism developments having a real estate component will continue for the foreseeable future, supported in some Caribbean countries by tax incentives and digital and executive nomad visa programmes.

Only 8% of non-banks and no banks stated that they believe the real estate bubble has already burst or will burst within the next 12 months.

Real estate booms and bursts have come and gone in the past but it is most unusual for a boom to last this long and to be so strong. This supports the view that there has been a sustainable change in the tourism landscape post-COVID-19, both in terms of the tourist demographic and the financing needs of new tourism developments in the region.



Regional financiers – composition of market

The majority of banks (57%) continue to see no new lenders in the Caribbean marketplace. Those banks that did see new lenders (43%) noted that they were either headquartered in the Caribbean or in the Middle East.

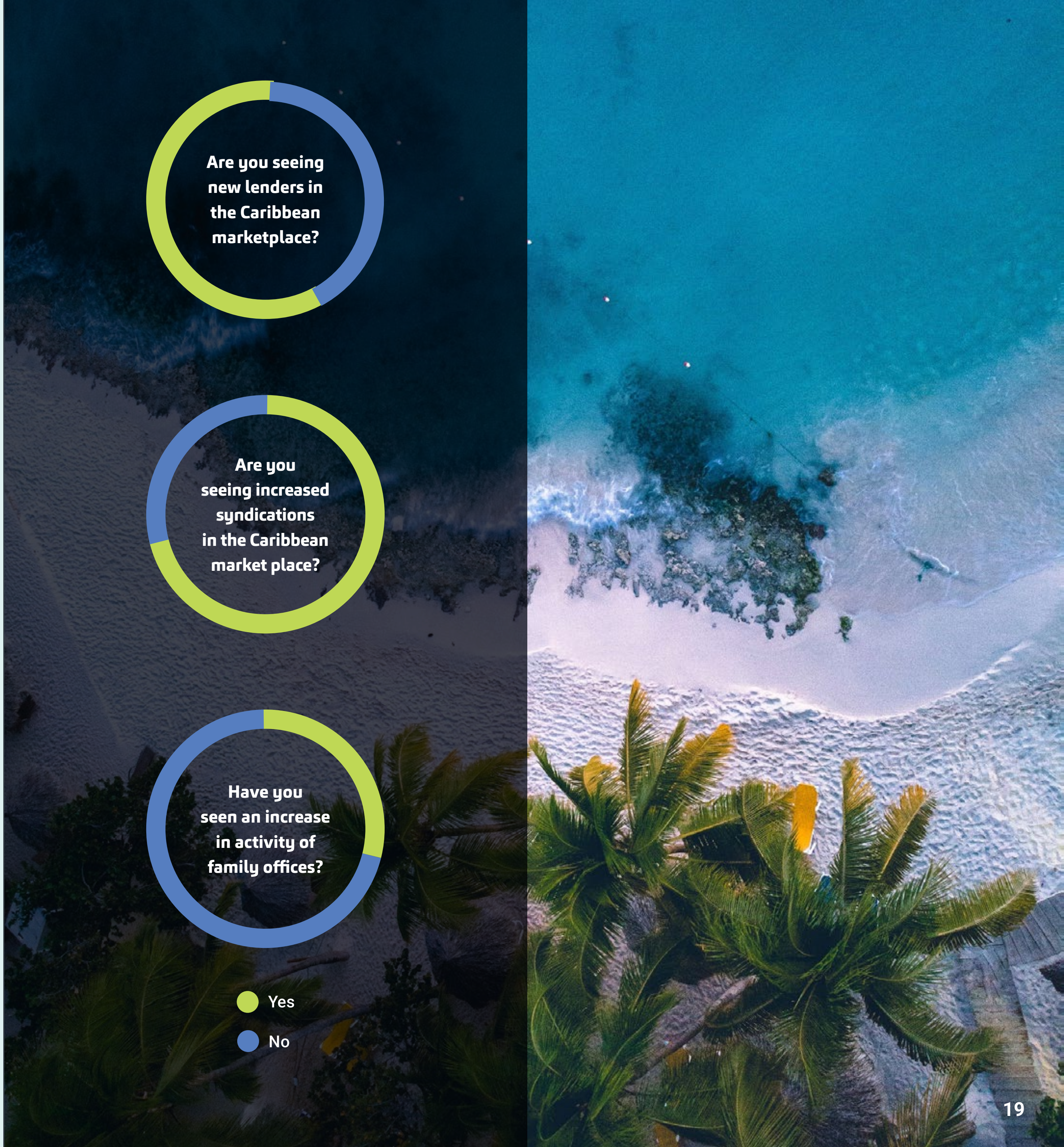
Regional risk profile

Each year we ask our survey respondents to consider whether the risk profile of Caribbean tourism financing opportunities is improving sufficiently to attract new institutional investors. Since 2022, we have seen the percentage of banks who have agreed with this statement steadily increase, from 20% in 2022 to 100% in 2024. This year, however, it dropped slightly to 71%, still reflecting a positive trend – achieving 100% is no easy feat! This trend is also supported by non-banks, with 85% believing that the risk profile is improving, an increase from 63% last year and 58% in 2023.

Family offices

Our reports from 2022 to 2024 reflect an increase in investment activity from new entrants into the market. One notable group is family offices representing high-net-worth (HNW) individuals who are interested in investing in the Caribbean for both commercial and lifestyle purposes. Last year, 67% of bank respondents stated that they had seen an increase in activity from family offices in the Caribbean marketplace. This year, that figure has declined to 29%, which is lower than reported for 2023 (38%). It should be noted that this still suggests growth albeit a slowdown in the rate of growth year on year.

It is not clear why this is the case. In some prior reports, we have established that there was an initial burst of activity from family offices just after COVID-19, reflecting, at least in part, the Caribbean's lifestyle attraction in a post-pandemic world, the increased ability to work remotely, and a desire for what some viewed as an insurance policy in the event of another outbreak. Perhaps this will turn out not to be a sustainable trend, or perhaps the interest of family offices has peaked. We tend to believe that in these times of geopolitical uncertainty, the interest of family offices in the region will continue. In any event, this is certainly another subject to keep our eyes on as it is an important category in the financing sector and a good fit for the Caribbean, particularly for luxury destinations.

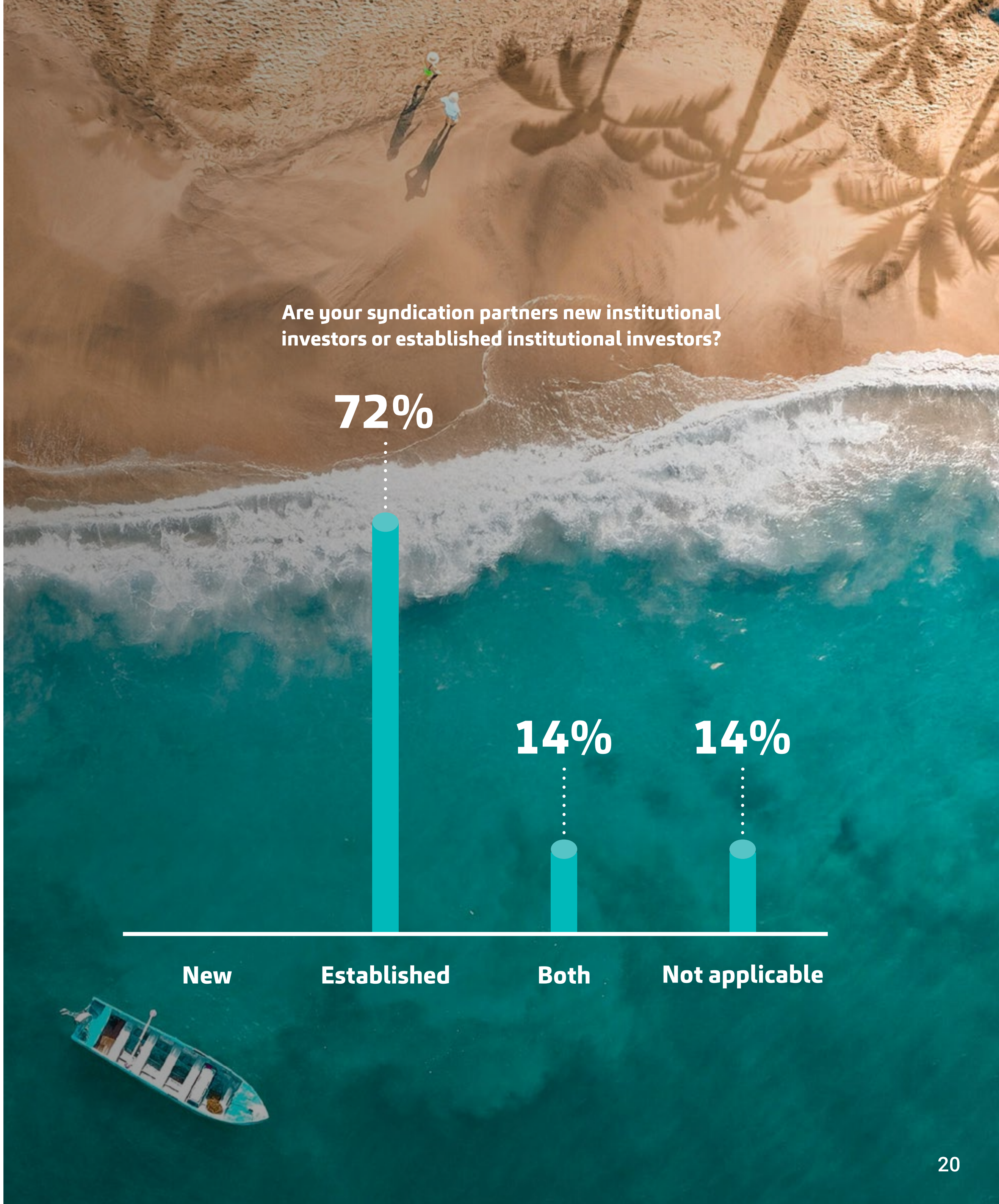


Syndications

As noted in previous years, the number of syndicated transactions in the Caribbean tourism industry continues to grow. Reasons for this continued growth could include the fact that there is more transactional activity in the region. Some banks may wish to take on less risk on larger deals. New entrants could see syndicated deals as a less risky way to enter the market. Some of the traditional lenders have become less active in the region, placing additional pressure on those that remain, who could find themselves "bumping up" against their country and industry limits.

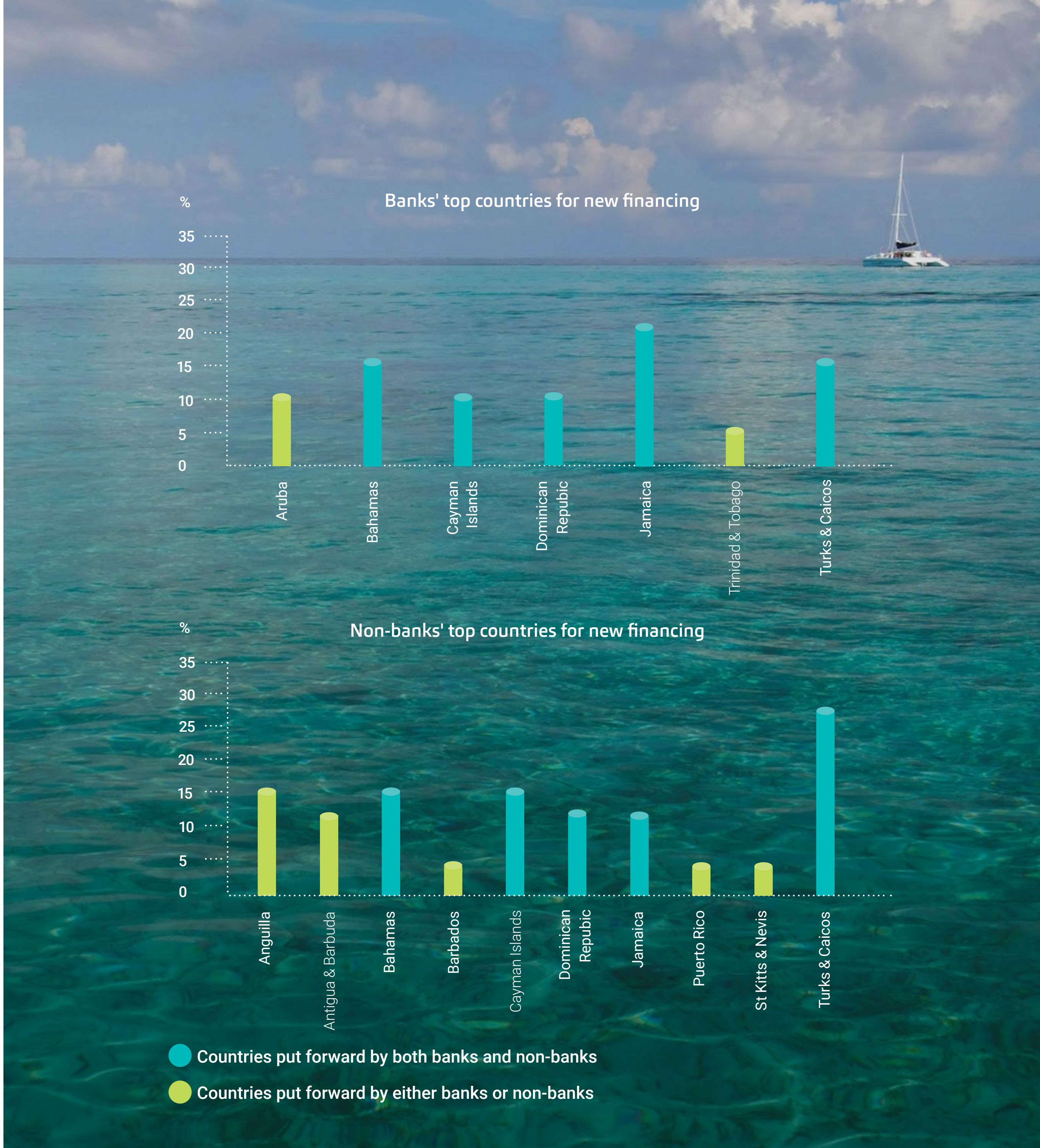
72% of bank respondents stated they are seeing an increase in syndicated transactions in the Caribbean marketplace. This is a slight decline from last year (83%), yet it is still a significant increase from 2023 where only 18% of banks noted they were involved in more syndicated transactions than they were pre-pandemic.

This year, most banks (72%) indicated their syndication partners are established in the region rather than new entrants. Last year, banks noted a 50/50 split between having new and established institutional investors as syndication partners.



Availability of financing

Each year, we ask our survey respondents to identify those countries in the Caribbean which they feel most bullish about in terms of their willingness to fund projects. 12 countries were put forward, five of which were nominated by both banks and non-banks.



Reasons cited by respondents as attractive financing features in the countries nominated include:

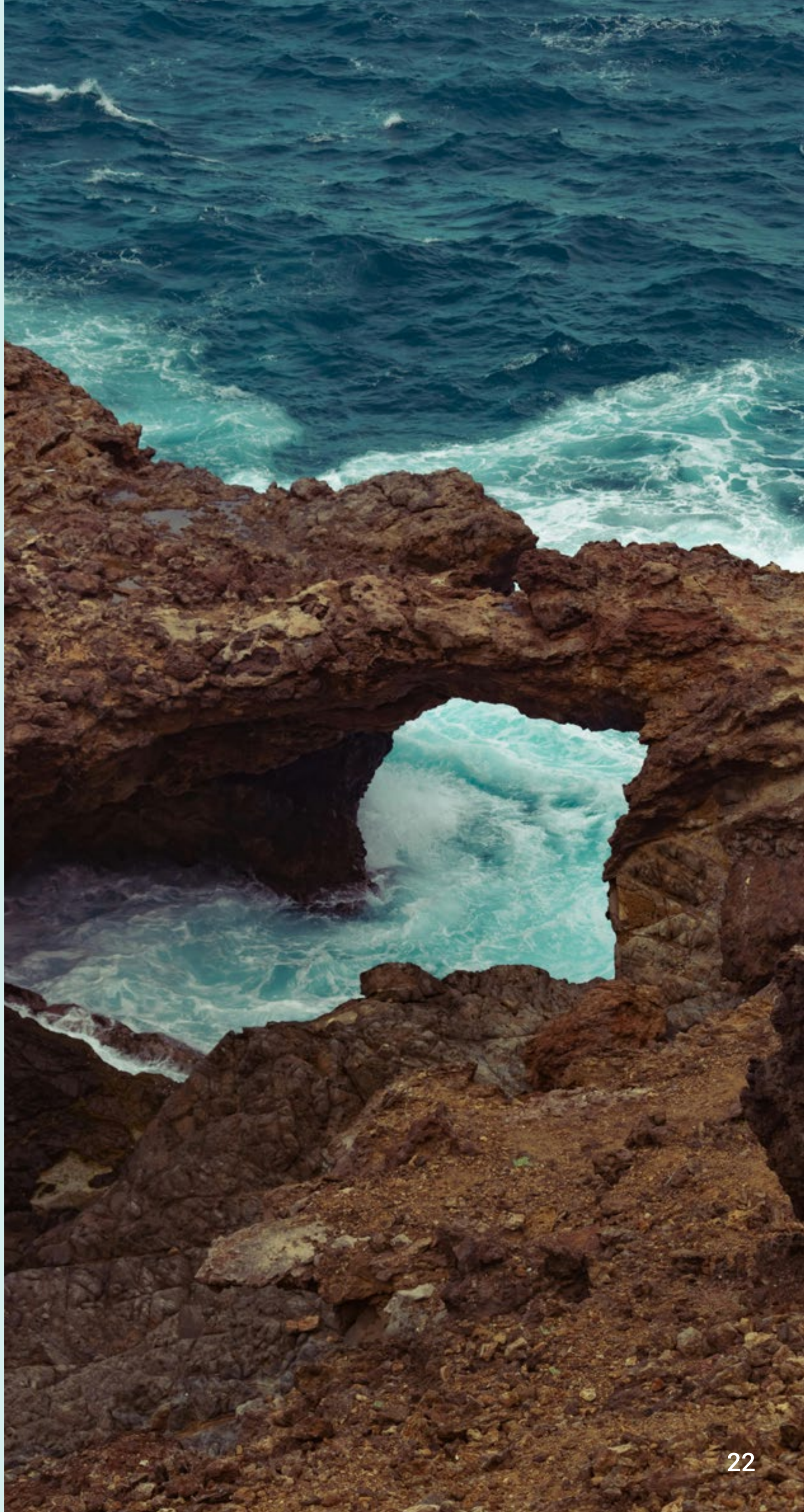
"The Bahamas, Cayman Islands and Turk & Caicos Islands. Stable government with pro-business policies"

"Jamaica, Trinidad and Dominican Republic because of larger market which is good for scale"

"Aruba, strong core market and great infrastructure"

"Markets with strong tourism performance e.g. Cayman, Aruba, Bahamas, TCI"

"Turks & Caicos Islands because of natural destination, Barbados because of Government initiatives, Dominican Republic because of 'cheaper' destination with all-inclusives"



Nature of financing over last 12 months

For the majority of bank respondents (57%), primary financing over the last 12 months has focused on greenfield projects, representing a high percentage of their book of business, similar to last year (67%). This is followed by financing of renovations (29%). The remaining banks (14%) noted that they had not financed tourism projects in the last 12 months.

77% of non-banks noted that they have made new investments in Caribbean tourism projects over the last 12 months.

Focus for the next 12 months

When asked what their appetite was for financing various tourism-related projects in the Caribbean going forward, 71% of banks (2024: 83%) and 77% of non-banks (2024: 69%) indicated that they had a strong appetite for financing existing resorts, be it refinancing, expansion or renovation. This remains consistent with their appetite last year. This year, 43% of banks noted they had a strong appetite for both greenfield projects and the acquisition of resorts, compared to 33% and 67% respectively last year. Among non-banks, 25% and 38% noted the same compared to 38% and 50% in the prior year.

When asked where their focus would likely be over the next 12 months in terms of asset types and locations, we received the following responses:

”Finance expansion projects across TCI, The Bahamas, Jamaica and Cayman due to strong tourist markets”

“Supporting the development of new destinations; considering innovation in hybrid all-inclusive models; modular construction”

“Premium location and assets”

“Stabilized assets with cashflow refi / restructure / acquisition”

“Boutique hotels with strong performance in strong tourism markets e.g. Bahamas, Dutch Caribbean, Cayman, TCI”

“1. Blockchain technology -Caribbean (Bahamas, Turks & Caicos) 2. High end Real Estate tourism product, goods and services”

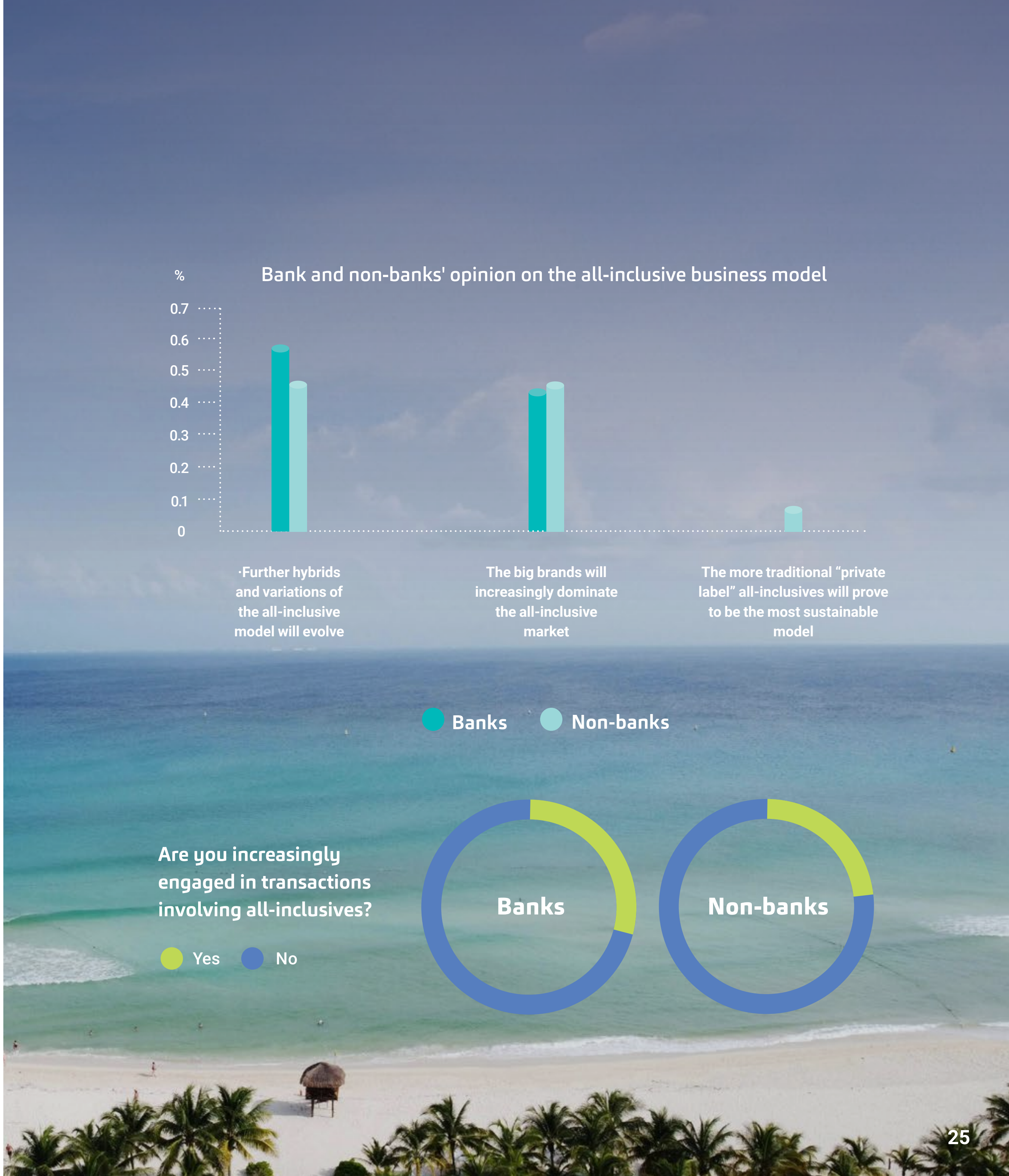
“Opportunistic, asymmetric growth areas. I think the market overall will be subdued this year”

“Villas, townhome, and raw land. As a smaller lender we focus on jobs that we can excel at and are within our capability”

All-inclusive resorts

Following strong growth in transactions involving all-inclusive resorts post-COVID-19, results from this year's survey show that we may be starting to see this growth level out somewhat. This year, 29% of banks (2024: 67%) and 23% of non-banks (2024: 19%) indicated that they are increasingly engaged in transactions involving all-inclusives. This is consistent with the sentiment in our report last year where we had anticipated more bullish responses on the all-inclusive growth prospects.

It is clear respondents to our survey are no longer looking to the traditional, private label business model for growth. When asked what best reflects their opinion on the all-inclusive business model, the overwhelming majority believe that there will be a change, either with hybrids and variations of the model evolving (50%) or that the big brands will increasingly dominate the market (45%). It will be interesting to see how the market adapts over the coming year or two and whether changes to the traditional business model will lead to an increase in transactions.



Scale

A concern that has been raised in the past when considering investing in the Caribbean is whether deals are too small and of insufficient scale to make the investment worthwhile. The majority of respondents this year again noted that this is not the case.

In terms of size, respondents' minimum amount continues to vary – from US$10 million to up to US$200 million.

"I disagree, noting most of our investment is greenfields. I'm not certain about the minimum and it depends on the definition of a project. In terms of acquisition, we cast a wide net"

"For institutional investors this may apply, but for independents we see this the opposite [of a concern]. There is a niche for independents to thrive"

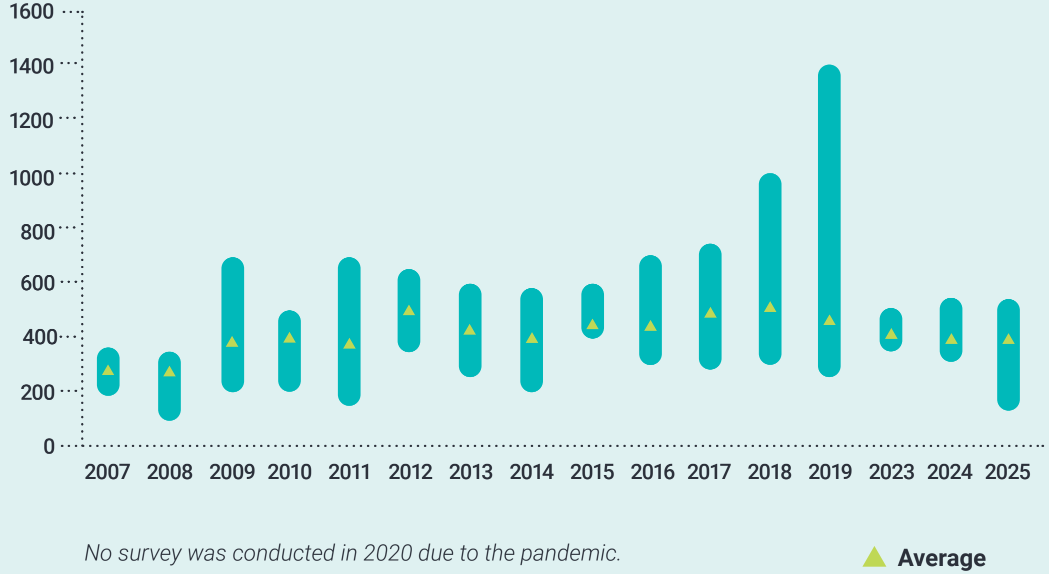
Financing terms

Terms continue to remain conservative with little material change in recent years.

Banks' target terms and conditions

- **Interest rate margins** have largely remained within the 251 – 500 bpts range above SOFR since 2023. 71% of banks indicated that this range applies to their institution this year with the remaining 29% of banks indicating that their typical interest rate margin was under 250 bpts above SOFR.
- 57% of participants stated their **target debt to equity ratio** is 60:40. The remaining 43% of participants stated their target debt to equity ratio is 50:50.
- On average, the **target debt service coverage ratio** response from banks has been between 1.26 – 1.50 since 2023. This year, 71% of banks specified this range.
- 43% of banks this year indicated that their **target debt service reserve** is four to six months of loan payments. 14% require a target debt service reserve of seven to nine months and 29% require 10 to 12 months. The remaining 14% require only zero to three months of payments.
- 57% of banks this year stated that their **target tenor/term** is eight to 10 years, with 29% specifying four to seven years, whilst a minority of 14% stated they typically offer a target tenor/term of more than 10 years.
- 57% of banks indicated that their **target debt to EBITDA multiple** is 3–4x with the remaining 43% of bank respondents indicate their target multiple is 5–6x.

Target interest rate margin (bps) (Banks)

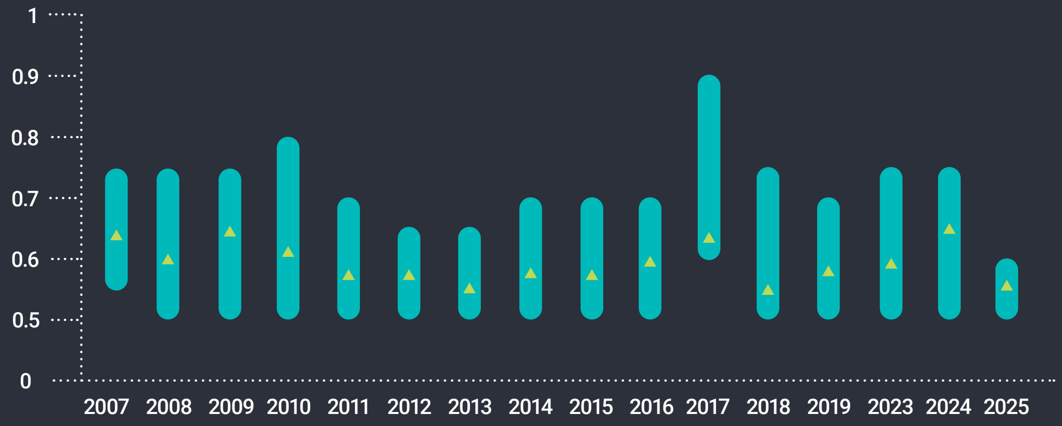


No survey was conducted in 2020 due to the pandemic.
No equivalent data collected in 2021 and 2022.

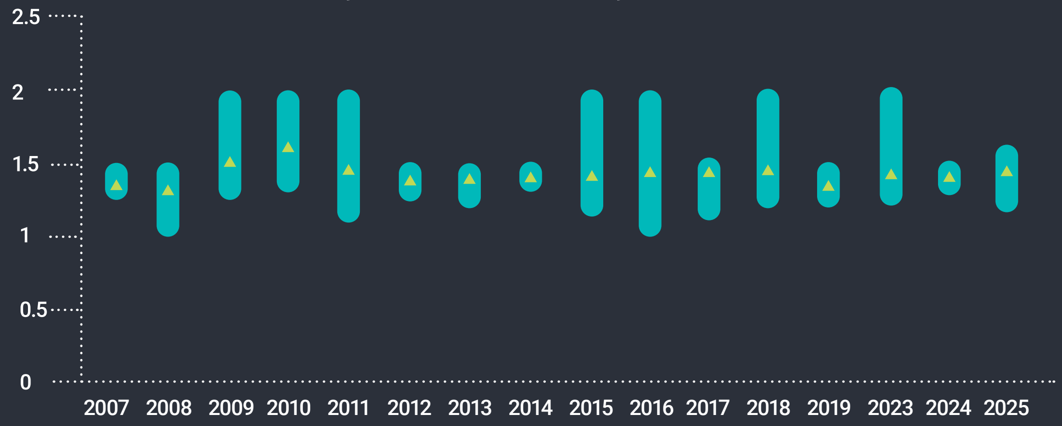
Non-banks' target terms and conditions

- 70% of non-banks have **target IRR** of 20% or less. 15% have a target of 21-30% and the remaining 15% specify a target IRR of 30%+. This shows a widening range of target IRR across the non-bank population compared to previous years (7-22% in 2024; 10-25% in 2023), reflecting the variety of investment opportunities across the region.
- Last year, we noted that the **target hold period** for non-banks had widened to between three to 15 years, with a heavier skew towards the higher end of the range. This year, the range remains wide; however, the majority of responses sit at the lower end. 69% of non-banks reported a target hold period of seven years or less, with 31% indicating a hold period of three years or less, which is short for the Caribbean. 8% of non-banks noted that their target hold period was eleven years or more.
- 58% of non-banks' **target debt to equity ratio** is 50:50 or less, of which 25% noted this was less than 50:50. The remaining 42% of non-banks indicated their target debt to equity ratio is up to 70:30, of which 25% of non-bank respondents stated this was 60:40.

Target debt to equity ratio (Banks)



Target debt service coverage ratio (Banks)



No survey was conducted in 2020 due to the pandemic.
No equivalent data collected in 2021 and 2022.

- In terms of their **target debt service coverage ratio**, 58% of non-banks indicated a range of 1.26–1.50. The majority of the remaining non-banks (25%) noted their target debt service coverage ratio fell in the range of 1.01–1.25.
- 33% of non-banks noted their **target debt service reserve** is “zero – three months”’. Another 33% specified “four – six months”. 8% specified seven to nine months whilst the remaining 26% of non-banks indicated a range of “10 – 12 months”.
- Responses show that the target debt to **EBITDA multiple** for all non-banks is 8x or less, with 42% specifying 4x – 5x as being their target and 25% 2x or less.
- **Interest rate margins** for all non-banks is 1,000 bpts above SOFR or less, with 33% of non-banks specifying a target interest rate margin of 751 to 1,000 bpts above SOFR, which is very consistent with non-bank funding typically being more expensive.

Covenants

When asked to identify their two most critical covenant requirements, we received the following responses from banks:

“Minimum presales and confirmation of borrower equity upfront”

“DSCR and debt to equity ratios“

“LTV <70, Solid Equity investors“

“Debt service coverage and loan to value“

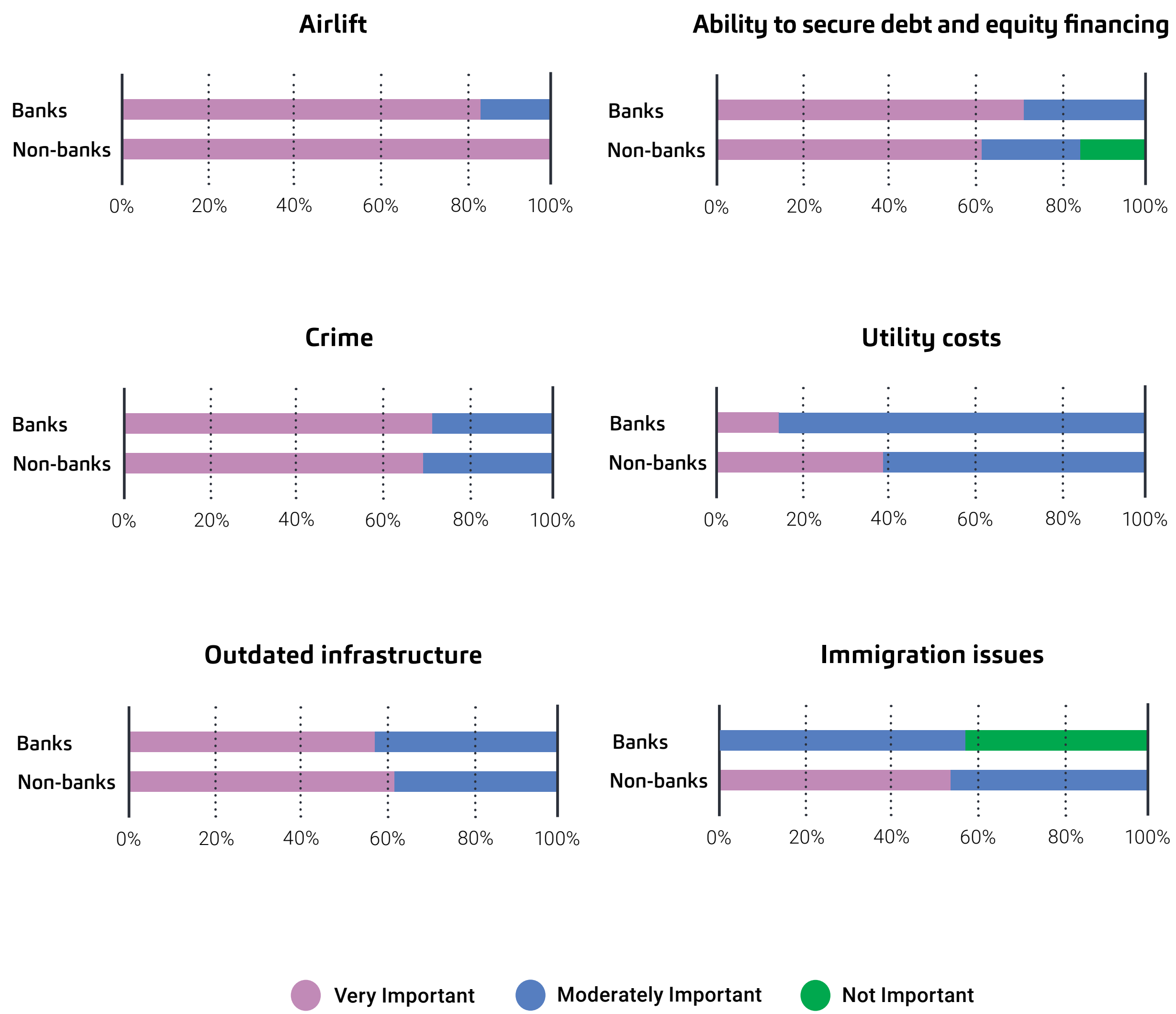
Other trends

Each year, we ask survey participants to state how important a list of identified critical issues is to financing activity in the region.

As was the case in previous years, airlift continues to be the most critical issue for both banks (83%) and non-banks (100%). This was followed by crime (71% of banks and 69% of non-banks rated this critical issue as 'very important') and the ability to secure debt and equity financing (71% of banks and 62% of non-banks rated this critical issue as 'very important'). 62% of non-bank respondents also rated outdated infrastructure as being 'very important'.

Further concerns shared by respondents include insurance challenges, the availability of skilled labour, cost and availability of construction materials and the huge growth of vacation rentals in the market.

When asked how these critical issues might be mitigated, banks noted that more government support and planning would help to overcome some of the infrastructural and health-related challenges, whilst helping to ensure that there is a clear strategy for the tourism industry to better support innovation as the market continues to evolve.



Other suggestions from respondents on how concerns may be mitigated to support the ability to conduct business in the Caribbean include:

"Insurance can mitigate hurricane risk; crime can be mitigated by increasing police presence; outdated infrastructure can be mitigated by performing routine maintenance"

"Coordinated intra-island government support. For instance, insurance should be dealt [with] on a regional level, not on an island by island, project by project basis"

"Capital structure adjusted to compensate for external risks"

"Innovation must come from the industry (best practices globally). Vacation rentals must be regulated and taxed by local governments"

"Government with clear strategy for the tourism market"

"Investment in infrastructure and availability of insurance market"

"Manage short-term risk/leverage"

"Good research - no surprises"

"Through development of relationships with stakeholders (airlines, departments of tourism, government departments) to collaborate on solutions that are beneficial for the jurisdiction. Many are complex issues that are unlikely to have a near-term resolution"

"Government projects (infrastructure, health)"

"Better government planning"

Since our 2022 survey, we have been monitoring a somewhat concerning trend from respondents indicating increased difficulty to conduct business in the Caribbean region. This appears as though it may have peaked last year with 33% of banks and 56% of non-banks stating it is more difficult to conduct business. The equivalent figures this year are 14% and 23% respectively.

However, only 15% of non-banks stated that it is becoming less difficult to conduct business. The remaining 86% of banks and 62% of non-banks believe that the level of difficulty.

Respondents volunteered the following reasons why they think it may be difficult to conduct business in the Caribbean:

"The region is becoming more sophisticated but there is still a lack of financial instruments to support a more vibrant transactional market"

"Limited innovation, increasing regulatory and compliance obligations, difficult in increasing digital adoption"

"We have found that some aspects (growing govt red tape) have become harder but others have become less difficult (raising equity & debt)"

"Bureaucracy"

"[Our] only concern is to find adequate local work force"

"No new government programs"

Other respondents shared the following ways in which they are overcoming difficulties in doing business in the Caribbean:

"We usually find ways to realize our objective by daring to be bold"

"We haven't experienced a change, rather an increase in applications"

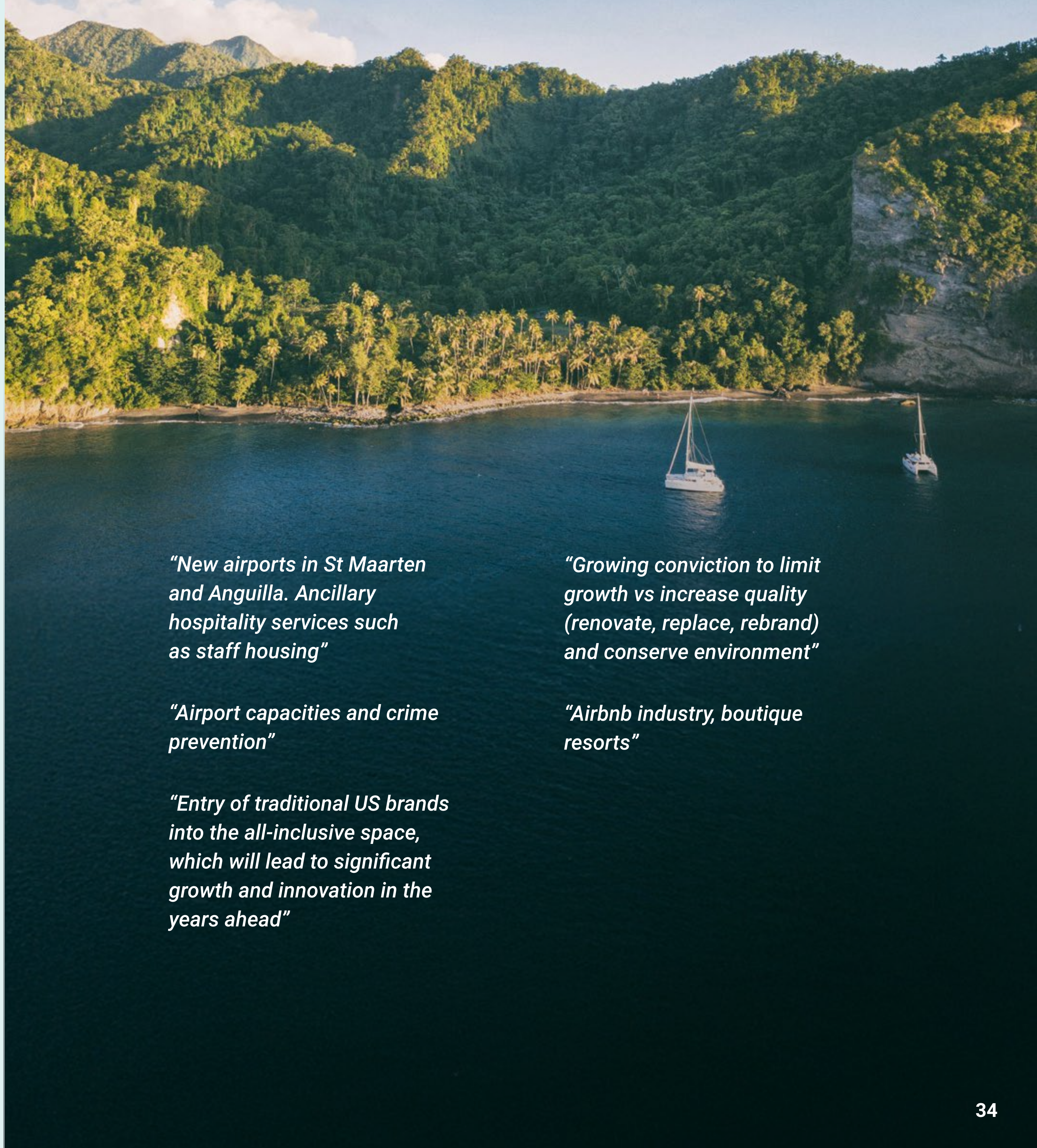
"Most Governments are becoming more proactive in responding to Investors needs and are also able to learn from their neighbor's successful business models in diverse sectors"

"As an established business, we are confident in our ability to navigate any challenges of conducting business in the region"

Every year, we ask our respondents, "What did we miss?" One of the (thankfully) few responses we received last year was: "major (correspondent) banks, insurance companies and accounting office's abandoning the region". We take such suggestions very seriously, and so asked the question, "Are you seeing more or less institutions and professional service providers represented in the region such as banks, insurance companies and accountants?'. In response, the majority of banks (71%) and non-banks (77%) reported they had not seen a significant change in the number of institutions and professional service providers representing the region, including banks, insurance companies and accountants.

Reasons to be cheerful!

We asked our respondents which single new opportunity excites them the most and fills them with optimism about the future of the tourism industry in the Caribbean. Here are some of their responses:



“New airports in St Maarten and Anguilla. Ancillary hospitality services such as staff housing”

“Airport capacities and crime prevention”

“Entry of traditional US brands into the all-inclusive space, which will lead to significant growth and innovation in the years ahead”

“Growing conviction to limit growth vs increase quality (renovate, replace, rebrand) and conserve environment”

“Airbnb industry, boutique resorts”

What did we miss?

Each year, we ask respondents whether our survey missed any critical issues impacting their decision to finance tourism projects in the Caribbean.

Here are some of their responses this year:

"Consideration should be given to financing hotel properties that have a recognized flag with at least 4 stars"

"For project finance projects, debt proceeds are typically not disbursed pari-passu. Equity comes in first and then the debt follows. As such, projects need to have a fully funded plan from day one"

"Good contractors"

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