

May 2020

Dear Friends of PCS

Thoughts from the Bunker

We hope that all of you are in good health and learning to live the “new normal”

We thought we would share with you some news about Barbados and how things could look in the future. It is of course very difficult to predict what will happen going forward but we believe the island has significant advantages for a good recovery:

- As a small island Barbados has done relatively well in countering the virus. Contact tracing is easier than in much larger countries and the government has done an excellent job in limiting the impact. At the time of writing we have had less than 100 cases and only 13 remaining in quarantine
- The government has launched an unprecedented recovery package for all sectors of the economy including US \$100m in working capital support for the “all important” tourism sector. The government has only been able to do so because of the fiscal discipline they demonstrated since assuming office. This has put the country in good standing with the multi-lateral lending agencies. Details of the economic recovery are below.
- The island has the best residential communities in the region and the villas which form the core of the rental accommodation sector have a very distinct social distancing advantage compared to hotels.

So what does the “other side” look like? We don’t think anyone can fully predict that but there is no doubt that our everyday habits will change. The simple act of a handshake or a friendly embrace may be gone for some while. Our travel and vacation habits will undoubtedly alter. Altman Real Estate and PCS have amalgamated all of the best global thinking from the travel industry and have created a set of protocols as to how we protect our clients, our staff and the wider community. We are happy to share those with you.

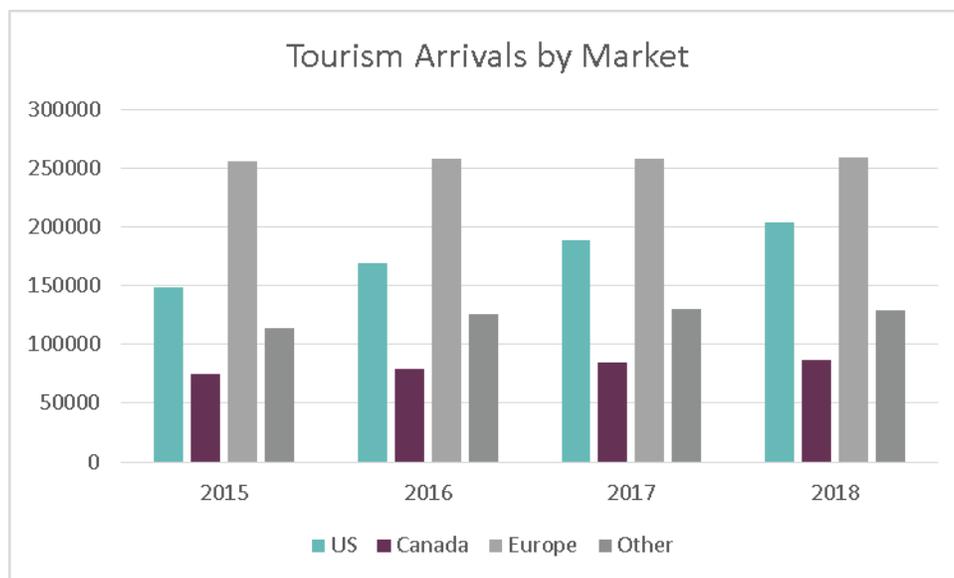
In this newsletter we will update you on key economic indicators and then touch on how we can help you.

Tourism

Barbados has recorded five straight record years of long stay arrivals. The chart below shows the increase in arrivals



Much of this change can be attributed to increase in airlift and the opening up of new gateways. It is noticeable how the source of business is changing. The US market share is increasing rapidly whilst Europe and the UK are pretty flat. It should be noted that European visitors stay longer and the tourism receipts are therefore higher from Europe.



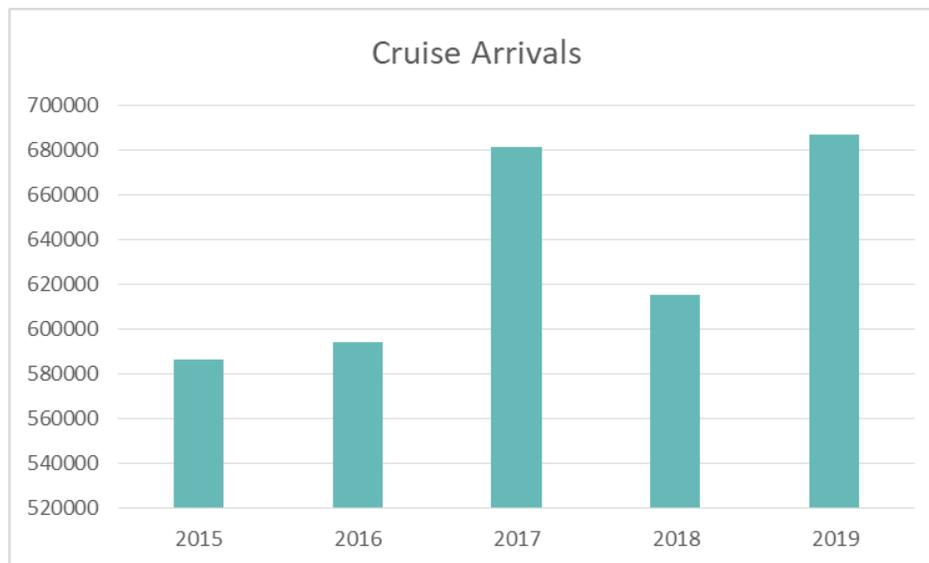
These arrivals have spurred the growth of condo hotels at a time of unprecedented influence of the OTA's (online travel agents). The OTA's put the power of choice in the hands of the consumer. There are now more rental rooms in the so called "villa sector" than there are in the traditional hotel sector. Barbados has 5,161 hotel rooms and according to www.airdna.com, has over 5,200 rental units comprising condos, villas and cottages.

But this has in no way diminished the attractiveness of Barbados for the hotel chains. Many of the global powerhouses have Barbados in their sights and as a result developments are about to start or have started on many new "flagged" hotels. These include:

- Beaches
- Royalton
- Hyatt
- Indigo
- Pendry
- Wyndham

These properties will increase hotel capacity by 30%.

Similarly cruise arrivals to Barbados have shown exponential growth as shown in the table below



Whilst there may be some doubt about cruise volumes going forward, historically most ships reposition out of the Caribbean at this time of the year and do not return until November/December, hopefully after the virus has passed. Barbados received many messages of thanks and best wishes from passengers, crew and cruise companies for the way they handled cruise ships during the early days of the pandemic.

Whilst many Caribbean ports turned the ships away, Barbados allowed them to dock, disembark passengers who were then bused to the airport and onto flights home. Many ships remained until they could safely return to their home ports. These have been provisioned by Barbados. At the time of writing there are still several ships off the coast of Barbados waiting to reposition. There are many heartwarming videos of thanks to the Barbados Government from passengers and ships' captains online and the photograph below shows a departing cruise ship expressing their thanks.



The government has recognized that to continue to service increasing arrivals they must modernize and grow the capacity of the airport. A request for proposals is in the market place to find an international operator for the airport. The bid process is being managed by the IFC, a subsidiary of the World Bank. That contract will be awarded before year end and the winning bidder must contribute US \$150mo modernize and expand the airport. The government has also leveled the playing field between the hotel sector and the villa sector from a tax perspective. VAT on hotels and the shared economy levy are both now 10%, considerably lower than accommodation taxes in our source markets.

The Economy and Pandemic Readiness

Difficult as it is to forecast how deep the impact of the Coronavirus on the Barbados economy will be, there is no doubt that the corrective measures taken by the current government over the last two years put Barbados in a much better position to withstand the impact of the pandemic than before and crucially to be able to source assistance from the multi-lateral agencies which nearly every country, big or small, will need in the coming months.

Some of the key economic indicators at December 2019 are

- Primary surplus - 3.8%
- Fiscal surplus of 0.7%
- Foreign reserves up to \$1.48bn (\$1.7bn as of April 28, 2020). This represents over 16 weeks of imports
- GDP of \$10.42bn
- Balance of payments deficit down to 1.7%
- Debt to GDP ratio down to 119% from 175% two years ago

Many of these indicators are the best they have been in 20 years

The benefit of the government's corrective measures has been achieved in record time and Barbados' credit rating has improved to investment grade. In achieving a primary fiscal surplus, reducing debt, improving foreign currency reserves the government has removed pressure on the currency peg against the US dollar. The specter of a recession had also been removed, until the Virus came along.

As hard as the restructuring of the international debt was, Prime Minister Mia Mottley had the foresight to negotiate a natural disaster clause into the new debt deals, which gives the government a moratorium if a climate change precipitated natural disaster occurs. Barbados is the first country ever to do that.

The Property Market

As with other countries there is anticipation that the property market will be materially impacted but there is little evidence yet. We have spent much of our time in the last few weeks working through rent relief and rent deferral negotiations for commercial property landlords and tenants and the background to that is a willingness on the part of the banks to offer loan principal forbearance. New loans are likely to have lower rates and longer tenors to give developers more headroom to make projects satisfy bank covenants.

As valuers, we are including a "material uncertainty" clause in all valuations and, in accordance with guidance from our the Royal Institution of Chartered Surveyors, we have to be led by the evidence and until we see new sales transactions and rental evidence it is difficult to do so. We anticipate being able to see trends in evidence by year end.

Barbados is a very tourism centric economy and as such hotels, restaurants and retail have been hit hardest in terms of cash flow. The tourism sector has also been left with some very significant debts by airlines and tour operators. The tourism working capital fund will be critical to business continuity.

On a local level, the sale of residential lots and houses will undoubtedly be hit by a sustained recession as buyers equity will diminish and similarly their ability to service mortgages will be impacted by reduction in personal income.

We do believe that the villa rental sector will rebound quickly given their social distancing advantage over hotels. We also feel that the virus may not materially impact sales of vacation homes in the coming winter, because of Barbados' success in dealing with the pandemic and its desirability as a safe haven in the event of future viruses

CBRE's research on the COVID impact on property markets has been of value and we provide below a snapshot of their thoughts based on that research:

1. Recovery timeline:
 - a. Housing – one year
 - b. Office – one year
 - c. Hotel sector – two years
 - d. Retail – three years
2. The hotel sector
 - a. 5 years for hotels to get back to 2019 revenue per available room (RevPar)
 - b. Cap rate increases from 7.2% to 9%, thereby impacting hotel valuations, so hotels are selling on lower multiples of EBITDA
 - c. Hotel REIT's are trading down 57% from 2019 levels
 - d. Average hotel values per room – US \$204,000 down from a peak of \$292,000
3. Debt markets
 - a. Many banks are giving repayment forbearance – up to 18 months in the USA
 - b. Significant pipeline contraction
 - c. Debt raises are evidencing lower rates

Food for thought!

Property Development

Many new developments are on the drawing board or in progress. We have mentioned the hotels planned for the island but two of the other prominent projects which are underway are the Pierhead project and Apes Hill. The Pierhead project entails a redevelopment of five (5), formerly warehouse buildings on the Careenage in town closest to the Chamberlain Lift Bridge. When finished it will be home to shops, restaurants, offices and apartments.

The Apes Hill Golf community has been acquired by a wealthy Canadian investor. The golf course is being re-routed and reconditioned, and walking trails, equestrian and

sporting clays are being added as well as a state of the art golf academy. New homes will be added close to the clubhouse, and new subdivisions will be opened up

Apart from these developments, numerous condo and apartment hotels are scheduled to start. The popularity of Barbados as a vacation home destination is unabated.

Taxes and Regulation

The convergence of Barbados' domestic and international corporate tax rates was completed in late 2018 and the maximum corporate tax rate is 5.5% one of the lowest in the world. This change has reinforced the island's reputation as an attractive offshore financial services center.

Barbados has an excellent developer incentive regime which is to be rationalized into one single piece of legislation and the incentives are aimed at encouraging Foreign Direct Investment. Barbados also encourages residency for high net worth individuals through its Special Entry Permits and Indefinite Entry Permits. This residency program is considered a cleaner and more transparent policy than the Citizenship by Investment Programs operated in several other Caribbean territories.

Land Tax

The year 2020 is the triennial valuation year. This means that all properties have been reassessed for "site value" and "improved value". You will have 30 days from the date of the notice of valuation to object. We provide a service of filing objections and liaising with the land tax department to process the inspection and respond to the objection. Please contact us immediately providing a copy of the notice of valuation as soon as you get it and we can help you.

Shared Economy Levy

Under the shared economy levy all villa owners remit the levy every two months through the Barbados Revenue Authority online portal. We can help you with this if you need assistance. Remember that most of the OTA's are providing the government with details of all accommodation bookings.

Tax Filing

Companies with fiscal years ending between October 01st and December 31st are required to file corporation tax returns with the Barbados Revenue Authority by 15th June of the following year. Thus far no extension has been given to this date. The filing date for personal Income Tax has been extended from 30th April to 29th May. Our accounting and tax department will prepare tax computations and file returns for you on your request.

About Us

PCS is a boutique professional service firm specializing in **valuations, accounting and tax**.

Our additional niche services include

- Project management
- Development analysis/feasibility studies
- Debt procurement
- Land tax objections
- Feasibility studies
- Applications for concessions
- Business valuations

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We hope to be of service to you in the future.

Kind Regards

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