

Evaluating New Tourism Investment

Is it worth government concessions?

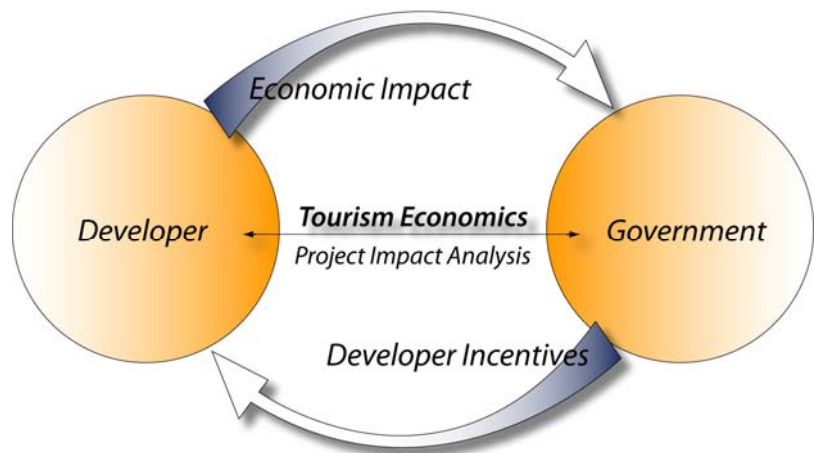
The islands of the Caribbean have been the target of unprecedented investor interest over the past five years. Over \$50 billion in capital investment in mixed-use resort and real estate development is slated for the next 20 years. Investors and developers continue to pursue new projects throughout the region.

This is a welcome opportunity to develop infrastructure, social services, and broad economic progress. However, the pace of development warrants a careful understanding of each project and how it will benefit the economy. This is even more important in view of tax concessions and/or land transfers which are a part of many projects' incentive packages. Simply stated, these agreements should be based on a clear understanding of a project's economic benefits in relation to its economic costs.

Some governments in the Caribbean have recognized the importance of evaluating the economic impact of new projects and have made this a requirement of developers seeking approvals and incentives.

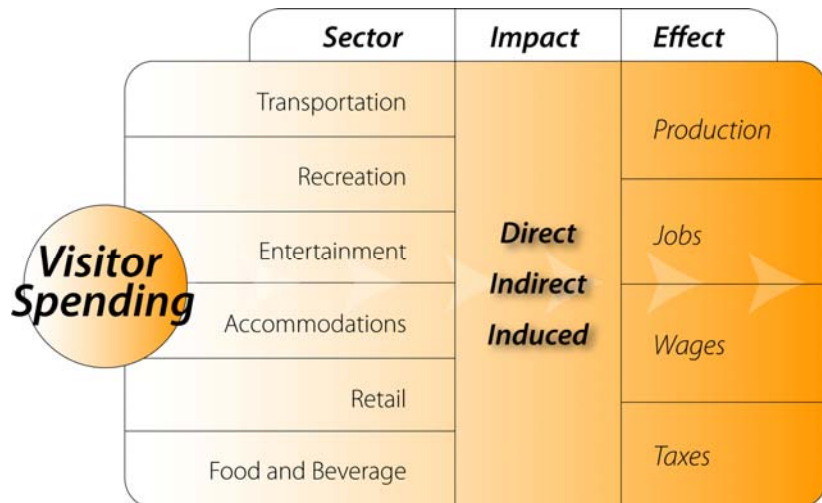
Tourism Economics, an Oxford Economics Company, has vast experience evaluating the economic impact of mixed-use resort development in the Caribbean. The purpose of the analysis is to produce metrics which assess a project's benefits against its costs. This helps to inform government decisions regarding approvals and incentives for a given project.

The adjacent diagram depicts the role of our team and research in facilitating agreements between our clients and the government. Our job is to provide an impartial third-party analysis of the costs and benefits of the project so that governments can make wise decisions regarding scarce resources and valuable incentives.



These models are based on a combination of official statistical data, industry averages, market judgment, and developer plans. Ultimately, our analysis will show the government the full value of the project over against the concessions being granted.

The diagram to the right illustrates the flow of Tourism Economics' impact models. Capital investment, real estate transactions, and visitor spending all flow into the local economy, creating direct, indirect, and induced (income effect) impacts. The model calculates these impacts on local production (GDP), jobs, wages, and taxes. These are then benchmarked against the value of any concessions typically over a twenty-year period.



We have found that such analysis provides developers with a strong position for communicating the value of the project and the reasonableness of concessions. Such analysis also provides the government with political value in announcing the project along with its projected economic benefits in terms of jobs, wages, GDP, and net taxes.

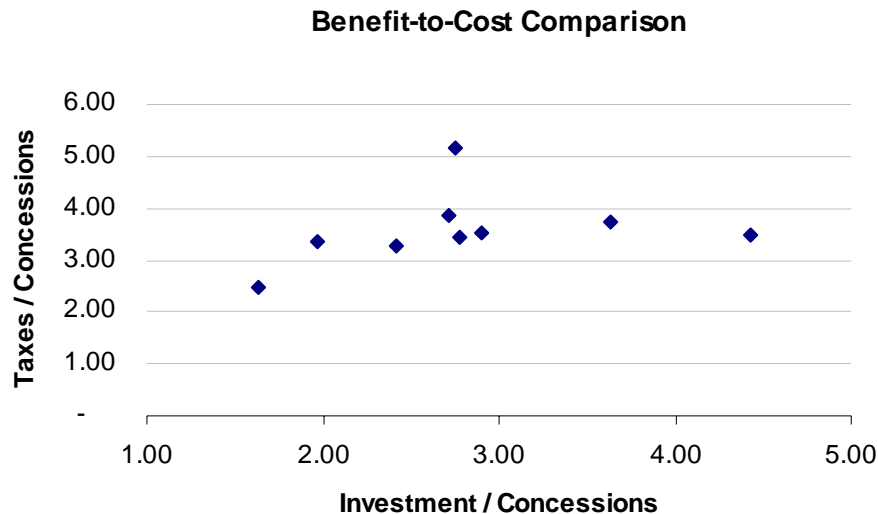
How to know whether a project is worth the concessions?

Our impact analysis assesses the project's economic benefits against its costs. In this context "costs" are defined as the value of the concessions. In reality, these are not true costs, but a reduction of the benefits. In some cases, the concessions are necessary to create an investment environment that is competitive. In those cases, no benefits would be realised without the concessions. Still, a comparison of benefits to concessions provides a consistent measure to assess the generosity of incentives in relation to the actual benefits accrued to a country's government and citizens. The model estimates three separate benefit-to-cost ratios.

- Investment / Concession (NPV and cumulative)
- Tax Revenue / Concession (NPV and cumulative)
- GDP Impact / Concession (NPV and cumulative)

Each of these are based on a 20-year analysis (or longer depending on the project). This provides a concise way of evaluating the concessions package for each project quantitatively on its own merits.

The below graph charts out the investment / concession and the tax / concession ratio for nine separate proposed projects in the Caribbean. It is interesting to observe that the taxes / concession ratio is much more stable than the investment / concession ratio. There is more variability in the relationship of investment dollars and concession dollars, indicating this metric is worthy of particular attention as new projects are evaluated. Those projects with a more significant second home real estate component tend to generate more taxes as a share of concessions.



Typically, developers hire us at the encouragement of governments requiring a third-party economic analysis to quantify a project's benefits and costs. We would be pleased to join with you in assessing new tourism investments.

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