



Equity Research

CARLTON SAVANNAH REIT SHARE OFFER



Summary

The Carlton Savannah REIT Limited (CSREIT) is a recently established Jamaican company created to partner with developers of the Carlton Savannah Hotel located in Trinidad and Tobago to enable the purchase of 16 Apartments along with the Hotel's Health Club & Spa. The hotel is scheduled to open in June 2008. To facilitate the purchase, CSREIT is offering 212.33M ordinary shares at \$5.91 each to raise US\$17.4M.

The Carlton Savannah Hotel is ideally located in Port of Spain, Trinidad and consists of 55 fully furnished two-bedroom apartments. The apartments are configured to be able to be converted into three separate rooms which can accommodate up to 165 guest rooms. The Hotel will distinguish itself in Trinidad's highly demanded hotel market by providing very high levels of customer service dedicated to meeting the requirements of discerning international executives. The Carlton Savannah experience has been developed to provide the sort of business support resource demanded by business travelers and will be the first hotel to provide this form of service in Port of Spain.

Terms of Offer

Issuer:	Carlton Savannah REIT (Jamaica) Limited - CSREIT
Number of Units on Offer:	Up to 212,330,270 units
Offer Price:	J\$5.91 per share plus a flat JCSD fee of J\$86.25
Dividend Payment:	Quarterly
Dividend Yield:	CS REIT will distribute 95% of income. The yield is projected at approximately 6.3% p.a. for the first two years.
Tax Status:	Dividend and capital gains will be paid free of tax
Offer Opens:	May 19, 2008
Offer Closes:	May 30, 2008 at 4:00 pm
Minimum Application:	10,000 units, in multiples of 100 for additional units
Attributes:	The shares will be listed initially on the Jamaica Stock Exchange and in the future on the stock exchanges in Trinidad and Barbados.

What is a REIT?

A Real Estate Investment Trust (REIT) uses the pooled capital of many investors to purchase and manage income property (equity REIT) and/or mortgage loans (mortgage REIT). REITs are traded on major exchanges just like stocks. REITs offer several benefits over actually owning properties including:

- ⇒the payment of tax-free dividends,
- ⇒being highly liquid, unlike traditional real estate investments, and
- ⇒allowing small investors to share in large real estate developments such as hotels, malls, and other commercial or industrial properties.

Who should buy a REIT?

The instrument will be suitable for investors falling within the following categories:

- ⇒Investors wishing to diversify their portfolio to include real estate holdings
- ⇒Risk averse investors wanting to participate in the equity market
- ⇒Investors seeking tax-free income



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Merits of Carlton Savannah Hotel Limited and CSREIT

- **Stable revenue potential**, CSREIT will earn:
 - ⇒ *Rental Income* – apartment owners will receive 65% of the Hotel's net rental income.
 - ⇒ *Lease Payments* – CSREIT will receive lease payments on the Health Club and Spa.
- **Low debt burden** – the entire facility, comprising 55 apartments, a Health Club & Spa and the food & beverage operation, is sold to owner-investors, and as such the hotel is able to repay construction finance.
- **Marginal discount on acquisition** – the 16 apartments along with the Health Club & Spa have been professionally valued at US\$17.7M, which is slightly above the share offer of US\$17.4M.
- **Competitive pricing** – for projection purposes the average room rate has been conservatively set at \$235 for this five-star hotel, which compares favourably to the US\$150 – 250 charged by hotels, generally considered to be two-star products. Generally, prices tend to trend upwards as the demand for hotel rooms geared towards business travelers in Port of Spain consistently outweigh supply.
- **Positive growth outlook** – Standard & Poor's estimates that the Trinidad & Tobago economy will grow by an average of 5.5 % in 2008 and 2009 driven by hydrocarbon, petrochemical and metals sectors. A 2005 Trinidad & Tobago Tourism & Travel study performed by World Travel & Tourism Council projected that the country's growth in tourism demand should average 6.03% p.a. to 2015, comfortably exceeding expected worldwide growth of 4.6% p.a. as well as the 3.4% p.a. average growth forecast for the Caribbean.
- **World-class branding** – the Hotel has been accepted as a member of the Preferred Group of hotels. This Group is recognized as the industry leader in providing state-of-the-art technology, innovative business solutions, and strategic sales support and is the contracted provider of marketing, sales and reservation services for the Carlton Savannah Hotel.
- **Excellent strategic location** – the Hotel has an enviable location, overlooking Port of Spain's famous Savannah, close to the Prime Minister's residence and close to the central business district making it the ideal place for avoiding the early morning traffic. Further, Trinidad is outside the hurricane corridor.
- **Reputable professional management** – the Hotel's board of directors and management team is led by the renowned Trinidadian business tycoon, Arthur Lok-Jack, and comprises a cadre of experienced professionals possessing a wealth of knowledge in hotel management.
- **Profit-sharing model** – the Owners receive a proportionate share of the Owners' Share of Rent, which represents 65% of the Net Operating Profits. The Hotel Operating Company (HOC) retains 35% of the Net Operating Profits. This ensures that the commercial objectives of the apartment owners and the HOC are similar.

Great Reasons To Buy CSREIT Shares

- **Currency Hedge** – protection against exchange rate risk since CSREIT earns income in US\$ & TT\$. Clear macroeconomic policy and a stable government support the tight monetary policy, which maintains a close relationship between the Trinidad & Tobago Dollar and the US Dollar, maintaining an exchange rate close to TT\$6.3 to US\$1.
- **Liquidity** – since the Company will be listed allowing investors to buy or sell shares as well as the potential for capital gain.
- **Cash flow** – quarterly dividend payments making it a great investment for retirees or anyone seeking a steady stream of tax-free income.
- **Diversification** – gain exposure to an alternative asset class and a fast growing Trinidad economy.

What are the main risks?

- **Performance risk/timing of cash flows** – this involves the potential passage of time between the date of close of offer and the Hotel's opening date. In addition, the company could fail to meet targeted pricing, occupancy and expense levels. However, the hotel's revenue streams are based on conservative estimates:
 - ⇒ Average room rate is estimated at US\$235 compared to just under US\$400 being charged by its closest competitor the four-star Hyatt Regency.
 - ⇒ Average occupancy rate is estimated at 66% in the first three years before rising to the industry average of 79% in the fourth year.
 - ⇒ Despite the conservative revenue forecast, total expenses are estimated at 33% of revenues versus the industry average of 32%.
- **Growth Risk** – changes in the supply of rooms and in the nightly room Rates can negatively impact the revenue projections for the Hotel and hence the expected Owner's Share of Rent. The company will still be in a position to meet the guaranteed rental payment of US\$1.1M to CSREIT in each of the first two years even in a context where:
 - ⇒ Occupancy and average daily rates decline by 20% all else constant.
 - ⇒ Average daily rates decline by 40% with everything else constant.
 - ⇒ Occupancy declines by 40% with everything else constant.
- **Poor Management** – investor's exposure in this regard is reduced since the Hotel's management team is subject to a mandatory review after 6 months of losses and termination if losses persist for another 6 months.
- **Limited Capital Gain** – the real estate sector in Trinidad has shown strong growth in recent years and may be approaching a peak, which would limit the potential for capital gain. In addition, at US\$565 per square foot, the apartments have a relatively expensive acquisition cost compared to US\$250 for condominiums in Florida.
- **Country Risk** – changes in the growth projections for the Trinidad economy or sustained declines in oil prices could have a negative impact on business travel and hence the projections for occupancy and average room rates at the Hotel.

Recommendation

- **Potential for lucrative returns** – CSREIT shareholders are guaranteed an estimated 6.3% p.a. dividend yield (tax-free) for the first two years, which is expected to grow to over 9% by 2018. This compares favourably to respective tax-free yields of 3.50% and 6.01% on GOJ's 2011 and 2039 global bonds.
- Assuming annual depreciation of 4% and capital appreciation of 5% p.a., CSREIT's share price is expected to rise to \$6.90 by June 2010. This translates to an overall yield of approximately 15% p.a.
- Notwithstanding the risks highlighted and the concentration of the REIT in a single property, we recommend participation in the CSREIT based on its tax-free income potential and natural currency hedge as well as the opportunity to diversify into a liquid real estate investment underpinned by a strong economy.