

## Bermuda's Real Estate Market – An Economic Perspective

Economic variables affecting supply and demand and the impact on real estate prices.

The State of the Market for Credit  
by: Craig Simmons – February 2008

Credit lubricates the wheels of commerce and industry. For realtors, credit is an indispensable tool for closing a deal. Consequently, the state of credit markets has a major impact on how many properties can be sold.

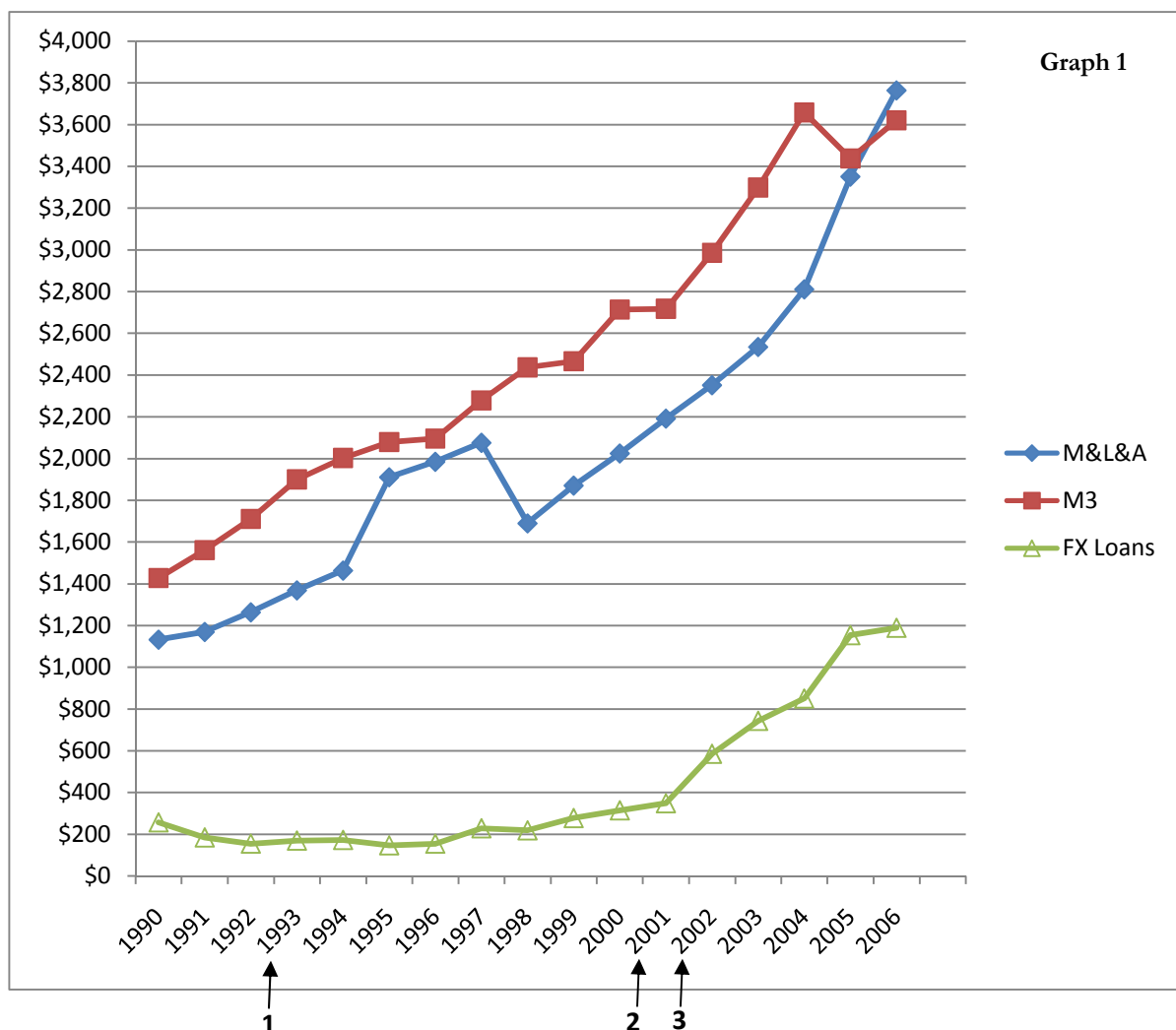
Graph 1 shows Bermuda dollar mortgages, loans and advances (M&L&A); broad money (M3); and foreign currency loans (FX loans) for the period 1990 to 2006. Prior to 1993, credit markets were subject to a price ceiling of 7 percent. The ceiling provided a stable, cheap interest rate for borrowers, whilst lenders were penalised with negative real interest rates for most of the nineteen eighties. It was the liberalisation of credit markets that eliminated the need for credit rationing.

Over the last decade, the expansion of Bermuda dollar credit (6.0%) has outpaced both economic growth (3.5%) and the growth of M3 (5.1%). When one takes into consideration the impact of foreign currency loans (20%), the growth in credit (9.3%) is more pronounced. The growth in local credit can be attributed to a strong real estate market, which has spurred a virtuous credit cycle. This virtuous cycle is characterised by a falling cost of risk, easier access to credit, which in turn increases the number and voracity of buyers, and pushes prices up.

From a real estate perspective, local credit conditions are robust. There is a general willingness on the part of both Bermuda residents and non-Bermudians to supply loanable funds to the local market.

It is unlikely that the challenges of liquidity and confidence presently being experienced by U.S. and European banks will spread to Bermuda for at least two reasons. Firstly, the local market does not have a sub-prime component and secondly, debt is not securitized

As a result, Bermuda may well become a destination of choice for international lenders. It is fair to say that additional credit can push real estate prices higher and sow the seeds of a vicious credit cycle.



**M3 – BMA notes & coins & demand deposits & savings deposits & all other deposits at banks & deposit companies**

**M & L&A – Bermuda dollar mortgages, loans and advances**

**FX Loans – foreign currency loans**

Notes:

1. Prior to 1993 credit markets were subject to a price ceiling of 7%
2. Bank of Bermuda acquisition by HSBC
3. Bermuda dollar interest rates significantly higher than US dollar interest rates (Graph 2)

