

FOR WHAT IT'S WORTH

ISSUE 2 | 2009

USEFUL TIPS AND NEWS FROM
THE APPRAISALS TEAM OF
BERMUDA REALTY, THE ISLAND'S
FULL SERVICE REAL ESTATE FIRM

WHAT'S INSIDE?

- The Growing Value of Valuation
- Broader Appraisal of Overall Market Reveals Opportunities
- Appraisal Team Notes



appraisals • commercial • land surveying • property management • referrals • rentals • sales • vacation services • building services

THE GROWING VALUE OF VALUATION

Various Valuation Methods
Hone Competitive Edge for a
Competitive Market

The real estate market in Bermuda continues to be affected by the global economic changes over the past 12-18 months making accurate appraisals more important than ever.

As the focus on property valuation grows more acute, so does the importance of understanding how the various valuation methods work, and how they might apply to Bermuda. An island apart, our distinctive geography, regulations and economics can work to resist trends. What's more, best-practices established elsewhere are not automatically appropriate for Bermuda's unique market.

There's worth in knowing your property's worth, provided it's appraised with the accuracy and objectivity offered by Bermuda Realty's Appraisal Team.

The two main methods, repeat sales and sales comparisons, vary in their ability to adapt to local conditions. ►



BROADER APPRAISAL OF OVERALL MARKET REVEALS OPPORTUNITIES



An accurate appraisal is everything—almost. Adding an appraisal of the broader real estate market multiplies the value of knowing any single property's valuation. Whether you seek a personal residence, a business address or an investment for the future, knowing how a prospective purchase fits with overall property values is critical to making an informed decision.

Rapid change may be rocking real estate markets worldwide, but Bermuda's unique circumstances continue to have a stabilizing effect. The island's compact landmass, for example, ensures that demand will stay ahead of supply. Its emphasis on highly skilled service workers with a global focus provides an extra measure of insulation from economic and political vagaries elsewhere. Perhaps most important are lending practices that discourage speculation, insist on qualified borrowers and abhor sub-prime lending.

RESIDENTIAL. The bidding wars of past years may be over for now. Although unchecked surges in the market have slowed, a look at the numbers does reveal a reassuring stability for both buyers and sellers.

Last June, we reported that during the first half of 2008, the average price of all real estate transactions was slightly more than \$1,000,000 with single family homes approximately \$1,400,000. Compare that to figures recorded to date for 2009 (bearing

in mind that 2009 records have not been finalised) of \$950,000 for all records and \$1,460,000 for single family homes.

Conversely, the average price for condos was \$823,000 in the first half of 2008 versus \$733,000 thus far for 2009 signifying an approximate 11% decrease in condo prices, but very little variance in other areas of the market. It is interesting to note that this figure is reminiscent of 2004 when the average price of condominiums was \$742,000

On the inventory side of the equation, we currently have 295 active listings (June 2009). The yearly average number of sales transactions island wide over the past five years is 553, hence the current inventory represents just over 6 months supply. Condominiums still represent 60% of the inventory which is good news for first time buyers looking for 95 to 100% financing; the banks are still lending up to \$1,000,000 to qualified purchasers and 36% of the inventory is presently

in this price bracket. Even in the face of rising competitiveness, the market permits informed buyers to make prudent purchase decisions and sellers to achieve realistic returns on their investments.

COMMERCIAL. With disparate factors impacting Bermuda's commercial real estate market, the overall balance of supply and demand may endure. Dragged down by one factor but buoyed by another, the result may be a rate of demand that remains constant. Similarly, factors that threaten a market-chilling surplus of commercial space may be offset by others that limit growth.

Converse developments threaten to slow demand. Several local institutions as well as hedge funds, for example, have moved administrative, accounting and other operations to Scotland, Toronto and Nova Scotia. Other companies are contemplating similar moves. Rothschild's recently announced plans to leave Bermuda, as well as the decisions by some major fund

administrators not to grow operations on the island, exemplify the trend.

Similarly opposing forces are also tugging at supply. New office space—much of it in the City of Hamilton—could boost supply to more than 750,000 square feet by 2010. But, owing to the requirement that new developments must be pre-leased up to 50 percent, actual supply could be much lower. Meanwhile, factors such as the weakening US dollar and the increasing cost of raw material (driven largely by growing Chinese demand) could downgrade this projection.

Comparing Bermuda to other prime city office markets where our rent averages about \$66.00 per sq ft per annum, is certainly less expensive than say London, with achievable rents estimated at around \$90.00 per sq ft per annum (and deemed by analysts to be the most expensive city in Europe), more than Dublin at \$58.00 per sq ft per annum but less than Paris \$80.00 per sq ft per annum.

On a further positive note local lenders remain active in our market sending positive economic signals absent in many locales around the world where credit remains fairly tight. The best example of this is in our industrial/warehouse sector where there are a healthy number of projects underway with active leasing taking place, especially on smaller units. ■

from the cover

THE GROWING VALUE OF VALUATION

Repeat Sales Rely on Large Sample, Long History

1 The two methods, repeat-sales can be harder to apply to the Bermuda Market. For certain market segments—especially when backed by a robust database such as Realty Plus® from Bermuda Realty—it can provide precisely the right insight.

The repeat sales method relies on a critical mass of similar property types. With adequate data, properly trained and credentialed appraisers can analyse the sales prices of the same properties over a period of time. The resulting sample of price differentials permits an estimate of appreciation rates—which can be projected into the future—for the properties.

Adjusting for either improvements or deterioration, price differentials for the similar properties automatically control for how qualitative differences might affect the projections. Various multiple regression methods permit appraisers to evaluate how independent or predictor variables (such as number of bedrooms and square feet, as well as a more subjective appeal rating) relate to the dependent variable (sales price). This method places the emphasis on transaction price and date-of sale data over the complete history of a large sample.

That's where a database like Realty Plus® comes in. Realty Plus® has details of over 8,500 sales transactions which have taken place in Bermuda over the last 10 years. This is the most comprehensive property database on the island.

Even with the complete history and exhaustive database provided by Realty Plus®, Bermuda's diverse housing stock—combined with a limited number of properties overall—means that many of the island's market segments are too small to permit meaningful analysis.

Several segments of our market that are suited for the repeat-sales method for example condominiums which change hands more frequently than large, detached family homes.

Sales Comparisons Balance Hard Data with the Hard-to-define.

Sales comparison is a more traditional method for valuing properties and, most often, is better suited to Bermuda's real estate market.

2 This method relies on professional appraisers with qualifications such as Members of the Royal Institution of Chartered Surveyors or similar designations, as well as training in established local guidelines. The appraisers arrive at the current Market Value

of a property by comparing recently sold or listed homes in the neighbourhood. An accurate valuation depends on an expert analysis that includes noting the values of comparable properties, adjusting prices based on the property's amenities relative to nearby properties and factoring-in knowledge of neighbourhood trends.

The inherent subjectivity of the sales comparison method—from selecting the sample to making adjustments based on hard-to-define variables—increases the importance of engaging an appraiser with the judgement and qualifications to put the right weight on the right variables. Engaging a Chartered Surveyor or equivalent professional ensures your appraiser is bringing as much objectivity as possible to the process.

Unlike the UK, US and other markets, Bermuda does not require any certification for appraisers working on the island. Even when required, the US' Uniform Standards of Professional Appraisal Practice (USPAP) certification refers to standards so basic that many US lenders require additional certifications. When not required, certifications like those held by every Bermuda Realty appraiser, offer an extra measure of confidence in their valuation.

Applying Global Best Practices to the Archipelago

While not all methods are appropriate for Bermuda's unique real estate market, you'll benefit when you engage an appraiser who is certified current on all available methods. A qualified, up-to-date appraiser can tailor, or reject methods that are established as best-practices elsewhere.

Automated appraisal, for example, may emerge as a global best practice. But, because it relies on even larger samples of similar housing stock and more copious data than the repeat-sales method, it is not likely to be applicable to Bermuda's diverse property types and limited housing stock any time soon.

The first step in determining which method, or combination of methods, will deliver the most accurate appraisal of a particular property is to engage a qualified appraiser. ■



APPRAISAL TEAM NOTES

NEW-HIRE STONES ENERGISES TEAM

Suzanne joined the team in February 2009. She was educated in the UK, gaining a bachelor honours degree in Management Science from Loughborough University and subsequent Diploma in Surveying from the College of Estate Management, Reading. She has practiced in the public sector in the UK for five years where she gained her professional status as a Member of the Royal Institution of Chartered Surveyors. Her previous work involved specialising in leasehold management, including rent reviews, property management and lease negotiation as well as valuation and sales of development sites. She brings with her to Bermuda a dedication to customer service and a good eye for detail.



Atlantic House, 11 Par-la Ville Road, Hamilton
phone (441) 292 1793
www.bermudarealty.com



OUR OFFICE NOW OPEN SATURDAYS

The Island's largest full service real estate company is now open Saturdays for your convenience. When asked why the change in office hours, Corporate Services Manager—Kendra Mello—stated "in times of economic change a focus on creativity and meeting the needs of clients and customers differentiates us from our competition."

make payments • speak to an agent • walk-in property kiosk • collect documents
inquire about all property needs

MEET OUR APPRAISALS TEAM



Paul Matthews



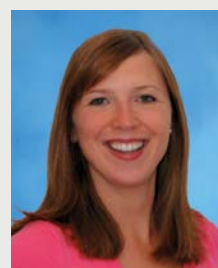
Sharika Tucci



Rob Newton



Roberta Tucker



Suzanne Stones



James Needham