

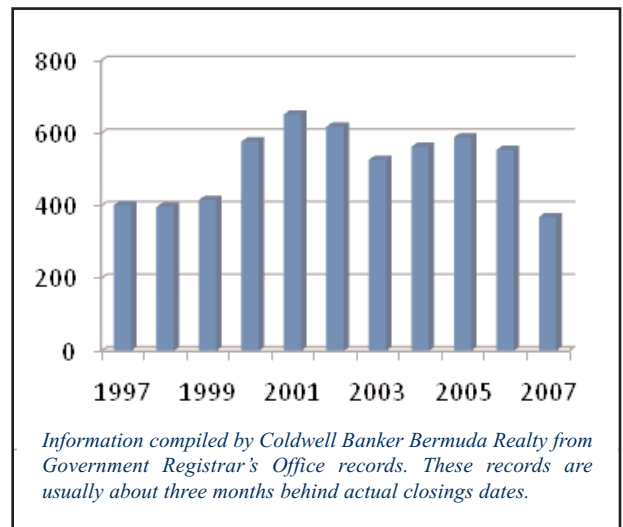
RESIDENTIAL UPDATE *by Susan Thompson*



There appears to be a growing conviction that the United States is headed towards recession and if you follow the stock report you will note that Wall Street seems to be reacting to this threat. The US dollar is weak globally; the war in Iraq continues with no end in sight; Citigroup has just announced a record quarterly loss and the housing market in the US has plummeted in many areas, while other sections of the country remain buoyant. So the underlying question for many, as we are tied to the US dollar, is how does this affect Bermuda's housing market?

Our records show that Bermuda is relatively unaffected by these events with regards to the housing market. Traditionally, real estate has always held value contrary to consumer items such as a boat, furniture, appliances, or an automobile which will generally decrease in value over time. Real estate nearly always appreciates in value. So the money that you put in real estate is like making a long term investment which equates to putting money in your pocket.

One of the main reasons that real estate remains a sound investment in Bermuda is that land is a limited commodity. Coupled with the fact that rising costs of building materials and labour are putting upward pressure on the cost of construction and we have a more buoyant market condition than our neighbours to the west. However, documented real estate trends in the US define an increase of 5% per annum in real estate prices as modest and we would agree that the same applies in Bermuda. Tracking the number of properties that transferred ownership in Bermuda over the past 10 years (see fig.1), you will note the figures for 2003 through 2006 are relatively neutral with approximately 550+/- units each year. The elevated years prior to this trend are reflective in the same peak years as the world market; when real estate transactions were conducted overnight in North America and the United Kingdom. The year end 2007, will adjust in time when all transactions are entered in the government records and is expected to continue the neutral trend. Interestingly, the leaner years were the latter 1990's when properties were considered more affordable.

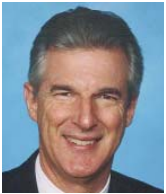


According to data collected so far for 2007, representing the top 10% of the market in both categories, 14 single family units sold for \$3,500,000+ with the highest reported at \$17,500,000 and 17 condo/townhomes units sold for \$1,500,000+ with the highest at \$3,500,000. By removing the top 10%, you get a truer reflection of the market. With that said, the average price of a condo/townhomes (minus the top 10%) is now \$798,000 whereas the single family home would be \$949,000. Compared to all property transactions for 2006 (minus the top 10%), the condo/townhomes price was \$795,000 verses the single family unit at \$971,000. Falling Prices? If the top 10% is not removed from the analysis, the average price for a single family home would be \$1,711,000 so a recession is far from our thoughts in the local real estate community. We are currently noting an excess supply in the condominium market, which has absorbed a significant amount of demand in the past several years so it will be interesting to see what 2008 brings for this segment of the market.

In conclusion, the climate in the residential market is very active, there seems to be no decline in the desire or

purchase power of the consumer for Bermuda property. Prices have leveled off when you compare 2007 to 2006. Buyers are savvier and often take longer to make buying decisions and we are seeing a mix of purchasers...first-time homeowners, many second time owners selling their first home and "moving-up" plus empty nesters downsizing. Going into 2008 it will be interesting to see the impact of the Bermuda Immigration and Protection Amendment Act 2007 that adds limitations to property purchases by Bermudians married to Non Bermudians and Permanent Resident Certificate Holders.

COMMERCIAL UPDATE *by Scott Powell*



Up to 750,000+/- sq ft of new office will be added to the available stock in the next three years if all the anticipated developments go ahead. Will we have oversupply of office space? This is a possibility, but with our reinsurance/insurance market driven by natural disasters this is almost impossible to predict. Historically new office absorption has been in the 125,000 – 175,000 sq ft per annum range (with the exception being when ACE and XL completed their buildings).

Commercial office leasing demand remains steady. While there continue to be regular inquiries from new companies looking to establish themselves in Bermuda, growing local companies are also a significant factor at this time. The new company demand can be characterised as relatively smaller spaces on the whole with the demand for larger ones coming from existing local and exempt companies. On the leasing supply side there are only a few opportunities to occupy new space in the next 12 to 18 months. The next new office space will come on line later in 2008, followed by mid-2009 at the earliest.

Returns remain attractive for developers though financial institutions are being cautious in their outlook for new developments. Pre-leasing remains an all-important qualifier for financing today. Development returns to date have caused Landlords to hold their real estate assets, generally. Some however are considering diversification as they plan their estates. From this comes occasional opportunities to buy in to this profitable sector.

The cessation of container striping at the docks in December has caused pressure on warehouse capacity throughout the island. Recent developments in the east has benefitted as a result. There is owner occupied expansion planned in more central locations with limited potential for leasing to third parties. Prices are therefore continuing to rise in this sector.

RENTAL UPDATE *by Nakia Warner*



Always in high demand are the two bedroom units up to \$3,500 and desirable accommodations for the \$4,000 to \$6,000 two bedroom cottage. This is the heartiest sector of Bermuda's rental market.

Inventory trends reflect those in the sales market, with a large inventory of condos on the market. Demand from overseas tenants for condos is strong, however local demand remains geared towards the stand alone cottage or private apartment. The latter part of 2007 saw a lull in the market, except for October which was still busy with accounting company new employees arriving on the island. The most significant shift in rental trends is an increase in lease renewals, with many tenants extending their current tenancies as opposed to moving to new rental accommodations. There has also been a decrease in demand at the top of the market, typically generated by new companies setting up business in Bermuda and renting in the \$8,000 and up range. It is increasingly difficult for landlords to achieve higher rents of \$9,000+. For properties over \$10,000 a pool is a must in today's market.