

REAL ESTATE SALES UPDATE

From Bermuda's Real Estate Company – January 2009



BERMUDA REALTY



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Experts Expect Continued Consistency in 2009

With interest in the real estate market so keen, the professionals at Coldwell Banker Bermuda Realty have been constantly tapped for our inside knowledge. Thanks to precise and up-to-date data on properties sold within a given timeframe, their average price, current market inventory and lending practices in Bermuda, we're in a good position to answer the questions that seem to gnaw at everyone. Are prices going down? What about rentals? Is now a good time to buy? Or sell? What might the future bring?

Driving the concern, no doubt, is the overriding question: *Is Bermuda going to go the way of the United States' real estate market?* These worries are not surprising, especially when you consider the onslaught of headlines warning of the subprime crisis, the collapse of financial markets, exploding unemployment and deepening recession.

The first step to a realistic assessment of Bermuda's real estate market is to understand what happened in the US.

US Lending Practices

Examine lending practices in the US, and the question may change from *How did it happen* to *Why did it take so long?*

In a recent article on CNNMoney.com where the Federal Reserve has proposed stricter rules for mortgage lenders, one can clearly see the flawed system. The new rules would bar lenders from extending credit, for example, without first considering the consumer's ability to repay at both the original rate *and* higher rates that result when the loan is readjusted. Lenders also would be required to verify income and assets of all borrowers. Under the new rules, lenders or mortgage brokers could not exert undue influence on appraisers to misrepresent home values.

That rules have been introduced to enforce such common sense precautions suggest that, during the housing bubble in the US, the lure of the quick dollar may have obscured good judgement.

Bermuda Lending Practices

In contrast, the practices mandated by the Federal Reserve's proposed rules are already established practices at Bank of Bermuda (HSBC), Butterfield Bank, Capital G Bank, First Bermuda Group and other of Bermuda's major lenders. Along with the completed application, applicants typically must document all income, assets and debts. The banks substantiate all claims through credit and asset checks. Applicants who offer false or misleading information, or withhold important details, may see their loan request declined. A poor credit history or late payments also may trigger rejection of the loan.

That same modicum of common sense also extends to the process for appraising property. Most essential is to have appraisals conducted by independent professionals either employed or contracted by the bank.

Banks in Bermuda prevent potential conflict of interest by keeping participating real estate firms securely firewalled. A reputable, comprehensive real estate firm such as Bermuda Realty—which does have a division devoted to appraisal—must exclude itself from appraising a property when the firm is also brokering its sale.

The detailed, written report, which includes an analysis of comparable properties, is factored into the bank's decision. Finally, the bank's compliance department often offers a series of checks and balances that influence the ultimate decision.

It is true that some local lenders do offer to finance 95 or even 100 percent of the purchase. While there is cause to question the prudence of this practice, our banking sources confirm that they perform meticulous due diligence on every mortgage application, making sure the borrower has a debt-to-service ratio of 50 to 55 percent.

The overall prudence of Bermuda banks, in fact, may contribute to another factor sheltering the island from storms abroad. The banks' strong financial position leads to one more important distinction between the US and Bermuda economic climate. Bermuda banks still have the ingredient critical to both the housing market and the economy overall: Money to lend.

Performance in 2008 Sets Trajectory

Public records indicate remarkable consistency in Bermuda's real estate market from 2007 to 2008. (See chart.) In fact, the average dollar amount (about \$1,100,000 for all transactions) has remained similarly consistent for the past five years. Although the average price of condos dropped this year to the 2005 level of approximately \$830,000, the price of a single family home is near the 2007 average of about \$1,600,000.

The consistency of the last four years is also reflected in the average price of a single family dwelling. In 2008, the average was \$950,000.¹

Trends Likely to Continue in 2009

While 2009 may have its challenges, trends of the last five years are likely to continue. We do not foresee anything like our own version of a subprime crisis, housing market collapse or the resulting "fire sales."

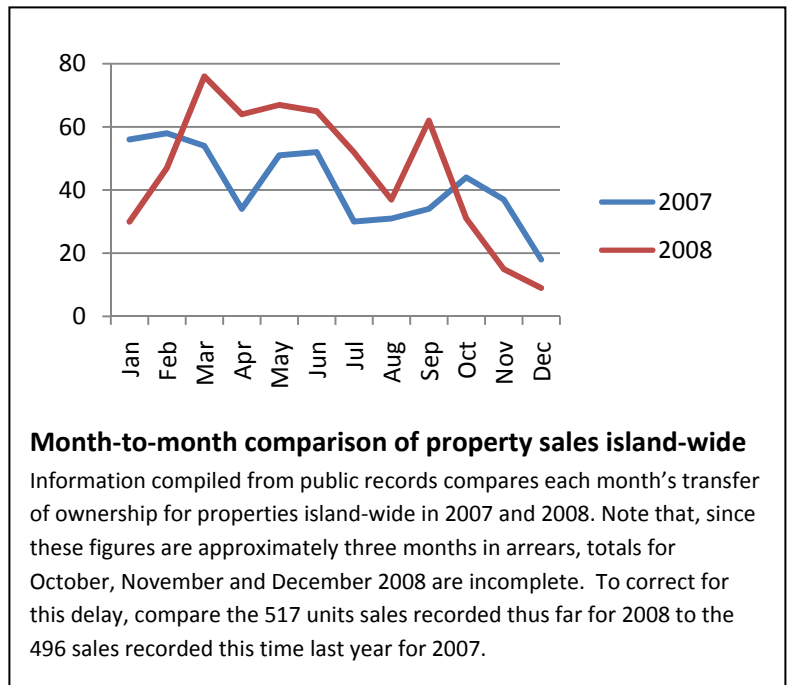
Inventories remain high in key segments of the market. This can be especially good for buyers or renters since it lets them take the time to comparison shop and to make well-considered offers.

Because sellers can expect their properties to spend between three to six months on the market, the most important consideration when selling is to price the property correctly for the current market. Sellers can gain an edge when they hire an agent that will really "work" the listing, providing expertise that extends to pricing, cost-effective improvements, strategic marketing and a clear-eyed assessment of market conditions.

Everything will sell at a realistic price, but the current climate calls for precision. Gone for now are the days when sellers could set high prices, confident they'd receive an inflated offer from someone desperate to buy *something*. This is not the time for anything but an expert real estate agent, and certainly not for properties that are FSBO (for sale by owner). Selling a property takes patience, dedication, resilience, up-to-date market knowledge and acute sales skills.

Bermuda has seen difficult times before, and has weathered the economic storms to hit its shores. We expect this to hold true in the current world economy and have continued confidence in Bermuda's housing market. The banks seem to share this confidence. With discreet lending practices intact and their desire for Bermudians to own property as strong as ever, they continue to lend to responsible buyers.

Despite threats of global downturn, consumers also retain confidence in real estate. According to the National Association of Realtors (US), 91 percent still believe that a house presents the best long-term investment. That finding is consistent with our experience. Whether seeking a residence or a durable investment, the vast majority of Bermuda Realty's buyers still appreciate the long-term value in purchasing a home.



¹ This figure corrects for outliers (properties selling for more than \$3,500,000; nine properties with an average price of \$6,300,000, in this case).