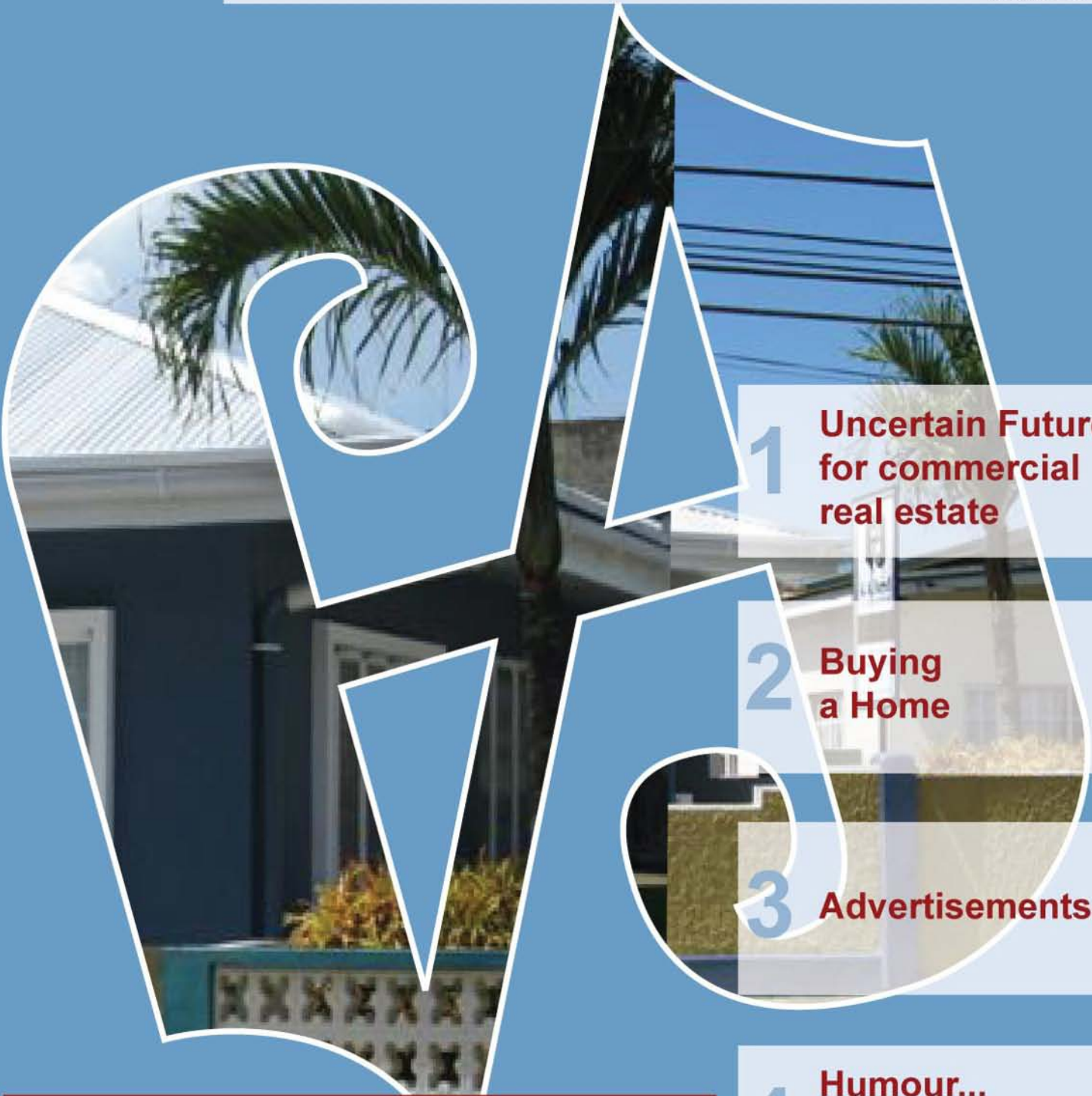




G.A. Farrell & Associates Limited

**CHARTERED VALUATION SURVEYORS
FINANCIAL & PROPERTY CONSULTANTS**

August 2008



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for commercial
real estate**

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The information herein is believed to be correct as of the date of writing. Before you make any decisions however, you are advised to consult a suitable professional.

Uncertain Future...

for Commercial Real Estate

A lot is being written about the possibility of a US recession and what effect (if any) it will have in T & T. We hear the old adage "When America sneezes the world catches a cold" spouted ad infinitum. The Minister of Finance however has stated that while that may have been so 10 years ago, it is no longer true.

In Trinidad, we are currently experiencing an inflation problem the reasons for which have been well documented elsewhere. Consequently, the Central Bank has raised the "repo." rate as well as the reserve requirement of the commercial banks. This has had the expected result of an increase in the prime lending rate of the commercial banks. Thus, investors can therefore be expected to seek higher returns on their investments.

For existing owners of real estate, (especially recent ones), this means increasing the rents charged for their properties. However, the only time this can be done is when the demand for rental accommodation exceeds the existing supply. At present, it is

expected that there will be approximately 3M sq. ft. of commercial, rental accommodation coming on the market in Port of Spain within the next 12 months or so, as well as many private and public projects now in the "pipeline". It would therefore seem that supply could exceed demand for commercial accommodation for some time - thereby making it almost impossible to increase commercial rents. Further, new investors in real estate will pay a lower price for commercial real estate so as to ensure that they obtain a return in keeping with the new increased interest rates.

In addition, what is accepted as a fact is that the US economy is experiencing a slowdown that will, in all likelihood, affect the Caribbean islands that depend on Tourism. This will have the ripple effect of damaging Trinidad's non-energy/manufacturing sector that depends heavily on these islands to buy their products. Manufacturers will likely therefore be adversely affected by the current US slowdown and as a result of this as well as the increased finance costs outlined above, could be forced to either dispose of their properties if they are owners, or seek lower rents if they are tenants.

Everyone knows that forecasting the direction of the market is difficult. At a recent seminar on the effects of the US recession on the local economy, one of the panellists started his address with the observation that the last five recessions had been forecast nine times by economists. As if to further emphasise the uncertainty in economic forecasting, the five panellists then proceeded to give five different points of view, ranging from no effect to little effect to great effect.

Nevertheless, all indicators suggest a

rough time ahead for commercial real estate. The recent RICS Global Commercial Property Survey reported that "Transaction activity fell in Emerging Europe and Latin America, and the pace of growth stagnated across emerging Asia...". RICS Senior Economist Oliver Gilmartin went on to state that "Few markets have escaped the credit malaise which has engulfed commercial property activity since last summer. What

all indicators suggest a rough time ahead for commercial real estate

started in the developed world has spilt over into investment activity across several emerging markets." Among the key findings were:

- Tenant demand for global property turns negative for the first time in over 4 years
- Commercial construction set to weaken across the developed world
- Africa and Middle East still booming on back of oil

However, it must be noted that locally, commercial real estate has proven to be resilient in the past having experienced "9/11", "Dutch Disease" and increases in the rates of inflation, interest rates and crime. Whether it can withstand this latest threat remains to be seen. Until the picture becomes clearer, caution is recommended to investors and financial institutions holding commercial real estate as an investment or as security.

Useful Websites

<http://online.wsj.com/real-estate>
The Wall Street Journal
– Real Estate news, investments, etc.

<http://www.thisoldhouse.com/toh/>
Home improvement ideas, advice, etc.

<http://www.lexisnexis.com/news/>
Latest news from more than 4,000 sources.



Buying A Home is one of the biggest investments/purchases most of us will ever make in our life. It normally involves borrowing a large sum of money which is to be paid back over 20-30 years – a significant part of our lifetime. Despite that, many buyers go into this exercise without knowing what to expect or what to look for.

One of the most important aspects in buying a home is the cost/value. While no one will mind if they pay less than the home is worth, it is a different story to find that you have paid too much. Also, mortgage-lending institutions normally lend up to 90% of the value or cost of the home, whichever is the lower. For example, assume you are buying a home for \$600,000 and hope to borrow \$540,000. (You have made a \$60,000 deposit from your own funds). If the valuer then determines the home that you are buying is worth only \$540,000, the mortgage lending institution will only lend you \$495,000 and you will have to find an extra \$55,000 on your own or possibly lose the deposit you made on the house.

Mortgage Installments:

The amounts below reflect the amount required to repay \$1. To calculate your mortgage installment, find the correct rate and time, and multiply the figure shown by the amount of your mortgage. (e.g. \$50,000 @ 9% for 25 years = 50000 x .0084 = \$420.)

| Years | 15 | 20 | 25 | 30 |
|-------|-------|-------|-------|-------|
| Rate% | | | | |
| 8.0 | .0096 | .0084 | .0077 | .0073 |
| 8.5 | .0098 | .0087 | .0081 | .0077 |
| 9.0 | .0101 | .0090 | .0084 | .0080 |
| 10 | .0107 | .0097 | .0091 | .0088 |
| 11 | .0114 | .0103 | .0098 | .0095 |
| 12 | .0120 | .0110 | .0105 | .0103 |
| 13 | .0127 | .0117 | .0113 | .0111 |

There are two simple ways to avoid this happening to you. The easiest way is when you have finally decided what house you are going to buy, find out from your mortgage lending institution who are the valuers on their panel, then select one of them to value the house before you make a deposit. Another way is when making a deposit, specify that if the independent valuation report done by the Bank is less than the agreed purchase price, you have the option of canceling the contract and getting a full refund of your deposit. If you adopt this option, ensure that the deposit will be held in escrow with an attorney or other such professional to avoid problems if a refund becomes necessary.

Another important factor to consider in purchasing a home is how much extra money you will need for closing costs. There are several costs involved in addition to the actual price of the house. Some of these include:

1. Solicitors' fees for the Deed of Conveyance which transfers the house to your name. It is based on the cost of the house and generally, it is 1.5% on the first \$100,000; 0.75% on the next \$400,000 and 0.5% on the balance. Don't forget – add VAT @ 15%. (Shortcut if cost > \$500,000 – Divide cost by 200 and add \$2,000.)
2. The Stamp Duty on the Deed of Conveyance. The first \$450,000 of the purchase price is exempt. After that, it is 5% on the next \$100,000; 7.5% on the succeeding \$100,000 and 10% on the balance. The stamp duty is payable to the government and the rates stated here are for residential homes. (Shortcut if price > \$650,000 – Divide cost by 10 and subtract \$52,500.)
3. Solicitors' fees for preparing the Deed of Mortgage. This is based on the amount of money you borrow and the rate is the same as in (1) above. This may be reduced by 50% if the same solicitor prepares both deeds.
4. Stamp Duty on the Deed of Mortgage. Again, this is based on the amount of money you borrow and is payable to the government. The first \$405,000 is exempt. After that, it is assessed at the rate of \$2.00 per \$1,000 (0.2%) for residential properties.
5. Valuation fees which are usually between 1/3 to 1/5 of 1% of the value of the property, plus VAT @ 15%.
6. Mortgage Lending Institution Fee (Varies between 1/3 – 2% of the amount borrowed).
7. Mortgage Indemnity Fee. The calculation of this depends on several circumstances. It can be either 1.5% of the loan amount or 18.5% (of which 6% is a government charge) of the amount on which the mortgage indemnity is taken. Let the loan officer advise you on this.



Current Mortgage Terms Available:

| Property Type | Loan to Value Ratio | Term (years) | Interest Rate | Payment Factor |
|---------------|---------------------|--------------|---------------|-----------------|
| Residential | 75-93% | 30 | 9-9.25 % | 0.0082 – 0.0080 |
| Commercial | 65-70% | 15 - 20 | 10.5-13.25% | 0.0128 – 0.0100 |
| Land | 50-85% | 15 | 9.25-9.75% | 0.0106 – 0.0103 |

Advertisement

Some of the advertisements for commercial appearing in the Trinidad Guardian in July 2008 were as follows:

PORT OF SPAIN, 6,700 s.f. building on 10,000 s.f. land - Asking \$10.5M.

MONTROSE MAIN ROAD, Commercial 3 storey - Asking \$10M

CIPERO STREET, 2 storey on 11,200 s.f.- Asking \$8.3M

TRINCITY INDUSTRIAL ESTATE, 20,000 s.f. land, 18,000 s.f. building - Asking \$8M

MARAVAL, 1,900 s.f. - Asking \$30,000 p.m.

SAN JUAN, 1,620 s.f. 1st floor, Asking \$15,000.

CHAGUANAS, 23,000 s.f. (industrial) - Asking \$3.50 p.s.f.

PENITENCE STREET, SAN FERNANDO, GROUND FLOOR - Asking \$10,000.00 per month

HUMOUR: Computer definitions

- **Error Message** - Terse, baffling remark used by programmers to place blame on users for the program's shortcomings.
- **File** - A document that has been saved with an unidentifiable name. It helps to think of a file as something stored in a file cabinet - except when you try to remove the file, the cabinet gives you an electric shock and tells you the file format is unknown.
- **Hardware** - Collective term for any computer-related object that can be kicked or battered.

Useful Information

| | Multiply By | To Obtain |
|---------------|-------------|-------------|
| 1 Acre | 43,560 | Square Feet |
| 1 Acre | 4 | Roods |
| 1 Acre | 160 | Perches |
| 1 Rood | 40 | Perches |
| 1 Perch | 272.25 | Square Feet |
| 1 Mile | 5,280 | Feet |
| 1 Mile | 1,760 | Yards |
| 1 Square Mile | 640 | Acres |
| 1 Link | 6.9 | Inches |
| 1 Chain | 66 | Feet |
| 1 Quarree | 3.2 | Acres |

Important Dates

15th of every month

-PAYE, NIS & Health Surcharge remittances due

25th of every other month

-VAT remittance due

31st March

-Quarterly Tax, Business Levy & Green Fund Levy Installments due

30th April

-Income Tax Filing deadline

30th June

-Quarterly Tax, Business Levy & Green Fund Levy Installments due

30th September

-Quarterly Tax, Business Levy & Green Fund Levy Installments due

31st October

-Tax deadline to avoid penalty

31st December

-Quarterly Tax, Business Levy & Green Fund Levy Installments due



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