

OCTOBER 2007



G.A. Farrell & Associates Limited
CHARTERED VALUATION SURVEYORS
FINANCIAL & PROPERTY CONSULTANTS



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.

Growth in the National Economy

The year 2007 marked the 14th year of continuous growth in the national economy. This growth was largely fuelled by the energy sector which accounted for 45% of the G.D.P. in 2006, up from 26.2% in 2002. Consequently any attempt to forecast the future of the economy should first examine the likely future of the energy sector.

In 2006 the Government commissioned a study of the country's oil and gas reserves from an independent consultant-Ryder Scott. The consultant's report has been submitted and states that proven reserves will last for approximately 12 years, based on the existing reserves to production ratio. The report points out that there are still promising areas for exploration. Unfortunately, many of these are in the deep water blocks where exploration is very expensive and success uncertain. The 2008 Budget states that fiscal measures will be introduced to encourage exploration in these areas and so hopefully improve our reserves to production ratio. It appears therefore that barring any unexpected developments, the economy should continue to receive the massive inflows of capital from the energy sector for at least another 12 years.

In keeping with its aim of reducing the reliance of the economy on the energy sector, the 2008 Budget also outlined measures aimed at assisting in the further development of the non-energy sector - Agriculture, Manufacturing, Tourism and the promotion of Port of Spain as the financial centre of the region.

Two threats to the economy have long been inflation and crime. By dint of aggressive action by the Central Bank and the Government, the inflation rate declined steadily from 10% in October 2006 to 7.3% in June 2007, and then spiked to 7.95% in July 2007. This spike has been attributed to a shortage of local root crops and a drop of imports from the region. Crime statistics published by the Police indicate that, contrary to public perception, there has been a drop in the crime rate.

With its contributions from the energy sector reasonably assured for at least 12 years, with its two greatest threats presently moving generally in the right direction and with the planned growth in the non-energy sector, the economy can be expected to continue on its path of steady growth, albeit at a slower rate, as the struggle to contain inflation intensifies after the wage increases and back payments contained in the 2007 budget.

It has been noted that the real estate market often mirrors the national economy. Today however this is questionable as threats to the present state of the real estate market appear on the horizon. Over the past few years, inflation in the real estate market has far exceeded national inflation, partly because investors fled the falling stock exchange market for real estate investment. Consequently there has been an

element of speculation in real estate prices which could drive prices to levels where mortgages payments become unaffordable. Ominously, the rate of sales has slowed, inventories have lengthened and mortgage interest rates have risen.

Further, the Government's International Waterfront Centre will put 30,000 square feet of retail space on the market, and the Government Campus Plaza will provide over 1M square feet of office space for four Government Ministries. It is therefore likely that the inventory of commercial properties for sale and/or rent will increase.

Bearing in mind the threats to the local real estate market outlined above as well as the present fall in the real estate market in the U.S.A., and notwithstanding the strong local economy, it is felt that within the near future, the exorbitant increases in prices in the local real estate market that occurred in the recent past will either slow to more realistic levels or even level off.

Advertisements

Some of the advertisements appearing in the Trinidad Guardian on Sunday 2nd September, 2007 were as follows:

- **Federation Park Home**
- Asking TT\$12.8M
- **Moka Home**
- Asking US\$2.6M
- **Regent's Park Land**
- Asking TT\$725.00 per sq. ft.
- **Aranguez Land**
- Asking TT\$5.5M
- **Fairways Home**
- Asking US\$6,000.00 per month
- **Goodwood Park Home**
- Asking US\$5,000.00 per month
- **Independence Sq. Building**
- Asking TT\$10.0M
- **San Fernando Building**
- Asking TT\$8.5M
- **Port of Spain Offices**
- Asking TT\$11.50 per sq. ft.
- **Arima Warehouse**
- Asking TT\$3.50 per sq. ft.

HOW MUCH HOUSE INSURANCE DO YOU NEED?

For most people, the answer to this question is obtained when they first buy their home. At that time, a valuation is customarily done and the valuation report will state the sum recommended for insurance. If they are getting a mortgage loan, the Bank will usually insist that the house be insured for a sum not less than that stated in the valuation report.

Unfortunately, thousands live in their home for several years, and never change the amount of their house insurance. In a time of increasing costs like nowadays, this can be very dangerous to a homeowner. It is like playing Russian Roulette.

Let's examine a case where a homeowner Mr. I. N. Trouble buys a property for \$600,000. of which \$200,000. is the land and \$400,000. is the building. At that time, he buys insurance on the building for \$400,000. After a period of 10 years, let us assume that this property is now worth \$900,000. (Land \$300,000; Building \$600,000). He has never increased his house insurance...and... DISASTER!...his house is fully destroyed.

Mr. I.N. Trouble will be entitled to a cheque for \$400,000. (the amount of his house insurance). However, to replace the house he had, it will cost him \$600,000 and as a result, he will have lost \$200,000. The

worse is yet to come. In obtaining his mortgage his house insurance was assigned to the Bank that carries his loan. The cheque from the insurance will therefore go to the bank first, and only be released to him in some format if and when he rebuilds his house.

O.K. you say, but a house is rarely 100% destroyed. What if it is only 60% destroyed? Surely Mr. I. N. Trouble will get the full \$360,000 (60% of the replacement cost of \$600,000.) as his insurance is \$400,000? The answer is NO. In this scenario, he will get \$240,000. This represents 60% of what the house is actually insured for (which is \$400,000.) and therefore, he will be short \$120,000 i.e. \$360,000 (the cost of repairs) - \$240,000 (insurance proceeds).

We hope that this clearly shows the danger of sitting back and not paying attention to your house insurance. For all of you who are guilty of not checking to

see if your house insurance is sufficient, please contact a qualified expert. It may be a Quantity Surveyor, Engineer, Architect, Valuer or Contractor. While it may appear costly at first, it is definitely worth it when compared to what you might lose.

It is also important to select the insurance company very carefully. A major consideration is that the company is financially sound. In addition, it should have a good reputation for settling claims. While cost is a factor, it is not a good idea to select a company solely by the insurance premium. The sum you save now may not seem worth it when you are having difficulty in obtaining a settlement cheque for your loss. Finally, having a good insurance agent is also very advisable. You want an agent who is knowledgeable in insurance and has an interest in your needs. Do not procrastinate, the time to get professional advice is NOW.

Current Mortgage Terms Available:

PROPERTY TYPE	LOAN TO VALUE RATIO	TERM (YEARS)	INTEREST RATE	FACTOR
Residential	75-93%	30	8%	0.0073
Commercial	65-70%	10-20	9-13.75%	See tables overleaf
Land	70%	15	8.75%	0.0100

Real Estate Valuation Terminology

Acre: A measure of land equaling 43,560 sq. ft. (.4047ha)

Compulsory Acquisition (also Expropriation or Eminent Domain): Taking of private property by the State for public use, with fair compensation to the owner.

Condominium: A form of fee ownership of whole units or separate portions of multi-unit buildings.

Cost Approach: That approach in appraisal analysis which is based on the proposition that the informed purchaser would pay no more than the cost of producing a substitute property with the same utility as the subject property.

Direct Sales Comparison Approach: That Approach in appraisal analysis which is based on the proposition that an informed purchaser would pay no more for a property than the cost of acquiring an existing property with the same utility as the subject property.

External Obsolescence (also Locational or Economic Obsolescence): Factors beyond a property's boundaries which have a negative influence on a property's value.

Fee Simple: Freehold.

Functional Obsolescence: Decline in the value of a property brought about by defects in design, layout or size of building.

Highest And Best Use: The reasonably probable and legal use of property that is physically possible, appropriately supported, and financially feasible, and that results in the highest value.

Income Approach: That procedure in appraisal analysis which converts anticipated benefits to be derived from the ownership of property into a value estimate.

Market Value: The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

MONTHLY 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

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

USEFUL INFORMATION

Metric Conversions:

The bold figures in the central columns can be read as either the Metric or the British Measure.

e.g. **1 inch = 25.400 millimetres**
1 millimetre = 0.03937 inches

Length:

0.03939 (inch) **1** 25.400 (millimetres)
3.2808 (feet) **1** 0.3048 (metre)
1.0936 (yards) **1** 0.9144 (metre)
0.6214 (mile) **1** 1.6093 (kilometers)

Area:

10.764 (sq. ft.) **1** 0.0929 (sq. metre)
1.1960 (sq. yd.) **1** 0.8361 (sq. metre)
2.471 (acres) **1** 0.4047 (Hectare)

Volume:

35.315 (cu. Ft) **1** 0.02832 (cu. metre)
1.75976 (pints) **1** 0.56826 (litre)
0.21997 (gallon) **1** 4.54609 (litres)

Mass:

0.35274 (oz) **1** 28.350 (grams)
2.2046 (lbs) **1** 0.45359 (kilogram)
0.9842 (ton) **1** 1.0160 (tonnes)

Useful Websites:

- www.flightstats.com
– Get status information on departing and arriving flights.
- www.investorhome.com
– Easy access to major business and investment publications
- www.score.org
– Advice for small businesses.



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