

## Market Conditions

July 2020

In its World Economic Outlook update (June 2020), the International Monetary Fund has stated that global growth is projected at -4.9% in 2020 due to the COVID-19 pandemic. It went on to forecast soaring public debt and a contraction in global trade by 11.9%. They stated that the pandemic has had a more negative impact on activity than had been initially anticipated and recovery is now projected to be more gradual than previously forecasted. According to the Central Bank of Trinidad and Tobago (CBTT) in its Monetary Policy Announcement in June 2020, "The macroeconomic policy environment across the globe can best be described as intense and uncertain, constrained for the most part by the fiscal space available to governments."

Another major factor which occurred in the midst of this pandemic that also influenced local market conditions was the oil-price war between Russia and Saudi Arabia, the effect of which caused a collapse in energy prices. The economist Dr. Terrence Farrell stated recently that "Between the Covid-19 shock which has only just begun, and the collapse of the oil and gas market into a price war, we now have the perfect storm; two massive external shocks for which we are underprepared." Indeed, the Minister of Finance has already stated that these two events have caused the 2020 Budget deficit to move from TT\$5.3bn to TT\$15.5bn. He also warned that fiscal 2020 will be exceptionally

difficult even if the pandemic fades in the second half of the year.

Based on all of the preceding, it will come as no surprise to state that our economy was adversely affected. Evidence of this has already manifested in Financial Services Company Standard and Poor's Sovereign Rating for Trinidad & Tobago, which was downgraded from BBB to BBB- as at 26th March 2020, while both Moody's and Caricris revised their outlook for the country from stable to negative.

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Commercial Properties



Land - All Categories



Industrial Properties



Special-Purpose Properties



Up-to-date Insurance Values



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As expected, the shutdown of non-essential activity earlier in the year resulted in a decrease in both the revenue of businesses as well as the salaries of many employees although economic activity has been slowly resuming with the gradual reopening of commercial firms. The resumption has been helped by the accommodative approach of the CBTT in both lowering the Repo rate by 150 basis points as well as reducing the reserve requirement of banks' deposit liabilities by 3%. This had the effect of commercial banks lowering their prime lending rate from around 9% to 7.5%.

Despite this, the future remains uncertain as can be seen from the fact that while the Minister of Finance has predicted a decline in GDP of 2.4% in 2020 and a rebound to 4.7% in 2021, leading economists as well as the Trinidad and Tobago Chamber of Industry and Commerce have stated that the prediction is too optimistic. Adding somewhat to the uncertainty is the fact that the General Elections of the country have been set for Monday 10th August 2020.

## Real Estate:

The downward pressure on the real estate market that was particularly present during the latter part of 2019 and early 2020 can be expected to increase now due to the loss in revenue and salaries mentioned earlier. In addition, the pandemic has caused many companies to consider having employees work remotely which would therefore reduce the amount of office space needed. These two facts (reduced revenue and remote working) could result in an increase in the amount of vacant office space available which would possibly lead to a decline in rental rates. Yet, the new requirement of social distancing could lessen the impact of the reduction in office space required by companies going forward.

As would be appreciated from all of the above, the future of real estate is cloudy. Due to the many different scenarios that could occur in the immediate future, three possible scenarios have been prepared and posted in a video on the G A Farrell and Associates Limited Facebook page at <https://www.facebook.com/gafarrellandassociatesltd/videos/1205986743094391/> in an effort to provide a visually stimulating experience for our

clients.

Nevertheless, it must be borne in mind that investing in real estate is traditionally a long-term investment with somewhat low liquidity. Any decline in prices therefore takes some time before it is observed since prices usually lag behind macroeconomic changes. This is in contrast to other investments like stocks and bonds that can be traded in real time and so often suffer adversely due to irrational and emotional market sentiment.

In closing, it will be seen that the local real estate market is going through a period of uncertainty as is the rest of the world. In such circumstances, it is recommended that caution be exercised when entering into any transactions. For further information or should you have any queries relative to the above, please do not hesitate to contact us.

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