Valuation NEWS

from G.A. Farrell & Associates Ltd.

ISSUE: 1
January 2019
TWO PAGES

Economy

According to the International Monetary Fund (IMF), global growth lost momentum during the first half of 2018. It further stated that global economic output is projected to expand by 3.7% in 2018 and 2019, which represents a downward revision of 0.2 percentage points from its April 2018 forecast.

Locally, the Central Bank, in its Monetary Policy Report November 2018, reported that there was an improvement in the overall activity in the domestic economy during the first half of 2018 (year-on-year), supported, not surprisingly, mainly by the energy sector. The report states that preliminary estimates suggest an increase in real economic activity of 3.0 % (year-on-year) in the first six months of 2018, which is a significant improvement from last year when it declined by 4.7%. While oil output declined, energy output expanded by 9.1%, largely due to additional gas output from bpTT's Juniper gas platform. The Government of Trinidad and Tobago stated in the recent budget that they expect growth of 1.9% in 2018 increasing to 2.1% by 2021 while the IMF's predictions were more conservative (1% in 2018, 0.9% in 2019 and 1.8% through 2023). Subsequent to this, the Central Bank revealed that the growth momentum mentioned above appeared to have slackened in the third quarter of 2018.

The non-energy sector as a whole is yet to recover and preliminary data suggests that activity fell slightly by 0.2% (year-on-year) in the first half of 2018. This compares favourably with stronger declines of 2.6% in the latter half of 2017 and 4.4% in the first half of 2017.

During 2018, inflation, according to the Central Statistical Office, has remained relatively low increasing marginally to 1.2% in September 2018 (versus 0.9% in January 2018). However, with the overall economy still struggling to recover fully, the unemployment rate increased to 4.4% in the fourth quarter of 2017 versus 3.6% in the corresponding period of 2016.

On the one hand, the Central Bank expects that the local economy will benefit from the strength in the energy sector for the remainder of 2018. This outlook is further enhanced by:

- The possibility of further increases in both international energy prices and domestic natural gas production;
- The proposed Phoenix Park Industrial Estate (US$104 million investment), which is due to be completed by the end of 2019 and is expected to create 10,000 jobs by the end of 2020;
- The La Brea dry dock project, which is expected to bring 5,000 jobs;
- The planned aluminium plant at the Tamana Industrial Park.

However, there are several factors that could adversely affect this outlook, some of which include:

- The Central Bank has reported that rising US-TT interest rate differentials from higher foreign interest rates could encourage capital outflows and place pressure on the externall accounts".
- They also mentioned that "an exacerbation of international trade and wider geopolitical tensions could also negatively affect Trinidad and Tobago".
- The economic effects of the Petrotrin closure coupled with the proposed layoffs at TSTT.
- Inflationary pressures caused in part by –
    - o The increase in the price of super gasoline;
    - o The proposed property tax;
    - o Possible shortages in agricultural products due to recent widespread flooding.

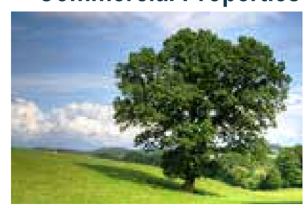
Despite these risks, the IMF stated that it expects the local economy to return to positive growth for 2018 following two years of recession. They expect near-term growth will likely be led by natural gas production while gradual recovery in the non-energy sector would help stabilize growth over the medium term.

It is therefore felt, that quite possibly, the economy is turning around and in the words of the Minister of Finance in the 2018 Mid-Year Budget Review, "the rain is gone".

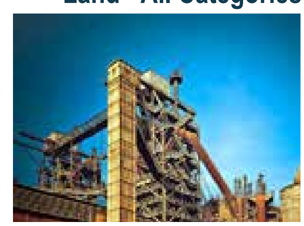
We Value

Residential Properties

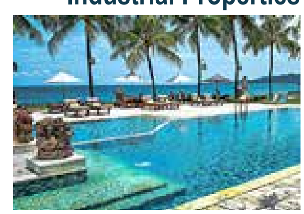
Commercial Properties



Land - All Categories



Industrial Properties



Special-Purpose Properties

Up-to-date Insurance Values

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Real Estate Market Conditions:

In addition to the overall health of the economy, the real estate market is affected to a large extent by the construction industry and the movement of interest rates. Following ten consecutive quarters of decline, quarterly estimates show that construction sector activity increased by 3.4% during the second quarter of 2018 according to the Central Bank report. It was also revealed that the Index of Retail Prices of Buildings Materials rose by 5.2% in the third quarter of 2018 (year-on-year) compared to 2017 levels. It should be noted that all costs associated with the index increased most notably, an increase of 7.4% in costs associated with walls and roofs. While growth would appear to have returned, it is still very fragile, as according to data for Q3 2018, there was a 20% quarter-on-quarter drop in local cement sales.

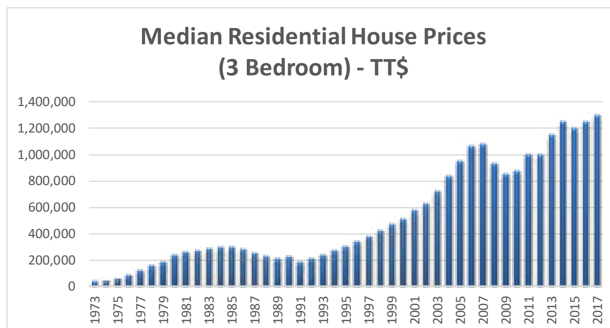
In June 2018, after remaining unchanged since December 2015, the Repo rate was increased by 25 basis points to 5%. While noting that the inflation rate was low and the domestic economy was not yet on the path to a solid recovery, the committee felt that the rise in US and other external interest rates was leading to a situation that would encourage portfolio outflows.

Nevertheless, there has been a slight decline in commercial banking rates in 2018 brought about probably by competition as well as a lethargic economy. Consumer and real estate mortgage lending remain the stronger categories. While robust growth in loans for debt consolidation and refinancing continued, there was also strong growth in lending for the purchase of existing houses and new houses. On a year-on-year basis, real estate mortgage lending grew by 9.1% in August 2018 (versus 7.7% in April 2018). This was assisted by falling rates on new residential mortgages which narrowed by 2 basis points between March and June 2018 to 4.88 %. At the same time, rates on new commercial mortgages lost 17 basis points between March and June 2018, falling to 6.86 %.

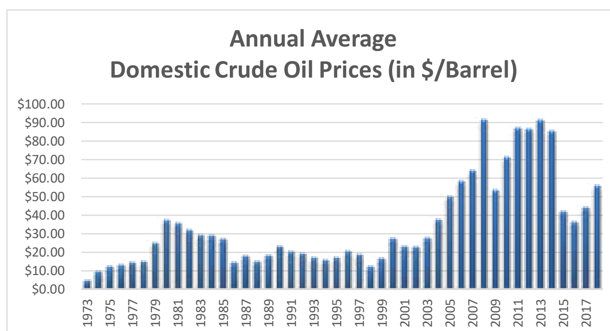
There are therefore several positive signs for the real estate market including:

- The recovering local economy mentioned earlier;
- An increase in construction activity;
- Declining mortgage interest rates;
- Growing demand for mortgages;
- Excess liquidity in the banking system impacted by the removal by the Central Bank of the Secondary Reserve Requirement.

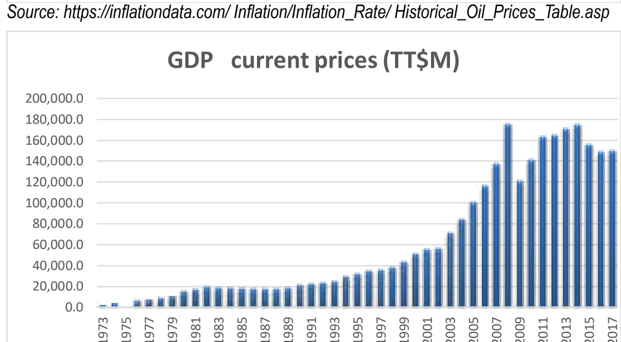
Consequently, the overall real estate market seems to be recovering and it now remains to be seen if the apparent recovery can be sustained



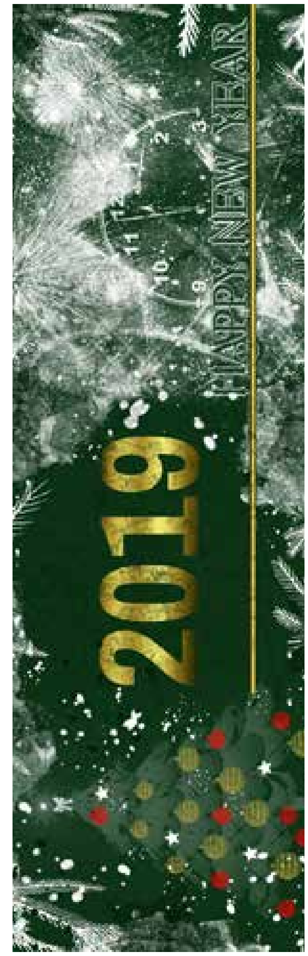
Source: Central Bank



Source: https://inflationdata.com/ Inflation/Inflation_Rate/ Historical_Oil_Prices_Table.asp



Source: Central Bank



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